

CITY OF HAZARD, KENTUCKY

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2017

CITY OF HAZARD
FINANCIAL STATEMENTS AND REPORT OF AUDIT
For the Year Ended June 30, 2017

TABLE OF CONTENTS

<u>ITEM</u>	<u>Pages</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	9 - 10
Statement of Activities	11 - 12
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Net Position – Proprietary Funds	17 - 20
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	21- 22
Statement of Cash Flows – Proprietary Funds	23 - 24
Statement of Fiduciary Net Position – Fiduciary Funds.....	25

CITY OF HAZARD

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2017

TABLE OF CONTENTS

<u>ITEM</u>	<u>Pages</u>
Statement of Changes in Fiduciary Net Position – Trust Funds.....	26
Notes to Financial Statements	27 - 59
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	61
Schedules of Employer’s Share of Net Pension Liability and Schedules of Employer Contributions	62
Combining Balance Sheet – All Special Revenue Funds.....	63 - 64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	65 - 66
Combining Balance Sheet – All Capital Projects	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Capital Projects.....	68
Combining Statement of Net Position – Nonmajor Proprietary Funds	69 - 70
Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Proprietary Funds.....	71
Combining Statement of Cash Flows – Nonmajor Proprietary Funds	72
Combining Statement of Net Position – All Fiduciary Type Funds.....	73 - 74
Combining Statement of Changes in Net Position – Trust Funds.....	75
Comparative Statement of Net Position – Water Fund.....	76 - 77
Comparative Statement of Revenues, Expenses and Changes in Net Position – Water Fund.....	78

CITY OF HAZARD
FINANCIAL STATEMENTS AND REPORT OF AUDIT
For the Year Ended June 30, 2017

TABLE OF CONTENTS

<u>ITEM</u>	<u>Pages</u>
Comparative Statement of Net Position – Sewer Fund	79 - 80
Comparative Statement of Revenues, Expenses and Changes in Net Position – Sewer Fund.....	81
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 <i>Government Auditing Standards</i>	82 - 83
Summary Schedule of Prior Audit Findings	84
Schedule of Findings and Questioned Costs	85 - 86
Schedule of Expenditure of Federal Awards.....	87 - 88
Independent Auditor’s Report on Compliance for each Major Program and on Internal Control Over Compliance required by Uniform Guidance	89 - 90
APPENDIX A	
Certification of Compliance	

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INDEPENDENT AUDITOR'S REPORT

HONORABLE MAYOR AND CITY COMMISSIONERS

CITY OF HAZARD

HAZARD, KENTUCKY

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazard, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension supplemental reporting on pages 4–8 and 61–62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazard, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and comparative water and sewer fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, comparative water and sewer fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, comparative water and sewer fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2018, on our consideration of the City of Hazard, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hazard, Kentucky's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

January 5, 2018

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSISFor the Year Ended June 30, 2017

As management of the City of Hazard, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments and fiduciary funds, for the City was \$4,788,478 of which \$3,351,151 is considered restricted. The ending cash balance, including investments and fiduciary funds, for the City was \$4,495,973 of which \$3,448,351 is considered restricted.
- General fund long-term debt principal had a decrease of \$88,577. Proprietary fund debt principal had a net increase of \$217,695 due in part to loan proceeds of \$977,170 received for financing of sewer infrastructure project.
- The City recorded \$84,177 in governmental fixed assets and \$2,289,911 in proprietary fund fixed assets during the fiscal year.
- The City expended \$916,053 for various water projects funded by the Federal government during the fiscal year.
- The City adopted GASB 68 for the year ended June 30, 2015 recognizing the City's actuarially calculated net pension liability related to its participation in County Employee's Retirement System and Fire-Police Pension Fund. The net pension liability at June 30, 2017 includes \$8,869,823 calculated for the County Employee's Retirement System and \$4,602,159 calculated for the Fire-Police Pension Fund totaling \$13,471,982. An increase over prior year of \$540,024.
- Following are total customer users at beginning and end of year:

	Beginning of Year	End of Year
a. Water	8,709	8,751
b. Sewer	3,083	3,106
c. Garbage	0	0
d. Gas	1,651	1,637

Beginning early 2016, solid waste services were contracted out by the City.

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2017OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes, intergovernmental revenues and customer charges. The governmental activities of the City include general government, police and fire protection, public works and highway and streets. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include the Fire-Police Pension Fund, Disbursement Fund, Payroll Fund, and Jacklot Hollow Development Trust Fund. Proprietary funds include the Garbage Fund, Gas Fund, Water Fund, Sewer Fund, Public Improvement Fund, The Hazard Pavilion, and the Hazard Forum. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2017**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$36,687,988.

The greatest portion of the City's net position reflects its investment in capital assets (e.g., land and improvements, infrastructure, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the citizens of Hazard and to customers for which the City provides services; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net position for the Year Ended June 30, 2017

Following are a comparison of net position for the prior two years ended:

	<u>Year Ended</u>	
	<u>2017</u>	<u>2016</u>
Current Assets	\$ 3,533,092	\$ 3,798,511
Noncurrent Assets	51,558,183	51,484,248
Deferred Outflows of Resources	<u>1,706,985</u>	<u>2,166,358</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>56,798,260</u>	<u>57,449,117</u>
Current Liabilities	1,692,222	2,007,968
Noncurrent Liabilities	18,011,753	17,257,491
Deferred Inflows of Resources	<u>406,297</u>	<u>1,079,586</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>20,110,272</u>	<u>20,345,045</u>
Net Position		
Net Investment in Capital Assets	41,508,076	41,410,047
Restricted	880,104	898,027
Unrestricted	<u>(5,700,192)</u>	<u>(5,204,002)</u>
<u>Total Net Position</u>	<u>36,687,988</u>	<u>37,104,072</u>
<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 56,798,260</u>	<u>\$ 57,449,117</u>

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2017

- Deferred outflows of resources and deferred inflows of resources decreased \$459,373 and \$673,289, respectively. Noncurrent liabilities increased in part due to an increase in net pension liability of \$540,024.
- Current liabilities decreased due to a decrease in the current amount of bond/lease obligations from \$841,082 in fiscal year 2016 to \$470,110 in fiscal year 2017.
- Noncurrent assets increased due to recognition of water and sewer infrastructure projects.

The following is a comparison of general fund budget to actual:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Local revenue sources	\$ 5,612,908	\$ 6,617,227	\$ 1,004,319
Intergovernmental revenues	<u>432,092</u>	<u>343,682</u>	<u>(88,410)</u>
<u>Total Revenues</u>	<u>6,045,000</u>	<u>6,960,909</u>	<u>915,909</u>
Expenditures:			
General government	992,686	1,299,556	(306,870)
Police	2,223,866	2,346,307	(122,441)
Fire	1,070,785	1,270,410	(199,625)
Public works	1,088,500	1,600,826	(512,326)
Other expenditures	5,776	65,599	(59,823)
Capital outlay	-	84,177	(84,177)
Debt service	<u>-</u>	<u>124,680</u>	<u>(124,680)</u>
<u>Total Expenditures</u>	<u>5,381,613</u>	<u>6,791,555</u>	<u>(1,409,942)</u>
<u>Excess of Revenues over Expenditures</u>	<u>\$ 663,387</u>	<u>\$ 169,354</u>	<u>\$ (494,033)</u>

- Capital outlay includes police equipment of \$65,603, street equipment of \$15,355 and fire equipment of \$3,219.
- Debt service is not a budgeted expenditure.

