CITY OF ALBANY, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF ALBANY, KENTUCKY
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CITY OF ALBANY
204 CROSS STREET
ALBANY, KENTUCKY
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CITY OFFICIALS AND OFFICERS

MAYOR
John N. Smith

MEMBERS OF COUNCIL
Steve Lawson
Tony Delk
Leland Hicks
Tonya Thrasher
Brad Thrasher
Frankie Stockton

OFFICERS

Melissa P. Smith
City Clerk/Treasurer

Norbert H. Sohm
City Attorney

Ernest Guffey
Chief of Police

Robert Roeper
Fire Chief

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

Report on the Financial Statements

I 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 Albany (hereinafter called "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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* which resulted in a restatement of the City's July 1, 2017 net position in the amount of $703,097. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 34–40 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying supplementary information such as the schedule of water and sewer revenues, expenses, and changes in net position on page 41, is presented for purposes of additional analysis as required by the *United States Department of Agriculture (USDA)* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 12, 2018, on my consideration of the City's internal control over financial reporting and on my 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 my 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.

Sammy K. Lee, P.S.C.

Berea, Kentucky
December 12, 2018

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental	Business-Type	Total
Assets			
Current Assets			
Cash and cash equivalents-unrestricted	$ 19,726	$ 144,740	$ 164,466
Cash and cash equivalents-restricted	24,686	-	24,686
Accounts receivables, net	367,382	579,393	946,775
Interest receivable	-	57	57
Prepaid expenses	11,431	9,497	20,928
Inventory, net	-	97,562	97,562
Total Current Assets	423,225	831,249	1,254,474
Non-Current Assets			
Restricted cash	14,465	477,173	491,638
Certificates of deposit	225,937	-	225,937
Capital assets:			
Non-depreciable	83,086	440,883	523,969
Depreciable, net	1,185,581	25,856,946	27,042,527
Total Non-Current Assets	1,509,069	26,775,002	28,284,071
Total Assets	1,932,294	27,606,251	29,538,545
Deferred Outflows of Resources			
Deferred amounts related to pensions	415,825	622,155	1,037,980
Deferred amount related to OPEB	113,367	168,711	282,078
Total Deferred Outflows of Resources	529,192	790,866	1,320,058
Liabilities			
Current Liabilities			
Accounts payable	30,469	72,437	102,906
Accrued expenses	50,017	78,790	128,807
Revenue bonds payable	-	222,083	222,083
Notes payable	-	8,431	8,431
Accrued interest	-	47,029	47,029
Fire membership payable	-	370,860	370,860
Customer deposits payable	-	131,761	131,761
Total Current Liabilities	80,486	931,391	1,011,877
Non-Current Liabilities			
Revenue bonds payable	-	4,002,917	4,002,917
Notes payable	-	198,143	198,143
Net pension liability	1,144,743	1,717,115	2,861,858
Net OPEB liability	393,167	589,750	982,917
Total Non-Current Liabilities	1,537,910	6,507,925	8,045,835
Total Liabilities	1,618,396	7,439,316	9,057,712
Deferred Inflows of Resources			
Deferred amounts related to pensions	108,598	162,898	271,496
Deferred amounts related to OPEB	20,585	30,878	51,463
Total Deferred Inflows of Resources	129,183	193,776	322,959
Net Position			
Net investment in capital assets	1,268,667	21,866,255	23,134,922
Restricted	41,291	447,173	488,464
Unrestricted	(596,051)	(1,549,403)	(2,145,454)
Total Net Position	$ 713,907	$ 20,764,025	$ 21,477,932

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

CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contribution	Net (Expense) Revenue
Government Activities					
General government	$ 230,749	$ -	$ -	$ -	$ (230,749)
Police	720,626	-	148,421	-	(572,205)
Fire	177,534	150,406	-	-	(27,128)
Street	423,045	-	-	-	(423,045)
Total Governmental Activities	**1,551,954**	**150,406**	**148,421**	-	**(1,253,127)**
Business-Type Activities					
Water	3,040,238	2,356,337	-	50,000	(633,901)
Sewer	743,425	256,365	-	-	(487,060)
Total Business-Type Activities	**3,783,663**	**2,612,702**	-	**50,000**	**(1,120,961)**
Total Activities	**$ 5,335,617**	**$ 2,763,108**	**$ 148,421**	**$ 50,000**	**$ (2,374,088)**

Change in Net Position	Governmental Activities	Business-Type Activities	Total
Net (expense) revenue	$ (1,253,127)	$ (1,120,961)	$ (2,374,088)
General Revenues			
Taxes	161,208	-	161,208
Licenses and other taxes	586,019	-	586,019
Intergovernmental	90,791	-	90,791
Fines, arrest fees, and permits	10,007	-	10,007
Interest income	2,872	13,593	16,465
Miscellaneous	30,738	127,768	158,506
Total General Revenues	881,635	141,361	1,022,996
Change in Net Position	**(371,492)**	**(979,600)**	**(1,351,092)**
Net Position, Beginning, as Originally Stated	**1,366,381**	**22,165,740**	**23,532,121**
Prior Period Adjustment (See Note 12)	**(280,982)**	**(422,115)**	**(703,097)**
Net Position, Beginning as Restated	**1,085,399**	**21,743,625**	**22,829,024**
Net Position, Ending	**$ 713,907**	**$ 20,764,025**	**$ 21,477,932**