The following table presents a comparison of government-wide funds revenue and expense for fiscal years ended June 30, 2017 and 2016:

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2017

	<u>Fiscal Year Ended</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Taxes and other local revenues	\$ 6,788,233	\$ 6,268,979
Intergovernmental revenues	349,955	870,462
Charges for services	<u>8,040,840</u>	<u>8,648,552</u>
<u>Total revenues</u>	<u>15,179,028</u>	<u>15,787,993</u>
Expenses:		
General government	1,377,892	1,383,288
Police	2,566,484	3,573,628
Fire	1,366,252	1,655,605
Public works	1,688,032	1,483,021
Highway and streets	96,632	165,335
Other expenditures	88,556	23,253
Utility services	8,944,076	8,949,792
Other proprietary expenses	<u>810,210</u>	<u>893,807</u>
<u>Total expenses</u>	<u>16,938,134</u>	<u>18,127,729</u>
<u>Change in net position</u>	<u>\$ (1,759,106)</u>	<u>\$ (2,339,736)</u>

- Due to continued recognition of GASB 68 net pension liabilities, pension expense decreased by \$1,446,130 for the year ended June 30, 2017.

BUDGETARY IMPLICATIONS

In Kentucky the fiscal year for municipalities is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the City's overall budget.

Results of the current fiscal year and recent historical trends for the City were taken into account when preparing the 2017-18 budget. No significant revenue or expense line items are foreseeable. Revenues for proprietary funds are monitored for significant expenditures/obligations that may have an effect on rates charged to customers of the City. The City has assessed underlying economics risk factors that are prevalent for the geographic area and considered these risk factors when preparing budgets.

Questions regarding this report should be directed to the Mayor, City Manager or Assistant City Manager at (606) 436-3171.

CITY OF HAZARDSTATEMENT OF NET POSITIONJune 30, 2017

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	\$ 51,401	\$ 996,221	\$ 1,047,622
Receivables, net of allowances:			
Taxes	65,877	-	65,877
Fees and services	-	1,592,255	1,592,255
Due from other funds	315,167	142,197	457,364
Other	-	108,551	108,551
Inventories	<u>49,167</u>	<u>212,256</u>	<u>261,423</u>
<u>Total current assets</u>	<u>481,612</u>	<u>3,051,480</u>	<u>3,533,092</u>
-Restricted Assets -			
Cash	477,344	1,100,804	1,578,148
Investment, at cost	<u>-</u>	<u>25,000</u>	<u>25,000</u>
<u>Total restricted assets</u>	<u>477,344</u>	<u>1,125,804</u>	<u>1,603,148</u>
- Noncurrent Assets -			
Capital assets	8,703,577	85,776,756	94,480,333
Less: accumulated depreciation	<u>(6,089,677)</u>	<u>(38,435,621)</u>	<u>(44,525,298)</u>
<u>Total noncurrent assets</u>	<u>2,613,900</u>	<u>47,341,135</u>	<u>49,955,035</u>
Deferred Outflows of Resources:			
Deferred outflows - pension resources	<u>1,037,021</u>	<u>669,964</u>	<u>1,706,985</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 4,609,877</u>	<u>\$ 52,188,383</u>	<u>\$ 56,798,260</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION (CONTINUED)June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	\$ 335,611	\$ 534,481	\$ 870,092
Other current liabilities	159,159	192,861	352,020
Current portion of bond/lease obligations	<u>62,218</u>	<u>407,892</u>	<u>470,110</u>
<u>Total current liabilities</u>	<u>556,988</u>	<u>1,135,234</u>	<u>1,692,222</u>
- Noncurrent Liabilities -			
Noncurrent portion of bond/lease obligations	246,168	8,187,589	8,433,757
Net pension liability	5,493,927	3,375,896	8,869,823
Other	<u>-</u>	<u>29,543</u>	<u>29,543</u>
<u>Total noncurrent liabilities</u>	<u>5,740,095</u>	<u>11,593,028</u>	<u>17,333,123</u>
- Other Liabilities -			
Deposits	<u>-</u>	<u>678,630</u>	<u>678,630</u>
<u>Total other liabilities</u>	<u>-</u>	<u>678,630</u>	<u>678,630</u>
<u>Total liabilities</u>	<u>6,297,083</u>	<u>13,406,892</u>	<u>19,703,975</u>
Deferred Inflows of Resources:			
Deferred inflows - pension related	<u>185,757</u>	<u>220,540</u>	<u>406,297</u>
Net Position:			
Net investment in capital assets	2,305,514	39,202,562	41,508,076
Restricted	503,078	377,026	880,104
Unrestricted (deficit)			
Pension resources	(4,642,663)	(2,926,472)	(7,569,135)
Unrestricted - other	<u>(38,892)</u>	<u>1,907,835</u>	<u>1,868,943</u>
<u>Total net position</u>	<u>(1,872,963)</u>	<u>38,560,951</u>	<u>36,687,988</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>\$ 4,609,877</u>	<u>\$ 52,188,383</u>	<u>\$ 56,798,260</u>

See notes to financial statements.

11.

CITY OF HAZARD

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

		<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>
	<u>Expenses</u>		
FUNCTIONS/PROGRAMS:			
- Governmental Activities -			
General government	\$ 1,377,892	\$ -	\$ 67,961
Police	2,566,484	-	126,584
Fire	1,366,252	-	67,386
Public works	1,688,032	-	83,257
Highways and streets	96,632	-	4,767
Other expenses	<u>88,556</u>	<u>-</u>	<u>-</u>
<u>Total governmental activities</u>	<u>7,183,848</u>	<u>-</u>	<u>349,955</u>
- Business-type Activities -			
Water utilities	4,663,787	3,484,948	-
Sewer utilities	1,747,033	1,521,456	-
Gas utilities	1,775,377	1,881,470	-
Garbage services	757,879	942,130	-
Public Improvement Corporation	107,203	-	-
Hazard Pavilion	379,610	88,660	-
The Hazard Forum	<u>323,397</u>	<u>122,176</u>	<u>-</u>
<u>Total business-type activities</u>	<u>9,754,286</u>	<u>8,040,840</u>	<u>-</u>
<u>Total primary government</u>	<u>\$ 16,938,134</u>	<u>\$ 8,040,840</u>	<u>\$ 349,955</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF ACTIVITIES (CONTINUED)For the Year Ended June 30, 2017

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
	\$ (1,309,931)	\$ -	\$ (1,309,931)
	(2,439,900)	-	(2,439,900)
	(1,298,866)	-	(1,298,866)
	(1,604,775)	-	(1,604,775)
	(91,865)	-	(91,865)
	<u>(88,556)</u>	<u>-</u>	<u>(88,556)</u>
	<u>(6,833,893)</u>	<u>-</u>	<u>(6,833,893)</u>
	-	(1,178,839)	(1,178,839)
	-	(225,577)	(225,577)
	-	106,093	106,093
	-	184,251	184,251
	-	(107,203)	(107,203)
	-	(290,950)	(290,950)
	<u>-</u>	<u>(201,221)</u>	<u>(201,221)</u>
	<u>-</u>	<u>(1,713,446)</u>	<u>(1,713,446)</u>
	<u>(6,833,893)</u>	<u>(1,713,446)</u>	<u>(8,547,339)</u>
General revenues:			
Taxes	2,524,985	-	2,524,985
Licenses and permits	3,900,842	-	3,900,842
Transfer in (out)	57,901	(57,901)	-
Interest income	1,407	5,556	6,963
Miscellaneous income/(loss)	<u>85,500</u>	<u>269,943</u>	<u>355,443</u>
<u>Total general revenues</u>	<u>6,570,635</u>	<u>217,598</u>	<u>6,788,233</u>
Change in net position	(263,258)	(1,495,848)	(1,759,106)
Net position, beginning, restated	(1,609,705)	39,068,941	37,459,236
Contributed capital	<u>-</u>	<u>987,858</u>	<u>987,858</u>
Net position, ending	<u>\$ (1,872,963)</u>	<u>\$ 38,560,951</u>	<u>\$ 36,687,988</u>

See notes to financial statements.