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

CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents-unrestricted	$ 19,726	$ -	$ 19,726
Certificates of deposit	225,937	-	225,937
Accounts receivable, net	365,242	2,140	367,382
Prepaid expenses	11,431	-	11,431
Restricted cash	14,499	24,652	39,151
Total Assets	**$ 636,835**	**$ 26,792**	**$ 663,627**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 30,469	$ -	$ 30,469
Accrued expenses	50,017	-	50,017
Total Liabilities	**80,486**	**-**	**80,486**
Fund Balances			
Non-spendable	11,431	-	11,431
Restricted	14,499	26,792	41,291
Unassigned	530,419	-	530,419
Total Fund Balances	**556,349**	**26,792**	**583,141**
Total Liabilities and Fund Balances	**$ 636,835**	**$ 26,792**	**$ 663,627**

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Fund balances reported above	**$ 583,141**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,268,667
Net deferred inflows/outflows related to the long-term net pension liability and OPEB are not reported in the funds.	400,009
All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long-term liabilities are not due and payable in the current period and, therefore, are not reported.	
Net pension liability	(1,144,743)
Net OPEB liability	(393,167)
Net Position of Governmental Activities	**$ 713,907**

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 161,208	$ -	$ 161,208
Licenses and other taxes	586,019	-	586,019
Intergovernmental	190,558	48,654	239,212
Service charges	150,406	-	150,406
Fines, arrest fees, and permits	10,007	-	10,007
Other	33,610	-	33,610
Total Revenues	1,131,808	48,654	1,180,462
Expenditures			
Current:			
General and administration department	211,305	-	211,305
Police department	547,717	-	547,717
Fire department	119,234	-	119,234
Street department	256,993	43,992	300,985
Capital outlay	237,645	-	237,645
Debt service:			
Principal	43,776	-	43,776
Interest	7,103	-	7,103
Total Expenditures	1,423,773	43,992	1,467,765
Net Change in Fund Balance	(291,965)	4,662	(287,303)
Fund Balance, Beginning	848,314	22,130	870,444
Fund Balance, Ending	$ 556,349	$ 26,792	$ 583,141

Net changes in fund balances - total governmental funds	$ (287,303)
Amounts reported for *governmental activities* in the Statement of Activities are different because:	
Proceeds of certain notes payable are reported as financing sources in governmental funds and thus contribute to the increase in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position. Outstanding loan balance at beginning of the year was $43,776 compared to $0 at end of year.	43,776
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of $132,481 is less than capital outlay of $237,645 in the current period.	105,164
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension and OPEB expense of governmental activities.	(233,129)
Change in net position of governmental activities	$ (371,492)

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

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

Assets	
Current Assets	
Cash and cash equivalents	$ 144,740
Accounts receivables, net	
Customers	579,393
Interest receivable	57
Prepaid expenses	9,497
Inventory, net	97,562
Total Current Assets	**831,249**
Non-Current Assets	
Restricted cash	477,173
Capital assets:	
Non-depreciable	440,883
Depreciable, net	25,856,946
Total Non-Current Assets	**26,775,002**
Total Assets	**27,606,251**
Deferred Outflows of Resources	
Deferred amounts related to pensions	622,155
Deferred amounts related to OPEB	168,711
Total Deferred Outflows of Resources	**790,866**
Liabilities	
Current Liabilities	
Accounts payable	72,437
Accrued expenses	78,790
Revenue bonds payable	222,083
Notes payable	8,431
Accrued interest	47,029
Fire membership payable	370,860
Customer deposits payable	131,761
Total Current Liabilities	**931,391**
Non-Current Liabilities	
Revenue bonds payable	4,002,917
Notes payable	198,143
Net pension liability	1,717,115
Net OPEB liability	589,750
Total Non-Current Liabilities	**6,507,925**
Total Liabilities	**7,439,316**
Deferred Inflows of Resources	
Deferred amounts related to pensions	162,898
Deferred amounts related to OPEB	30,878
Total Deferred Inflows of Resources	**193,776**
Net Position	
Net investment in capital assets	21,866,255
Restricted	447,173
Unrestricted	(1,549,403)
Total Net Position	**$ 20,764,025**

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

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Operating Revenues	
Charges for services	$ 2,612,702
Miscellaneous	127,768
Total Operating Revenues	**2,740,470**
Operating Expenses	
Salaries	725,526
Employee benefits	656,604
Administration	21,667
Contractual services	14,684
Repairs, parts, and supplies	207,975
Vehicle expense	65,106
Travel and training	4,329
Utilities and telephone	576,563
Labs and supplies	222,594
Insurance	68,332
Depreciation	1,038,884
Bad debt provision	26,129
Miscellaneous	39,835
Total Operating Expenses	**3,668,228**
Operating Loss	**(927,758)**
Non-Operating Revenues (Expenses)	
Interest income	13,593
Interest expense	(115,435)
Total Non-Operating Revenue (Expenses)	**(101,842)**
Loss Before Contributions and Transfers	**(1,029,600)**
Capital contributions	50,000
Change in Net Position	**(979,600)**
Total Net Position, Beginning, as Originally Stated	**22,165,740**
Prior Period Adjustment (See Note 12)	**(422,115)**
Total Net Position, Beginning as Restated	**21,743,625**
Total Net Position, Ending	**$ 20,764,025**

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

CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities	
Cash received from customers	$ 2,603,176
Cash received from other sources	130,575
Cash payments to suppliers for goods and services	(1,745,021)
Cash payments to employees	(725,522)
Net Cash Provided by Operating Activities	**263,208**
Cash Flows from Capital and Related Financing Activities	
Principal and interest paid on long-term debt	(345,699)
Acquisition and construction of capital assets	(105,163)
Cash received from capital grants	50,000
Increase in restricted cash	(35,390)
Net Cash Used by Capital and Related Financing Activities	**(436,252)**
Cash Flows from Investing Activities	
Redemption of certificates of deposit	139,457
Cash received from interest income	13,734
Net Cash Provided by Investing Activities	**153,191**
Net Decrease in Cash and Cash Equivalents	**(19,853)**
Cash and Cash Equivalents at July 1, 2017	**164,593**
Cash and Cash Equivalents at June 30, 2018	**$ 144,740**
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	**$ (927,758)**
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,038,884
Bad debt provision	26,129
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	(35,655)
(Increase) decrease in other accounts receivable	2,807
(Increase) decrease in prepaid expenses	(8,468)
(Increase) decrease in inventory	16,669
(Increase) decrease in outflows of resources	(408,331)
Increase (decrease) in accounts payable	(35,663)
Increase (decrease) in accrued expenses	6,686
Increase (decrease) in fire membership payable	(44,584)
Increase (decrease) in customer deposits	(53,927)
Increase (decrease) in net pension liability	338,496
Increase (decrease) in net OPEB liability	167,635
Increase (decrease) in inflows of resources	180,288
Total adjustments	1,190,966
Net Cash Provided by Operating Activities	**$ 263,208**

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albany, Kentucky (hereinafter the "City") operates under a Mayor-Council form of government. The City's major operations include police and fire protection, streets and roadways, and general administrative services. The City also operates a water and sewer system for its citizens. The citizens of Albany elect a mayor-at-large and six city council members. The accompanying financial statements present the City's primary government unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from a legal relationship).

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- *Statement of Net Position* presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.

- *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is 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.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the general fund. Charges are allocated as reimbursement for services provided by the general fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- *General Fund* is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- *Special Revenue Funds* are special revenue accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements and the proprietary funds financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined and revenues are considered available when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and interest income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2018, the original budget was approved in June 2017. The budget for the General Fund is presented in the Required Supplemental Budgetary Comparison General Fund schedule. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposit

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

The City has restricted cash and/or certificates of deposit to satisfy bond issue requirements, including cash restricted for bond payments.

Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local, fire membership fees, and federal governments. Interest revenue receivable in all funds consist of revenue due on each deposit. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds," Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Property Tax Calendar

Property taxes for fiscal year 2018 were levied in November 2017, respectively, on the assessed property located in the City of Albany as of the preceding January 1. The rate for real estate was 18 cents per one hundred dollars of assessed value. The rate for auto and boats was 20 cents and other tangible property was 20 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

1. Due date for payment of taxes, 2% discount	November 30
2. Face value payment period	December 1 to December 31
3. Past due date, 10% penalty	January 1
4. Interest charge	12% per annum from January 1

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Clinton County and are due and collected in the birth month of the licensee.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventory

Inventories of materials and supplies in all funds are stated at cost on a first-in, first-out basis and charged to expenses as used.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and deposits on the government-wide Statement of Net Position and the proprietary fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than $500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the Fund Financial Statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Estimated Lives
Buildings	15 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination but will be paid only upon illness while in the employment of the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position 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 and so will not be recognized as an expense until then. The City has two items that meets this criterion, as related to pensions and other postemployment benefits (OPEB) reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension and OPEB liabilities and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. 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 and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category as related to pensions and OPEB reported in the Statement of Net Position.

Pensions and Other Postemployment Benefits

The City participates in a cost-sharing multiple-employer plan to provide pension and OPEB benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension and OPEB liability. For the purposes of measuring the net pension and OPEB liability, deferred outflows or inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either; a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed – Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.

Assigned – Portion of fund balance that has been budgeted by the City Council.