CITY OF HAZARDBALANCE SHEET – GOVERNMENTAL FUNDSJune 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 51,401	\$ -	\$ 51,401
Receivables, net of allowance for uncollectibles			
Taxes	65,877	-	65,877
Receivables - other	-	-	-
Due from other funds	277,395	37,772	315,167
Inventory of supplies, at cost	49,167	-	49,167
Restricted cash	<u>18,428</u>	<u>458,916</u>	<u>477,344</u>
<u>Total assets</u>	<u>462,268</u>	<u>496,688</u>	<u>958,956</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES:</u>			
Accounts payable	335,611	-	335,611
Accrued wages	47,163	-	47,163
Accrued vacation payable	44,169	-	44,169
Due to other taxing units	18,816	-	18,816
Due to other funds	<u>36,973</u>	<u>12,038</u>	<u>49,011</u>
<u>Total liabilities</u>	<u>482,732</u>	<u>12,038</u>	<u>494,770</u>
<u>FUND EQUITY:</u>			
<u>Fund balance:</u>			
Nonspendable - inventories	49,167	-	49,167
<u>Unreserved:</u>			
Unassigned	(88,059)	-	(88,059)
Restricted	<u>18,428</u>	<u>484,650</u>	<u>503,078</u>
<u>Total fund equity</u>	<u>(20,464)</u>	<u>484,650</u>	<u>464,186</u>
<u>Total liabilities and fund equity</u>	<u>\$ 462,268</u>	<u>\$ 496,688</u>	<u>\$ 958,956</u>

See notes to financial statements.

CITY OF HAZARDRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONJune 30, 2017

Total fund balance per fund financial statements		\$ 464,186
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	\$ 8,703,577	
Less accumulated depreciation	<u>\$ (6,089,677)</u>	
		2,613,900
Deferred outflows on pension resources are reported in government wide financial statements, but not in fund financial statements.		1,037,021
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.		(5,493,927)
Deferred inflows of resources related to pension are not reported in the fund financial statements.		(185,757)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund		
Governmental bonds and notes payable		<u>(308,386)</u>
Net position for governmental activities		<u>\$ (1,872,963)</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDSFor the Year Ended June 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Taxes	\$ 2,524,985	\$ -	\$ 2,524,985
Licenses and permits	3,900,842	-	3,900,842
Charges for services	-	-	-
Fines and forfeits	39,238	-	39,238
Intergovernmental revenues	343,682	296,834	640,516
Miscellaneous	<u>152,162</u>	<u>14,721</u>	<u>166,883</u>
<u>Total revenues</u>	<u>6,960,909</u>	<u>311,555</u>	<u>7,272,464</u>
<u>EXPENDITURES:</u>			
<u>Current:</u>			
General government	1,299,556	-	1,299,556
Police	2,346,307	-	2,346,307
Fire	1,270,410	-	1,270,410
Public works	1,600,826	-	1,600,826
Highways and streets	-	93,286	93,286
Other expenditures	65,599	22,957	88,556
Capital outlay	84,177	39,188	123,365
Debt service	<u>124,680</u>	<u>-</u>	<u>124,680</u>
<u>Total expenditures</u>	<u>6,791,555</u>	<u>155,431</u>	<u>6,946,986</u>
<u>Excess of revenues over (under) expenditures</u>	<u>169,354</u>	<u>156,124</u>	<u>325,478</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in	1,626,800	59,989	1,686,789
Operating transfers (out)	(1,985,571)	(99,404)	(2,084,975)
Proceeds from notes	-	-	-
Other income	<u>85,500</u>	<u>-</u>	<u>85,500</u>
<u>Total other financing sources (uses)</u>	<u>(273,271)</u>	<u>(39,415)</u>	<u>(312,686)</u>
<u>Excess of revenues and other sources over (under) expenditures and other uses</u>	<u>(103,917)</u>	<u>116,709</u>	<u>12,792</u>
<u>FUND BALANCE, JULY 1</u>	<u>83,453</u>	<u>367,941</u>	<u>451,394</u>
<u>FUND BALANCE, JUNE 30</u>	<u>\$ (20,464)</u>	<u>\$ 484,650</u>	<u>\$ 464,186</u>

See notes to financial statements.

CITY OF HAZARDRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2017

Net change in total fund balances per fund financial statements	\$	12,792
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Amounts reported for governmental activities in the statement of activities differences:

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.

Capital outlay	\$ 84,177	
Depreciation	<u>(238,459)</u>	(154,282)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. The repayment of the principal of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which repayments exceeded proceeds.

Principal payments	88,577	
Note proceeds	<u>-</u>	88,577

However, in the statement of activities, the cost of pension benefits earned net of employee contributions are reported as pension expense.

(210,345)

Change in net position of governmental activities	\$	<u>(263,258)</u>
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See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDSJune 30, 2017

	<u>Water</u>	<u>Sewer</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 258,459	\$ 387,574
Receivables, net of allowances:		
Fees and services	799,164	289,776
Due from other funds	79,766	15,088
Other	105,624	2,927
Inventories of supplies, at cost	<u>115,070</u>	<u>12,508</u>
<u>Total current assets</u>	<u>1,358,083</u>	<u>707,873</u>
 -Restricted Assets -		
Cash	656,492	444,312
Investments, at cost	<u>-</u>	<u>-</u>
<u>Total restricted assets</u>	<u>656,492</u>	<u>444,312</u>
 - Noncurrent Assets -		
Capital assets	51,276,297	13,936,027
Less: accumulated depreciation	<u>(18,584,384)</u>	<u>(7,945,276)</u>
<u>Total noncurrent assets</u>	<u>32,691,913</u>	<u>5,990,751</u>
 Deferred Outflows of Resources:		
Deferred outflows - pension resources	<u>299,552</u>	<u>54,238</u>
 Total assets and deferred <u>outflows of resources</u>	<u>\$ 35,006,040</u>	<u>\$ 7,197,174</u>

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2017

<u>Gas</u>	<u>Garbage</u>	<u>Other</u>	<u>Totals</u>
\$ 258,189	\$ 4,230	\$ 87,769	\$ 996,221
274,747	228,568	-	1,592,255
10,583	27,760	9,000	142,197
-	-	-	108,551
<u>79,557</u>	<u>1,083</u>	<u>4,038</u>	<u>212,256</u>
<u>623,076</u>	<u>261,641</u>	<u>100,807</u>	<u>3,051,480</u>
-	-	-	1,100,804
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>1,125,804</u>
6,186,213	1,578,652	12,799,567	85,776,756
<u>(4,559,215)</u>	<u>(1,554,347)</u>	<u>(5,792,399)</u>	<u>(38,435,621)</u>
<u>1,626,998</u>	<u>24,305</u>	<u>7,007,168</u>	<u>47,341,135</u>
<u>80,890</u>	<u>148,209</u>	<u>87,075</u>	<u>669,964</u>
<u>\$ 2,355,964</u>	<u>\$ 434,155</u>	<u>\$ 7,195,050</u>	<u>\$ 52,188,383</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2017