Unassigned – Portion of fund balance that has not been restricted, committed or assigned for specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the Proprietary Funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

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

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2018 consisted of the following:

Account	Interest Bearing	Governmental	Water and Sewer	Total
Operating	Yes	$ 19,083	$ 11,497	$ 30,580
LGEAF	Yes	1,657	-	1,657
Municipal Road Aid	Yes	22,995	-	22,995
Dare Program	Yes	-	-	-
Drug Ratification	Yes	34	-	34
Fire Memembership Fees	Yes	643	-	643
Depreciation Fund	Yes	-	10,017	10,017
Improvement and Refunding	Yes	-	6,349	6,349
Raw Water Intake Exec Order	Yes	-	177	177
Rowena Water Line	Yes	-	50,000	50,000
Sinking Fund - KY Bond Corporation	Yes	-	144,628	144,628
KLC-Cash	Yes	14,465	21,615	36,080
DSRF - KY Bond Corporation	Yes	-	244,387	244,387
Total		$ 58,877	$ 488,670	$ 547,547

Certificates of deposit at June 30, 2018 consisted of the following:

Account	Interest Bearing	Governmental	Water and Sewer	Total
Certficates of deposit	Yes	$ 225,937	$ 133,243	$ 359,180
Total		$ 225,937	$ 133,243	$ 359,180

Credit Risk

Under Kentucky Revised statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. As of June 30, 2018, none of the City's deposits were subject to credit risk.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the deposits that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits and certificates of deposit totaled $906,727 and the bank balances totaled $940,564. At June 30, 2018, $180,234 of collateral was pledged to the City by the custodial bank and $760,330 by FDIC insurance.

NOTE 3 – RECEIVABLES

Receivables, including accrued interest, as of fiscal year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

	General	Water & Sewer	Total
Accounts receivables			
Customers	$ -	$ 927,928	$ 927,928
Other	39,289	-	39,289
Fire memberships	328,093	-	328,093
Gross receivables	367,382	927,928	1,295,310
Less allowance for bad debt	-	(348,535)	(348,535)
Net total receivables	**$ 367,382**	**$ 579,393**	**$ 946,775**

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. There were no fund transfers for the year ended June 30, 2018.

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

The following table summarizes the changes in capital assets:

Governmental Activities	Beginning Balance 6/30/2017	Increases	Decreases	Ending Balance 6/30/2018
Capital assets, not being depreciated:				
Land	$ 83,086	$ -	$ -	$ 83,086
Construction in process	-	73,515	-	73,515
Total capital assets, not being depreciated:	83,086	73,515	-	156,601
Capital assets, being depreciated:				
Buildings	945,265	-	-	945,265
Trucks and equipment	1,092,737	164,130	98,732	1,158,135
Furniture and fixtures	53,511	-	-	53,511
Street repair	500,738	-	-	500,738
Landscaping	12,643	-	-	12,643
Total capital assets, being depreciated:	2,604,894	164,130	98,732	2,670,292
Less accumulated depreciation for:				
Buildings	284,051	25,113	-	309,164
Trucks and equipment	846,972	73,800	94,151	826,621
Furniture and fixtures	52,905	523	-	53,427
Street repair	323,324	33,045	-	356,370
Landscaping	12,643	-	-	12,643
Total accumulated depreciation	1,519,895	132,481	94,151	1,558,226
Capital assets, being depreciated, net	1,084,999			1,112,066
Governmental activities capital assets, net	$ 1,168,085			$ 1,268,667

Depreciation expense for governmental activities is charged to functions as follows:

	2018
General	$ 5,808
Police	28,365
Fire	51,198
Street	47,110
Total	$ 132,481

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

Business-Type Activities	Beginning Balance 6/30/2017	Increases	Decreases	Ending Balance 6/30/2018
Capital assets, not being depreciated:				
Land	$ 440,883	$ -	$ -	$ 440,883
Construction in process	30,518	-	30,518	-
Total capital assets, not being depreciated:	471,401	-	30,518	440,883
Capital assets, being depreciated:				
Buildings	106,670	-	-	106,670
Office equipment	96,268	-	-	96,268
Sewer trucks and equipment	107,655	-	-	107,655
Sewer utility plant	14,086,942	-	-	14,086,942
Water house and building	87,907	-	-	87,907
Water trucks and equipment	444,147	16,200	-	460,347
Water utility plant and transmission lines	27,220,893	119,481	-	27,340,374
Total capital assets, being depreciated:	42,150,482	135,681	-	42,286,163
.ess accumulated depreciation for:				
Buildings	36,000	2,667	-	38,667
Office equipment	36,408	18,151	-	54,559
Sewer trucks and equipment	82,581	3,664	-	86,245
Sewer utility plant	2,956,440	327,444	-	3,283,884
Water house and building	61,881	2,784	-	64,665
Water trucks and equipment	394,342	12,983	-	407,325
Water utility plant and transmission lines	11,822,682	671,190	-	12,493,872
Total accumulated depreciation	15,390,334	1,038,883	-	16,429,217
Capital assets, being depreciated, net	26,760,148			25,856,946
Business-type activities capital assets, net	$ 27,231,549			$ 26,297,829

Depreciation expense for business-type activities is charged to functions as follows:

	2018
Water	$ 831,106
Sewer	207,777
Total	$ 1,038,883

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Governmental-type					
Notes payable	$ 43,776	$ -	$ 43,776	$ -	$ -
Net pension liability	919,080	225,663	-	1,144,743	-
Net OPEB liability	-	393,167	-	393,167	-
Business-type					
Revenue bonds	4,445,000	-	220,000	4,225,000	222,083
Notes payable	215,005	-	8,431	206,574	8,431
Net pension liability	1,378,619	338,496	-	1,717,115	
Net OPEB liability	-	589,750	-	589,750	-
Total	$ 7,001,480	$ 1,547,076	$ 272,207	$ 8,276,349	$ 230,514

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was $5,595,000. No general obligation bonds were issued during the current year. Revenue bonds are pledged by revenues and by the full faith and credit of the government. This bond was issued as a 25-year serial bond with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 2% to 3.25%. The debt reserve requirement was in compliance for the fiscal year.

Issue	Interest Rates	Issue Date	Maturity Date	Original Amount	Outstanding 6/30/2018
2012E	2% - 3.25%	11/28/12	02/01/38	$ 5,595,000	$ 4,225,000
			Totals	$ 5,595,000	$ 4,225,000

The following are principal and interest maturities for long-term debt outstanding as of June 30, 2018:

Year Ending June 30,	Principal	Interest	Total Annual Requirements
2019	$ 230,514	$ 111,035	$ 341,549
2020	235,514	106,593	342,107
2021	240,514	102,052	342,566
2022	239,264	97,410	336,674
2023	237,598	92,559	330,157
2024-2028	1,182,988	372,370	1,555,358
2029-2033	1,026,325	226,517	1,252,842
2034-2038	1,000,914	80,898	1,081,812
2039-2043	37,943	-	37,943
Total	$4,431,574	$1,189,434	$ 5,621,008

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bond is not called prior to maturity, the minimum obligations of the City's funds at June 30, 2018 for the payment of bond principal and interest are as follows:

Fiscal Year	Principal	Interest	Total Annual Requirements
2019	$ 222,083	$ 111,035	$ 333,118
2020	227,083	106,593	333,676
2021	232,083	102,052	334,135
2022	230,833	97,410	328,243
2023	229,167	92,559	321,726
2024	237,083	81,403	318,486
2025	242,083	81,819	323,902
2026	230,419	75,644	306,063
2027	212,085	69,592	281,677
2028	219,162	63,912	283,074
2029	212,500	57,653	270,153
2030	199,165	51,277	250,442
2031	207,081	45,303	252,384
2032	193,335	39,087	232,422
2033	172,084	33,197	205,281
2034	179,166	27,851	207,017
2035	187,084	22,226	209,310
2036	181,666	16,277	197,943
2037	190,384	10,372	200,756
2038	220,454	4,172	224,626
Totals	**$ 4,225,000**	**$ 1,189,434**	**$ 5,414,434**

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable

Notes payable consists of a loan in the original amount of $749,947 from Kentucky Infrastructure Authority. This is an interest free loan. Principal payments are made bi-annually. The maturity date is December 1, 2042. Assuming the debt is not called prior to maturity, the minimum obligations of the City's funds at June 30, 2018 for the payment of the note principal is as follows:

Fiscal Year	Principal	Interest	Total Annual Requirements
2019	$ 8,431	$ -	$ 8,431
2020	8,431	-	8,431
2021	8,431	-	8,431
2022	8,431	-	8,431
2023	8,431	-	8,431
2024	8,431	-	8,431
2025	8,431	-	8,431
2026	8,431	-	8,431
2027	8,431	-	8,431
2028	8,432	-	8,432
2029	8,432	-	8,432
2030	8,432	-	8,432
2031	8,432	-	8,432
2032	8,432	-	8,432
2033	8,432	-	8,432
2034	8,432	-	8,432
2035	8,432	-	8,432
2036	8,432	-	8,432
2037	8,432	-	8,432
2038	8,432	-	8,432
2039	8,432	-	8,432
2040	8,432	-	8,432
2041	8,432	-	8,432
2042	8,432	-	8,432
2043	4,215	-	4,215
Totals	**$ 206,574**	**$ -**	**$ 206,574**

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Notes payable consists of a loan in the amount of $43,776, to the Monticello Banking Company for the fire department. The interest rate is 2.25% over the term of the note. The loan was retired in one principal payment plus interest on September 6, 2017.

Compliance with Reserve Requirements

The City of Albany is required to maintain the following funds and accounts related to the bond issuance and loan agreement with Kentucky Bond Corporation (KBC).

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the system which will either increase income and revenues or provide a higher degree of service. At June 30, 2018, the depreciation fund had a balance of $10,017.