	<u>Water</u>	<u>Sewer</u>
Liabilities:		
- Current Liabilities -		
Accounts payable	\$ 388,086	\$ 64,112
Accrued interest payable	-	-
Accrued wages	14,266	4,922
Accrued vacation payable	6,075	6,236
Due to other funds	-	29,396
Current portion of long-term debt	139,638	61,460
<u>Total current liabilities</u>	<u>548,065</u>	<u>166,126</u>
- Noncurrent Liabilities -		
Notes payable	41,575	1,328,763
Due to other taxing units	23,189	-
Revenue bonds payable	5,472,100	-
Net pension liability	1,549,233	268,847
<u>Total noncurrent liabilities</u>	<u>7,086,097</u>	<u>1,597,610</u>
- Other Liabilities -		
Deposits	585,560	-
<u>Total liabilities</u>	<u>8,219,722</u>	<u>1,763,736</u>
Deferred Inflows of Resources:		
Deferred inflows - pension related	75,303	10,681
Net Position:		
Net investment in capital assets	27,038,600	4,600,528
Restricted	-	377,026
Unrestricted (deficit)		
Pension resources	(1,324,984)	(225,290)
Unrestricted - other	997,399	670,493
<u>Total net position</u>	<u>26,711,015</u>	<u>5,422,757</u>
<u>Total liabilities, deferred inflows</u>		
<u>of resources and net position</u>	<u>\$ 35,006,040</u>	<u>\$ 7,197,174</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2017

<u>Gas</u>	<u>Garbage</u>	<u>Other</u>	<u>Totals</u>
\$ 51,457	\$ 15,220	\$ 15,606	\$ 534,481
19,711	-	1,559	21,270
3,749	-	3,803	26,740
927	-	2,416	15,654
99,753	-	48	129,197
<u>75,089</u>	<u>-</u>	<u>131,705</u>	<u>407,892</u>
<u>250,686</u>	<u>15,220</u>	<u>155,137</u>	<u>1,135,234</u>
381,819	-	963,332	2,715,489
6,354	-	-	29,543
-	-	-	5,472,100
<u>404,848</u>	<u>683,158</u>	<u>469,810</u>	<u>3,375,896</u>
<u>793,021</u>	<u>683,158</u>	<u>1,433,142</u>	<u>11,593,028</u>
<u>93,070</u>	<u>-</u>	<u>-</u>	<u>678,630</u>
<u>1,136,777</u>	<u>698,378</u>	<u>1,588,279</u>	<u>13,406,892</u>
<u>16,934</u>	<u>90,817</u>	<u>26,805</u>	<u>220,540</u>
1,626,998	24,305	5,912,131	39,202,562
-	-	-	377,026
(340,892)	(625,766)	(409,540)	(2,926,472)
<u>(83,853)</u>	<u>246,421</u>	<u>77,375</u>	<u>1,907,835</u>
<u>1,202,253</u>	<u>(355,040)</u>	<u>5,579,966</u>	<u>38,560,951</u>
<u>\$ 2,355,964</u>	<u>\$ 434,155</u>	<u>\$ 7,195,050</u>	<u>\$ 52,188,383</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues:		
Charges for services	\$ 3,468,027	\$ 1,521,456
Other	<u>16,921</u>	<u>-</u>
<u>Total operating revenues</u>	<u>3,484,948</u>	<u>1,521,456</u>
Operating expenses:		
Salaries and wages	1,447,361	428,996
Contract services	1,110,805	578,851
Materials and supplies	894,840	247,155
Depreciation	1,011,231	459,705
Other operating expenses	<u>5,731</u>	<u>4,070</u>
<u>Total operating expenses</u>	<u>4,469,968</u>	<u>1,718,777</u>
<u>Operating income (loss)</u>	<u>(985,020)</u>	<u>(197,321)</u>
Non-operating revenues (expenses):		
Interest income	1,438	2,139
Interest expense	(193,819)	(28,256)
Other income/(loss)	<u>-</u>	<u>-</u>
<u>Total non-operating revenues (expenses)</u>	<u>(192,381)</u>	<u>(26,117)</u>
<u>Net income (loss) before operating transfer</u>	<u>(1,177,401)</u>	<u>(223,438)</u>
<u>Operating transfers in (out)</u>	<u>131,000</u>	<u>111,911</u>
<u>Net income (loss)</u>	<u>(1,046,401)</u>	<u>(111,527)</u>
<u>Net Position - Beginning, restated</u>	<u>26,769,558</u>	<u>5,534,284</u>
<u>Contributed capital</u>	<u>987,858</u>	<u>-</u>
<u>Net Position - Ending</u>	<u>\$ 26,711,015</u>	<u>\$ 5,422,757</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDS (CONTINUED)For the Year Ended June 30, 2017

<u>Gas Fund</u>	<u>Garbage Fund</u>	<u>Other</u>	<u>Totals</u>
\$ 1,881,243	\$ 938,868	\$ 210,836	\$ 8,020,430
<u>227</u>	<u>3,262</u>	<u>-</u>	<u>20,410</u>
<u>1,881,470</u>	<u>942,130</u>	<u>210,836</u>	<u>8,040,840</u>
404,400	-	294,704	2,575,461
1,187,922	741,070	134,181	3,752,829
83,989	2,250	32,368	1,260,602
66,362	14,559	291,483	1,843,340
<u>11,216</u>	<u>-</u>	<u>15</u>	<u>21,032</u>
<u>1,753,889</u>	<u>757,879</u>	<u>752,751</u>	<u>9,453,264</u>
<u>127,581</u>	<u>184,251</u>	<u>(541,915)</u>	<u>(1,412,424)</u>
1,407	456	116	5,556
(21,488)	-	(57,459)	(301,022)
<u>50</u>	<u>269,893</u>	<u>-</u>	<u>269,943</u>
<u>(20,031)</u>	<u>270,349</u>	<u>(57,343)</u>	<u>(25,523)</u>
107,550	454,600	(599,258)	(1,437,947)
<u>(329,793)</u>	<u>(406,500)</u>	<u>435,481</u>	<u>(57,901)</u>
(222,243)	48,100	(163,777)	(1,495,848)
<u>1,424,496</u>	<u>(403,140)</u>	<u>5,743,743</u>	<u>39,068,941</u>
-	-	-	987,858
<u>\$ 1,202,253</u>	<u>\$ (355,040)</u>	<u>\$ 5,579,966</u>	<u>\$ 38,560,951</u>

See notes to financial statements.

CITY OF HAZARD

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Water Fund	Sewer Fund
Cash flows from operating activities:		
Cash received from:		
Charges for services	\$ 3,444,839	\$ 1,539,746
Other operating revenue	16,921	-
Cash paid to/for:		
Employees	(1,389,297)	(434,114)
Supplies/contractual	(1,853,288)	(835,968)
Other operating expenses	(5,731)	(4,070)
<u>Net cash provided/(used) by operating activities</u>	<u>213,444</u>	<u>265,594</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,067,424)	(1,178,568)
Principal paid on notes and bonds	(199,248)	(363,382)
Proceeds from notes and bonds	-	977,170
Interest paid on notes and bonds	(193,819)	(28,256)
Nonoperating - income	-	-
Contributed capital	987,858	-
<u>Net cash provided (used) for capital and related financing</u>	<u>(472,633)</u>	<u>(593,036)</u>
Cash flows from non-capital financing activities:		
Operating transfers - in (out)	131,000	111,911
<u>Net cash provided (used) for non-capital activities</u>	<u>131,000</u>	<u>111,911</u>
Cash flows from investing activities:		
Interest income	1,438	2,139
<u>Net cash provided (used) for investing activities</u>	<u>1,438</u>	<u>2,139</u>
Net increase (decrease) in cash	(126,751)	(213,392)
Cash, beginning of year	1,041,702	1,045,278
Cash, end of year	<u>914,951</u>	<u>831,886</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:		
Operating income (loss)	(985,020)	(197,321)
Adjustment to reconcile operating income to cash provided (used) by operating activities:		
Depreciation	1,011,231	459,705
Restatement of net position	292,148	
Changes in current assets/liabilities:		
Accounts receivable	56,411	28,056
Due from other funds	(53,800)	(6,839)
Other receivables	(105,624)	(2,927)
Inventory	16,845	(391)
Accounts payable	137,022	(1,149)
Accrued interest payable	-	-
Accrued wages	3,991	1,138
Accrued vacation payable	(11,559)	3,906
Due to other funds	(1,510)	(8,422)
Due to other taxing units	(518)	(23,257)
Customer deposits	(212,323)	-
Deferred outflows - pension resources	93,183	18,446
Deferred inflows - pension related	(136,576)	(27,035)
Net pension liability	109,543	21,684
<u>Net cash provided (used) by operating activities</u>	<u>\$ 213,444</u>	<u>\$ 265,594</u>

See notes to financial statements.

CITY OF HAZARD

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)

For the Year Ended June 30, 2017

<u>Gas Fund</u>	<u>Garbage Fund</u>	<u>Other</u>	<u>Totals</u>
\$ 1,898,008	\$ 954,283	\$ 202,247	\$ 8,039,123
227	3,262	-	20,410
(388,912)	-	(279,431)	(2,491,754)
(1,341,657)	(910,317)	(168,550)	(5,109,780)
(11,216)	-	(15)	(21,032)
<u>156,450</u>	<u>47,228</u>	<u>(245,749)</u>	<u>436,967</u>
(6,768)	(22,351)	(14,800)	(2,289,911)
(65,141)	-	(131,704)	(759,475)
-	-	-	977,170
(21,488)	-	(57,459)	(301,022)
50	269,893	-	269,943
-	-	-	987,858
<u>(93,347)</u>	<u>247,542</u>	<u>(203,963)</u>	<u>(1,115,437)</u>
(329,793)	(406,500)	435,481	(57,901)
<u>(329,793)</u>	<u>(406,500)</u>	<u>435,481</u>	<u>(57,901)</u>
1,407	456	116	5,556
<u>1,407</u>	<u>456</u>	<u>116</u>	<u>5,556</u>
(265,283)	(111,274)	(14,115)	(730,815)
<u>548,472</u>	<u>115,504</u>	<u>101,884</u>	<u>2,852,840</u>
<u>283,189</u>	<u>4,230</u>	<u>87,769</u>	<u>2,122,025</u>
127,581	184,251	(541,915)	(1,412,424)
66,362	14,559	291,483	1,843,340
63,016	-	-	355,164
11,451	38,376	-	134,294
(10,001)	(22,961)	(8,589)	(102,190)
-	-	-	(108,551)
10,299	-	-	26,753
(64,470)	(166,997)	(2,929)	(98,523)
(3,477)	-	1,413	(2,064)
785	-	773	6,687
(2,390)	-	(2,872)	(12,915)
(12,098)	-	(485)	(22,515)
(2,053)	-	-	(25,828)
(47,701)	-	-	(260,024)
26,970	-	24,472	163,071
(39,529)	-	(35,868)	(239,008)
<u>31,705</u>	<u>-</u>	<u>28,768</u>	<u>191,700</u>
<u>\$ 156,450</u>	<u>\$ 47,228</u>	<u>\$ (245,749)</u>	<u>\$ 436,967</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDSJune 30, 2017

	<u>Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
Assets:			
Restricted assets:			
Cash and cash equivalents	\$ 123,553	\$ 279,441	\$ 402,994
Investments	1,442,209	-	1,442,209
Other receivables	21,060	-	21,060
Due from other funds	<u>287</u>	<u>18,023</u>	<u>18,310</u>
<u>Total assets</u>	<u>1,587,109</u>	<u>297,464</u>	<u>1,884,573</u>
Liabilities:			
Due other funds	-	297,464	297,464
Net pension liability	<u>4,602,159</u>	<u>-</u>	<u>4,602,159</u>
<u>Total liabilities</u>	<u>4,602,159</u>	<u>297,464</u>	<u>4,899,623</u>
Net Position:			
Designated for retirement contributions	(3,157,592)	-	(3,157,592)
Designated for other purposes	<u>142,542</u>	<u>-</u>	<u>142,542</u>
<u>Total net position</u>	<u>(3,015,050)</u>	<u>-</u>	<u>(3,015,050)</u>
<u>Total liabilities and net position</u>	<u>\$ 1,587,109</u>	<u>\$ 297,464</u>	<u>\$ 1,884,573</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF CHANGES IN FIDUCIARY NET
POSITION – TRUST FUNDSFor the Year Ended June 30, 2017Additions:

Contributions:

Employer \$ 456,087

Investment Income:

Rental Income 22,246

Interest Income 15,256

Total investment income 37,502Total additions 493,589Deductions:

Benefits 455,948

Administrative expenses -

Materials and supplies -

Total deductions 455,948Operating transfers in (out) -Net increase/(decrease) in net position 37,641

Net Position:

Beginning of Year (3,052,691)

End of Year \$ (3,015,050)

NOTES TO FINANCIAL STATEMENTS

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTSJune 30, 2017**1. – General Statement and Summary of Significant Accounting Policies**General Statement

The City of Hazard, Kentucky (The “City”) was incorporated in 1884, under the provisions of the State of Kentucky. The City operates under City manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities.

A. The 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 GAAP. 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 following is a brief review of each potential component unit addressed in defining the City’s reporting entity.

Excluded from the reporting entity:

Hazard Independent School District

The Hazard Independent School District selects management staff, sets tax rates, establishes budgets and controls all aspects of their daily activities.

Hazard Housing Authority

The Hazard Housing Authority is excluded as they have their own management staff and are under the supervision of HUD.

Hazard-Perry County Community Ministries, Inc.

Hazard-Perry County Community Ministries, Inc. is excluded as they are a separate entity and have their own management board.

Hazard-Perry County Airport Board

Hazard-Perry County Airport Board is excluded as they have their own management board.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**B. Government-Wide and Fund Financial Statements***Government-wide Financial Statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. The primary government is presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**D. Fund Types and Major Funds***Governmental Funds*

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Other governmental funds include:

Special Revenue Funds - accounts for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds – accounts for financial resources to be used for the acquisition and construction of major capital facilities.

Proprietary Funds

The City reports the following major proprietary funds:

Water, Sewer, Gas, and Garbage – accounts for operations that are financed and operated in a manner similar to private business enterprises where the costs of providing services to the general public on a continuing basis are financed through user charges.

The City has three other proprietary funds, the Hazard Pavilion, Hazard Forum and the Public Improvement Corp Fund.

Other Fund Types

The City also reports the following fund types:

Trust Funds – reports fiduciary resources held in trust and the receipt, investments and distribution of retirement contributions and rental activities.