Sinking Fund – The sinking fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. As of June 30, 2018, the sinking fund had a balance of $144,628.

Debt Service Reserve – The debt service reserve is set up to accumulate 1/48 of the maximum debt service requirements. As of June 30, 2018, the debt service reserve had a balance of $244,387.

NOTE 7 – RETIREMENT PLAN

The City of Albany is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statue 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the system. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% (non-hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTE 7 – RETIREMENT PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contribution are received, an employer pay credit is deposited to the members account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

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

For the fiscal year ended June 30, 2018 the City's covered payroll for non-hazardous positions was $1,191,372. There are no employees subject to the hazardous job classification contribution requirements.

NOTE 7 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2018, the City reported a liability of $2,861,858 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .049 percent for non-hazardous.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 3,550	$ 72,646
Changes of assumptions	528,090	-
Net difference between projected and actual earnings on plan investments	226,656	191,258
Changes in proportion and differences between City contributions and proportionate share of contributions	108,306	7,592
City contributions subsequent to the measurement date	171,378	-
Total	$ 1,037,980	$ 271,496

The $171,378 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2019	$ 266,763
2020	$ 255,372
2021	$ 109,719
2022	$ (36,748)

NOTE 7 – RETIREMENT PLAN – CONTINUED

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

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 pe	26 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of the assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average
Investment rate of return	7.50%

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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

NOTE 7 – RETIREMENT PLAN – CONTINUED

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

Asset Class	Target Allocations	Long-Term Nominal Real Rate of Return
U.S Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	0.11%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	**100.00%**	**6.56%**

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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 new 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:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% Decrease	5.25%	$ 3,609,421
Current discount rate	6.25%	$ 2,861,858
1% Increase	7.25%	$ 2,236,526

Payable to the Pension Plan – At June 30, 2018, the City reported no outstanding liability amount to the pension plan.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

At June 30, 2018, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred inflows of resources	**$**	**51,463**
Deferred outflows of resources	**$**	**282,078**
Net OPEB liability	**$**	**982,917**

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statue Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July

1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn $15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2018 was 4.70% (non-hazardous) and 9.35% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were $260,783 for the year ended June 30, 2018 for both non-hazardous and hazardous combined, Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of Jun 30, 2017 were based on an actuarial valuation date of Jun 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ended June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation date	June 30, 2017
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	26 years, closed
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%
Healthcare Trend Rate	
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (setback 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.83% for CERS non-hazardous, and 5.84% for CERS hazardous 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 long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighing the expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

Asset Class	Target Allocations	Long-Term Nominal Real Rate of Return
U.S Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	0.11%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	**100.00%**	**6.56%**

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) follows:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% Decrease	5.25%	$ 3,609,421
Current discount rate	6.25%	$ 2,861,858
1% Increase	7.25%	$ 2,236,526

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

City's Net OPEB Liability (Asset) Healthcare Cost		
Trend Rate -1% (6.5% decreasing to 4.00%)	Trend Rate (7.5% decreasing to 5.00%)	Trend Rate +1% (8.5% decreasing to 6.00%)
$ 753,948	**$ 982,917**	**$ 1,280,563**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of $982,917 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was .049 percent.

For the year ended June 30, 2018, the City recognized OPEB expenses of $105,394. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	$ -	$ 2,281
Implicit subsidy	12,013	-
Differences between expected and actual results	-	2,730
Changes of assumptions	213,876	-
Net difference between projected and actual earnings on plan investments	-	46,452
City contributions subsequent to the measurement date	56,189	-
Total	$ 282,078	$ 51,463

The $56,189 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows.

Year ending June 30,		
2019	$	27,945
2020	$	27,945
2021	$	27,945
2022	$	27,945
2023	$	39,558
Thereafter	$	11,076

Deferred outflows and inflows related to differences between projected and actual earnings on plan investment are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City receives funding from federal, state, and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of grants advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program. As of June 30, 2018, there were no pending litigation, unasserted claims nor assessments against the City.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2018, the City was sufficiently insured.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through December 12, 2018, which is the date the financial statements were available to be issued.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

As described in Note 8 regarding the City's participation in the County Employee's Retirement Plan, the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, became effective for fiscal year 2018. That amount was under calculated in the amount of $280,982 for governmental activities and $422,115 for business-type activities as of June 30, 2018.

CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 135,000	$ 135,000	$ 161,208	$ (26,208)
Licenses and other taxes	918,000	793,000	586,019	206,981
Intergovernmental	9,000	97,000	190,558	(93,558)
Service charges	140,000	140,000	150,406	(10,406)
Fines, arrest fees, and permits	9,000	9,000	10,007	(1,007)
Other	11,400	11,400	33,610	(22,210)
Total Revenues	**1,222,400**	**1,185,400**	**1,131,808**	**53,592**
Expenditures				
Current:				
General and administration department	256,783	256,783	211,305	45,478
Police department	550,764	550,764	547,717	3,047
Fire department	188,300	188,300	119,234	69,066
Street department	257,812	257,812	256,993	819
Capital outlay	-	-	237,645	(237,645)
Debt service:				
Principal	60,000	60,000	43,776	16,224
Interest	-	-	7,103	(7,103)
Total Expenditures	**1,313,659**	**1,313,659**	**1,423,773**	**(110,114)**
Net Change in Fund Balance	**$ (91,259)**	**$ (128,259)**	**$ (291,965)**	**$ (56,522)**
Fund Balance, Beginning			**848,314**	
Fund Balance, Ending			**$ 556,349**	

CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON - GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

	Budget			
	Original	Final	Actual	Variance with Final Budget
Expenditures				
General and Administrative				
Salaries	$ 134,000	$ 134,000	$ 96,571	$ 37,429
Employee benefits	57,783	57,783	64,014	(6,231)
Professional services	11,000	11,000	9,645	1,355
Insurance	10,000	10,000	16,318	(6,318)
Office expense	3,000	3,000	3,663	(663)
Telephone and utilities	8,500	8,500	3,805	4,695
Travel and training	3,000	3,000	1,790	1,210
Repairs and maintenance	2,500	2,500	615	1,885
Park maintenance	15,000	15,000	3,750	11,250
Miscellaneous	12,000	12,000	11,134	866
Total General and Administration	**$ 256,783**	**$ 256,783**	**$ 211,305**	**$ 45,478**
Police Department				
Salaries (including incentive pay)	298,000	$ 298,000	$ 311,614	$ (13,614)
Employee benefits	155,464	155,464	140,162	15,302
Vehicle expense	19,800	19,800	39,096	(19,296)
Insurance	5,000	5,000	20,055	(15,055)
Professional fees	2,500	2,500	3,121	(621)
Uniform, supplies and equipment	4,000	4,000	9,267	(5,267)
Dispatching	15,000	15,000	12,375	2,625
Telephone and utilities	8,000	8,000	9,440	(1,440)
Travel and training	5,000	5,000	1,779	3,221
Miscellaneous	38,000	38,000	808	37,192
Total Police Department	**$ 550,764**	**$ 550,764**	**$ 547,717**	**$ 3,047**

CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON - GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

Expenditures - Continued	Budget Original	Budget Final	Actual	Variance with Final Budget
Fire Department				
Salaries	$ 11,000	$ 11,000	$ 10,420	$ 580
Employee benefits	1,800	1,800	5,911	(4,111)
Fire personnel allowance	44,000	44,000	40,718	3,282
Vehicle expense	9,000	9,000	8,099	901
Insurance	4,500	4,500	11,898	(7,398)
Professional fees	-	-	4,936	(4,936)
Travel and training	4,500	4,500	392	4,108
Supplies and equipment	67,500	67,500	16,363	51,137
Telephone and utilities	9,000	9,000	8,122	878
Miscellaneous	22,000	22,000	-	22,000
Dispatching contract	15,000	15,000	12,375	2,625
Total Fire Department	**$ 188,300**	**$ 188,300**	**$ 119,234**	**$ 69,066**
Street Department				
Salaries	$ 101,080	$ 101,080	$ 104,452	$ (3,372)
Employee benefits	69,732	69,732	21,199	48,533
Vehicle expense	10,000	10,000	14,028	(4,028)
Insurance	6,000	6,000	11,898	(5,898)
Professional fees	-	-	3,581	(3,581)
Uniforms and supplies	6,000	6,000	7,140	(1,140)
Street lighting	34,000	34,000	70,798	(36,798)
Repairs and maintenance	25,500	25,500	16,900	8,600
Telephone and utilities	-	-	3,342	(3,342)
Travel and training	-	-	25	(25)
Miscellaneous	5,500	5,500	3,630	1,870
Total Street Department	**$ 257,812**	**$ 257,812**	**$ 256,993**	**$ 819**

Notes to the Required Supplementary Information:

Budgetary information is derived from the annual operating budget and is presented using the modified cash basis of accounting for each fund as described in Note 1.

The budgeted amounts include any amendments made.

Appropriations lapse at year end unless specifically carried over.

CITY OF ALBANY, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS

	2016	2017	2018
NON-HAZARDOUS			
City's proportionate share of the net pension liability (asset)	0.045581%	0.044132%	0.048893%
City's proportionate share of the net pension liability (asset)	$1,479,000	$1,897,484	$2,861,588
City's covered employee payroll	$1,027,114	$1,127,273	$1,191,372
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	144.00%	168.33%	240.19%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.50%

CITY OF ALBANY, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS

NON-HAZARDOUS	**2016**	**2017**	**2018**
Contractually required contribution	$ 127,670	$ 166,592	$ 171,379
Contributions in relation to the contractually required contribution	(127,670)	(166,592)	(171,379)
Contribution deficiency (excess)	$ -	$ -	$ -
City's covered-employee payroll	$ 1,027,114	$1,127,273	$1,191,372
Contributions as a percentage of covered employee payroll	12.43%	14.78%	14.39%

Notes to Required Supplementary Information:

Valuation dates. Actuarially determined contribution rates are calculated as of July 1st preceding the the fiscal year end in which the contributions are reported.

Changes in benefit terms. There were no benefit changes reported in the June 30, 2017 actuarial report.

Changes in assumptions. There were no changes in assumptions and methods reported in the June 30, 2017 actuarial report.

CITY OF ALBANY
SCHEDULE OF CHANGES IN THE CITY'S OPEB LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
FISCAL YEAR 2018

Change in the Net OPEB Liability - Non-Hazardous		Measurement Period Ending June 30, 2017
Total OPEB Liability		
Service cost		
Interest	$	41,788
Benefit changes		117,761
Difference between actual and expected experience		-
Assumption changes		(3,247)
Benefit payments		254,383
Net Change in Total OPEB Liability		(68,509)
		342,176
Total OPEB Liability - Beginning		
Total OPEB Liability - Ending		**1,722,516**
	$	**2,064,692**
Plan Fiduciary Net Position		
Contributions - employer		
Contributions - member	$	65,187
Benefit payments		4,477
Net investment income		(68,509)
Administrative Expense		129,460
Other		(386)
Net Change in Plan Fiduciary Net Position		-
		130,230
Plan Fiduciary Net Position - Beginning		
Plan Fiduciary Net Position - Ending		**951,545**
	$	**1,081,775**
Net OPEB Liability - Ending		
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	**$**	**982,917**
Covered Payroll		
Net OPEB Liability as a Percentage of Covered Payroll	$	1,191,372
		82.50%

CITY OF ALBANY, KENTUCKY
SCHEDULE OF CITY'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
FISCAL YEAR 2018

NON-HAZARDOUS

	June 30, 2018
Contractually required contribution	$ 57,126
Contributions in relation to the contractually required contribution	(57,126)
Contribution deficiency (excess)	$ -
City's covered-employee payroll	$ 1,191,372
Contributions as a percentage of covered-employee payroll	4.79%

CITY OF ALBANY, KENTUCKY
SCHEDULE OF WATER AND SEWER REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Water Utilities	Sewer Utilities	Total Enterprise Funds
Operating Revenues			
Charges for services	$ 2,356,337	$ 256,365	$ 2,612,702
Miscellaneous	102,214	25,554	127,768
Total Operating Revenues	**2,458,551**	**281,919**	**2,740,470**
Operating Expenses			
Salaries	596,609	128,917	725,526
Employee benefits	534,709	121,895	656,604
Administration	21,171	496	21,667
Contractual services	8,219	6,465	14,684
Repairs, parts, and supplies	170,402	37,573	207,975
Vehicle expense	59,212	5,894	65,106
Travel and training	3,790	539	4,329
Utilities and telephone	442,996	133,567	576,563
Labs and supplies	189,757	32,837	222,594
Insurance	34,146	34,186	68,332
Depreciation	831,107	207,777	1,038,884
Bad debt provision	23,563	2,566	26,129
Miscellaneous	36,605	3,230	39,835
Total Operating Expenses	**2,952,286**	**715,942**	**3,668,228**
Operating Loss	**(493,735)**	**(434,023)**	**(927,758)**
Non-Operating Revenues (Expenses)			
Interest income	10,874	2,719	13,593
Interest expense	(87,952)	(27,483)	(115,435)
Total Non-Operating Revenue (Expenses)	**(77,078)**	**(24,764)**	**(101,842)**
Loss Before Contributions and Transfers			**(1,029,600)**
Capital contributions			50,000
Change in Net Position			**(979,600)**
Total Net Position, Beginning, as Originally Stated			**22,165,740**
Prior Period Adjustment (See Note 12)			**(422,115)**
Total Net Position, Beginning as Restated			**21,743,625**
Total Net Position, Ending			**$ 20,764,025**

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

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, 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 my report thereon dated December 12, 2018.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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 City'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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2018-001 and 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sammy K. Lee, P.S.C.

Berea, Kentucky
December 12, 2018

CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

MATERIAL WEAKNESS

2018-001 Financial Statement Preparation

Condition:
During my audit procedures, I noted some instances of this objective not being completely achieved.

Criteria:
A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause:
The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:
Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regards to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:
Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:
Management agrees with the recommendation.

MATERIAL WEAKNESS

2018-002 Water and Sewer Fees Collection

Condition:
While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of controls that ensure timely collections and monitoring of water and sewer fees delinquent accounts.

Criteria:
Management should have controls in place to monitor customer delinquency and cutoff procedures for nonpayment.

Cause:
The City does not have controls in place to effectively monitor timely collections.

Effect:
The City's accounts receivable continuously increase each year due to inefficient collection efforts.

Recommendation:
Management should review past due accounts each month and perform necessary cutoff procedures.

Views of Responsible Officials:
Management agrees with the recommendation.