Agency Funds – accounts for funds that are generally custodial in nature and do not involve measurement or results of operations.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**E. Assets, Liabilities, and Net Position or Equity****1. Cash and Investments**

Cash and investments are separately held and reflected in their respective funds as “cash and cash equivalents” and “investments” some of which are restricted assets. The City considers the above in its definitions for applicability of cash flow statement use.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of one year or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

2. Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

3. Capital Assets, Depreciation, and Amortization

The City’s property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**E. Assets, Liabilities, and Net Position or Equity (continued)**

Depreciation has been calculated on each class of depreciable property using the straight-line method, with one-half year's depreciation in the year of acquisition. Estimated useful lives are as follows:

Water and sewer line extensions	30 – 50 years
Buildings	30 – 50 years
Furniture and office equipment	5 – 10 years
Water storage tanks	50 years
Vehicles and equipment	4 – 10 years
Sewer treatment plant	24 years

4. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

5. Fund Equity

The City implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**E. Assets, Liabilities, and Net Position or Equity (continued)**

The following schedule reflects governmental fund balances at June 30, 2017:

Fund balances:

	General <u>Fund</u>	Non-major <u>Funds</u>	<u>Total</u>
Unassigned	\$ (88,059)	\$ -	\$ (88,059)
Nonspendable	49,167	-	49,167
Restricted	<u>18,428</u>	<u>484,650</u>	<u>503,078</u>
Total fund balances	<u>\$ (20,464)</u>	<u>\$ 484,650</u>	<u>\$ 464,186</u>

6. Fund Equity

GASB 63, implemented for the fiscal year ended June 30, 2013, has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the City or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

F. Sources of Revenue and Other General Information**1. Revenues**

The major sources of revenue other than general fund tax and licenses and proprietary fee for services are federal and state grants, state financial assistance, local contributed cash, contributed services, and other revenues as discussed below:

a. Federal and State Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**F. Sources of Revenue and Other General Information (continued)****b. State Financial Assistance**

State financial assistance revenues are recognized upon notification of the amount of the award as the resources are collectible within the current period.

c. Local Contributed Cash

Contributions to grant programs from local governments and other participants are recognized as revenue when grant expenditures are incurred in the case of cost reimbursement grants.

d. In-Kind – Contributed Services

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal funding on various grants. Contributed services are therefore reflected as revenue and expenditures in accordance with legal requirements of the individual grants. Contributed services are recorded as an expenditure with an equivalent amount recorded as revenue. The amounts of such services are recorded in the accompanying financial statements at their estimated fair values at date of receipt.

e. Other Revenues

Other revenues are composed primarily of interest and miscellaneous charges for services. Interest income is recorded as earned since it is measurable and available. Miscellaneous charges for services are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Leases

Leases that transfer substantially all of the risks and benefits of ownership are capital leases. Other leases are operating leases. Capital leases are included in property and equipment and are amortized using the straight-line method over their respective terms. Operating leases are expensed over the terms of the leases.

3. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the fund financial statements:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**F. Sources of Revenue and Other General Information (continued)**

- a. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds as well as for all enterprise funds. These budgets are adopted on a basis consistent with generally accepted accounting principles.
- b. Budgetary data for capital project funds has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective project and not on an annual basis.
- c. The City Commission approves, by ordinance, total budget appropriations only. Any revisions thereafter for any fund must also be approved by the City Commission. Therefore, the level of budgetary responsibility is by total appropriations. However, for report purposes this level has been expanded to a functional basis (general government, public safety, etc.).
- d. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.
- e. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

4. Leave PoliciesVacation

The vacation leave in 2017 is 3 calendar weeks per year.

Vacation leave must be taken within the year after it is accumulated.

Absences on account of sickness, injury or disability in excess of that authorized for such purposes may be charged to vacation leave credit.

Sick

All full-time employees shall be granted one working day sick leave credit with pay for each completed calendar month of service. Sick leave may be accumulated to a maximum of 60 working days.

At June 30, 2017, compensated absences accrued totaled \$63,755 based on the number of days earned for each employee.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**F. Sources of Revenue and Other General Information (continued)****5. Property Tax Calendar**

Property taxes for the fiscal year were levied in September 2016, on the assessed valuation of property in Perry County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes, are as follows:

<u>Description</u>	<u>Per KRS 134.020</u>
1. Due date for payment of taxes, 2% discount	30 days from the date mailed
2. Face value amount payment date	31-60 days from the date mailed
3. Delinquent date 10% penalty, .5% interest per month	Beyond 61 days until collected

Vehicle taxes are collected by the County Clerk of Perry County and are due and collected in the birth month of the vehicle's licensee.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Recently Issued Accounting Pronouncements

GASB Statement 65, implemented during the 2014 fiscal year, establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of "deferred" in financial statement presentations.

GASB Statement No. 66, *Technical Corrections—2012; an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The City implemented the new requirements for fiscal year 2013-2014 financial statements.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**F. Sources of Revenue and Other General Information (continued)**

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.

The City is assessing its accounting and financial reporting impact for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after June 15, 2017.

2. - Cash and Investments

The carrying amount of the City's deposits with financial institutions and petty cash was \$4,495,973 and the bank balance was \$4,730,459.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the City may not recover collateral securities. The City requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At June 30, 2017, \$1,598,795 was insured by FDIC, \$2,463,607 was collateralized with securities held by the pledging financial institution's trust department in the City's name and \$668,057 of the City's deposits were not collateralized. At June 30, 2017, the City's deposits at Peoples Bank and Trust, First Trust Bank, Whitaker Bank and First Federal Savings and Loan were not fully covered by collateral agreements. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The City does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the City's investments in a single issuer. All of the organization's cash is held at local financial institutions. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The City does not hold any foreign investments.

Other Investments:

Investment in the Hazard Gas Company is accounted for under the equity method, at cost, increased or decreased by the Hazard Gas Company's share of earnings or losses, less transfers. The Hazard Gas Company is 100% owned by Public Improvement Corporation. As of June 30, 2017, the balance is \$(7,778).

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**2. - Cash and Investments (continued)**

Investment in the Hazard Pavilion is accounted for under the equity method, at cost, increased or decreased by the Hazard Pavilion's share of earnings or losses, less transfers. The Hazard Pavilion is 100% owned by Public Improvement Corporation. As of June 30, 2017, the balance is \$(515,021).

For financial reporting purposes, the investment and related earnings from the subsidiaries are eliminated in the combining financial statements.

3. - Retirement Plans

The City of Hazard is a participating employer of the City of Hazard Policemen's and Firemen's Pension Fund of those employees hired before August 31, 1989 and after this date County Employee's Retirement System.

A summary of the City of Hazard Policemen's and Firemen's Pension fund is as follows:

Effective Date	March 2, 1953.
Plan Year (Fiscal Year)	The 12-month period ending June 30.
Participants	Policemen and Firemen employed before 1989 by the City of Hazard, Kentucky.
Normal Eligibility	20 years of service.
Retirement Pension Benefit	50% of salary at a time of retirement.
Disability Eligibility	Total and permanent disability incurred by reason of service with the Police or Fire Department.
Pension Benefits	50% of salary at time of retirement.
Retiree Survivors Benefits	If a retiree dies, his monthly pension will continue to his surviving spouse for life. In addition, there are fixed dollar amounts which can be paid to surviving children and parents.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**3. - Retirement Plans (continued)**

Death Before Retirement	If an active participant dies in the line of duty or with at least 15 years of service, the widows and orphans benefits outline above will be paid.
Vesting	The employee is always vested in the value of his own contributions. He is not, however, vested in any monthly pension prior to completing 20 years of service.
Employee Contributions	Equal to the amount the employee would contribute to the Social Security system in payroll taxes.
Employer Contributions	City of Hazard contributes to the general fund the balance needed to fund the Plan offset by Employee Contributions.

The City of Hazard plan (KRS 95.620 Revised Subsection 2) has no active employees (firemen and policemen) covered by the City of Hazard Policemen's and Firemen's Pension Fund. Funding for the plan was provided through payroll withholding of 7.65% and a City's contribution of the balance needed to fund the plan offset by employer's contributions.

The City of Hazard has a total of 132 employees under the County Employee's Retirement System, (CERS) a cost sharing, multiple-employer, public employer retirement system. Funding for the plan is provided through a payroll withholding of 5%, except for new hires on or after September 1, 2008 with payroll withholdings of 6%, and a City's contribution of 18.68% of the employees total compensation subject to contribution. The City does not participate in the hazardous plan of CERS but provides a pass-through hazardous CERS contribution for one police officer who is funded through the federal UNITE program.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800) 928-4646 or at <https://kyret.ky.gov>.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**3. - Retirement Plans (continued)**

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

At June 30, 2017, the City reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016 for the City's proportionate share of net CERS pension liability and July 1, 2013 for the City's Firemen's and Policemen's Pension Fund. At June 30, 2016 the City's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2015 was .17653% for nonhazardous and .01038% for hazardous. The City's proportionate share was 100% for the Firemen's and Policemen's Pension Fund.

City's proportionate share of the net CERS nonhazardous pension liability	<u>\$ 8,691,781</u>
City's proportionate share of the net CERS hazardous pension liability	<u>\$ 178,044</u>
City's proportionate share of the net Firemen-Police pension liability	<u>\$ 4,602,159</u>

For the year ended June 30, 2017, the City's financial statements reported pension expense of \$501,538 for CERS nonhazardous, \$10,969 for CERS hazardous and \$455,949 for the Firemen-Police pension. For the year ended June 30, 2017 the City recognized deferred outflows of resources for nonhazardous and hazardous of \$1,679,182 and \$27,804, respectively, and deferred inflows of resources for nonhazardous and hazardous of \$356,797 and \$49,500, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The City previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$498,399. This will be recognized as pension expense as follows:

<u>Year</u>	<u>Total</u>
2017	124,600
2018	124,600
2019	124,600
2020	<u>124,599</u>
	<u>\$ 498,399</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**3. - Retirement Plans (continued)**

	<u>Nonhazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 37,946	\$ -	\$ 2,568	\$ -
Changes of assumptions	460,444	-	10,217	-
Net difference between projected and actual earnings on pension plan investments	817,116	-	15,019	-
Changes in proportion and differences between City contributions and proportionate share of contributions	363,676	356,797	-	49,500
City contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 1,679,182</u>	<u>\$ 356,797</u>	<u>\$ 27,804</u>	<u>\$ 49,500</u>

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 27 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20173. - **Retirement Plans (continued)**

Non-hazardous		Long-term
		Expected
		Nominal
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Return</u>
Combined Equity	50.0%	5.30%
Intermediate Duration Fixed Income	11.0%	1.00%
Custom KRS Fixed Income	11.0%	3.33%
Core Real Estate	5.0%	4.25%
Diversified Hedge Funds	10.0%	4.00%
Private Equity	2.0%	8.00%
Diversified Inflation Strategy	8.0%	3.15%
Cash Equivalent	<u>3.0%</u>	-0.25%
	100.0%	

Hazardous		Long-term
		Expected
		Nominal
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	<u>2.0%</u>	-0.25%
	100.0%	

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

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2016 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**3. - Retirement Plans (continued)**

The following presents the City's proportionate share of net pension liability calculated using the discount rate of 7.50%, as well as the City's share, if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of net nonhazardous pension liability	\$ 10,831,367	\$ 8,691,781	\$ 6,857,730
City's proportionate share of net hazardous pension liability	\$ 223,675	\$ 178,044	\$ 140,406
City's proportionate share of the net Firemen-Police pension liability	\$ 5,780,924	\$ 4,602,159	\$ 3,629,355

There were no payables to the pension plans at June 30, 2017.

The City's plan actuarial report for the City of Hazard Firemen's and Policemen's Pension Fund dated July 1, 2013, stated that at that time, the assets which are accrued are less than the actuarial present value of the benefits which are vested. The level of funding is not adequate to meet future obligations according to the valuation results in the actuarial report dated July 1, 2013 indicating the total contribution to the plan should be \$473,851. The City's share of this is \$473,851, based upon the expected rate of employee contributions. The actuarial present value of vested benefits is \$5,992,207, which is in excess of the value of plan assets of \$1,390,048. Under GASB 68, a net pension liability of \$4,602,159 was recorded in the Fire-Police Pension Fund.

4. - Allowance for Uncollectible Accounts

Allowance for uncollectible accounts receivable in the various funds at June 30, 2017 is as follows:

General Fund	
Property taxes	\$ 125,701
Water Fund	
Water billing	88,796
Sewer Fund	
Sewer billing	22,475
Gas Fund	
Gas billing	30,527
Garbage Fund	
Garbage billing	170,376

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**5. - Proprietary Funds Fixed Assets**

The following is a summary of property, plant and equipment of the Proprietary Funds at June 30, 2017:

	Public Improvement		Hazard Pavilion		The Hazard Forum		Total	
	<u>Corp.</u>	<u>Water</u>	<u>Gas</u>	<u>Garbage</u>	<u>Sewer</u>			
Land	\$ 821,026	\$ 87,647	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 908,673
Construction in progress	-	6,655,395	-	-	-	-	-	6,655,395
Buildings	2,310,673	6,624,309	1,573,565	-	-	7,306,922	7,038,660	24,854,129
Improvements other than buildings	708,286	35,869,357	-	5,063,279	-	6,079,674	-	47,720,596
Equipment and machinery	-	1,329,375	-	577,655	596,050	478,867	22,304	3,004,251
Office equipment and fixtures	-	61,213	259,053	203,245	20,051	28,972	-	572,534
Vehicles	<u>66,000</u>	<u>649,001</u>	<u>-</u>	<u>342,034</u>	<u>962,551</u>	<u>41,592</u>	<u>-</u>	<u>2,061,178</u>
	3,905,985	51,276,297	1,832,618	6,186,213	1,578,652	13,936,027	7,060,964	85,776,756
Accumulated Depreciation	<u>(1,876,366)</u>	<u>(18,584,384)</u>	<u>(1,344,436)</u>	<u>(4,559,215)</u>	<u>(1,554,347)</u>	<u>(7,945,276)</u>	<u>(2,571,597)</u>	<u>(38,435,621)</u>
<u>Total</u>	<u>\$ 2,029,619</u>	<u>\$ 32,691,913</u>	<u>\$ 488,182</u>	<u>\$ 1,626,998</u>	<u>\$ 24,305</u>	<u>\$ 5,990,751</u>	<u>\$ 4,489,367</u>	<u>\$ 47,341,135</u>

Depreciation was allocated to each fund as follows:

Public Improvement Corp.	\$ 60,512
Water	1,011,231
Hazard Pavilion	54,124
Gas	66,362
Garbage	14,559
Sewer	459,705
Hazard Forum	<u>176,847</u>
<u>Total Depreciation</u>	<u>\$ 1,843,340</u>

Proprietary fund activity for the fiscal year ended June 30, 2017 was as follows:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**5. - Proprietary Funds Fixed Assets (continued)**

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 908,673	\$ -	\$ -	\$ 908,673
Construction in progress	<u>5,701,573</u>	<u>1,052,424</u>	<u>(98,602)</u>	<u>6,655,395</u>
Total capital assets not being depreciated	6,610,246	1,052,424	(98,602)	7,564,068
<u>Capital assets being depreciated:</u>				
Buildings	24,854,129	-	-	24,854,129
Improvements other than buildings	46,428,424	1,292,170	-	47,720,594
Equipment and machinery	2,996,184	21,568	-	3,017,752
Office equipment and fixtures	538,984	20,051	-	559,035
Vehicles	<u>2,058,878</u>	<u>2,300</u>	<u>-</u>	<u>2,061,178</u>
Total capital assets being depreciated	76,876,599	1,336,089	-	78,212,688
<u>Less accumulated depreciation for:</u>				
Buildings	(14,119,930)	(703,391)	-	(14,823,321)
Improvements other than buildings	(17,701,044)	(1,013,036)	-	(18,714,080)
Equipment and machinery	(2,279,282)	(83,220)	-	(2,362,502)
Office equipment and fixtures	(470,733)	(15,545)	-	(486,278)
Vehicles	<u>(2,021,291)</u>	<u>(28,149)</u>	<u>-</u>	<u>(2,049,440)</u>
Total accumulated depreciation	(36,592,280)	(1,843,341)	-	(38,435,621)
<u>Total capital assets being depreciated, net:</u>	<u>40,284,319</u>	<u>(507,252)</u>	<u>-</u>	<u>39,777,067</u>
<u>Total proprietary fund fixed assets</u>	<u>\$ 46,894,565</u>	<u>\$ 545,172</u>	<u>\$ (98,602)</u>	<u>\$ 47,341,135</u>

The following ongoing and completed infrastructure asset/projects were recognized and added to the schedule of fixed assets:

Sanitary Trunk and Odor Control Rehab	\$1,277,170
AML Waterline Projects	\$1,067,424

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**6. - Governmental Fixed Assets**

The following is a summary of changes in the general fixed assets account group:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 969,330	\$ -	\$ -	\$ 969,330
Total capital assets not being depreciated	969,330	-	-	969,330
<u>Capital assets being depreciated:</u>				
Buildings	2,500,812	-	-	2,500,812
Improvements other than buildings	1,166,583	37,200	-	1,203,783
Equipment and machinery	714,499	34,073	-	748,572
Office equipment and fixtures	336,382	2,404	-	338,786
Vehicles	<u>2,931,794</u>	<u>10,500</u>	<u>-</u>	<u>2,942,294</u>
Total capital assets being depreciated	7,650,070	84,177	-	7,734,247
<u>Less accumulated depreciation for:</u>				
Buildings	(1,936,296)	(45,615)	-	(1,981,911)
Improvements other than buildings	(492,966)	(19,090)	-	(512,056)
Equipment and machinery	(407,308)	(65,045)	-	(472,353)
Office equipment and fixtures	(323,838)	(7,176)	-	(331,014)
Vehicles	<u>(2,690,810)</u>	<u>(101,533)</u>	<u>-</u>	<u>(2,792,343)</u>
Total accumulated depreciation	(5,851,218)	(238,459)	-	(6,089,677)
<u>Total capital assets being depreciated, net:</u>	<u>1,798,852</u>	<u>(154,282)</u>	<u>-</u>	<u>1,644,570</u>
<u>Total governmental fund fixed assets</u>	<u>\$ 2,768,182</u>	<u>\$ (154,282)</u>	<u>\$ -</u>	<u>\$ 2,613,900</u>

Depreciation expense was allocated to each function as follows:

General government	\$ 46,620
Police	85,492
Fire	45,574
Public works	57,427
Highway and streets	<u>3,346</u>
<u>Total Depreciation</u>	<u>\$ 238,459</u>

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

7. - Proprietary Fund and Governmental Fund Changes in Long-term Debt

The following is a summary of notes and bond payable transactions for the year ended June 30, 2017 by fund:

<u>Description</u>	<u>Collateral</u>	<u>Rate</u>	<u>Balance 7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/17</u>	<u>Current Portion</u>
- General Fund -							
Kansas State Bank	Vehicles	4.14%	26,359	-	(26,359)	-	-
Kansas State Bank	Vehicles	4.35%	47,769	-	(15,691)	32,078	15,691
Kansas State Bank	Vehicles	4.40%	101,008	-	(22,898)	78,110	22,898
Peoples Bank and Trust	Real estate	2.75%	221,827	-	(23,629)	198,198	23,629
<u>Sub-total</u>			<u>396,963</u>	<u>-</u>	<u>(88,577)</u>	<u>308,386</u>	<u>62,218</u>
- Water Fund -							
First Trust Bank	Equipment	7.00%	87,940	-	(75,575)	12,365	12,365
Cat Financial	Equipment	3.20%	73,921	-	(16,173)	57,748	16,173
Water Sytem Revenue Bonds							
Series 2000A	Revenue	4.50%	1,002,500	-	(24,000)	978,500	25,000
Series 2000B	Revenue	4.50%	604,000	-	(14,500)	589,500	15,000
Series 2009	Revenue	4.375%	1,456,000	-	(22,000)	1,434,000	23,000
Series 2014A	Revenue	2.125%	2,242,500	-	(40,500)	2,202,000	41,500
Series 2014B	Revenue	2.375%	385,700	-	(6,500)	379,200	6,600
<u>Sub-total</u>			<u>5,852,561</u>	<u>-</u>	<u>(199,248)</u>	<u>5,653,313</u>	<u>139,638</u>
- Sewer Fund -							
Kentucky Infrastructure Loan	Revenue	0.60%	344,420	-	(344,420)	-	-
Kentucky Infrastructure Loan	Revenue	1.75%	-	977,170	-	977,170	42,370
TCF Equipment Finance	Revenue	3.15%	47,015	-	(10,962)	36,053	11,090
Rural Utility Service	Revenue	4.50%	385,000	-	(8,000)	377,000	8,000
<u>Sub-total</u>			<u>776,435</u>	<u>977,170</u>	<u>(363,382)</u>	<u>1,390,223</u>	<u>61,460</u>
- Public Improvement Corporation -							
Peoples Bank and Trust	Revenues	4.75%	731,526	-	(92,619)	638,907	92,619

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

7. - **Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

<u>Description</u>	<u>Collateral</u>	<u>Rate</u>	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/17</u>	<u>Current</u> <u>Portion</u>
- Forum Fund -							
	Real Estate/ Rent						
Community Trust Bank	Revenues	Variable	<u>495,215</u>	<u>-</u>	<u>(39,085)</u>	<u>456,130</u>	<u>39,086</u>
- Gas Fund -							
Peoples Bank and Trust	Revenues	4.75%	<u>522,049</u>	<u>-</u>	<u>(65,141)</u>	<u>456,908</u>	<u>75,089</u>
<u>Total</u>			<u>\$ 8,774,749</u>	<u>\$ 977,170</u>	<u>\$ (848,052)</u>	<u>\$ 8,903,867</u>	<u>\$ 470,110</u>

City of Hazard Water System Revenue Bonds, consisting of \$1,248,000 of Series A Bonds and \$752,000 of Series B Bonds were issued with a date of July 13, 2000. Initial interest payment at a rate of 4.5% became due July 1, 2002 and the initial principal payment became due January 1, 2003. The minimum obligations for the City at June 30, 2017 are as follows:

	Series 2000A			Series 2000B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	25,000	44,032	69,032	15,000	26,528	41,528
2019	26,500	42,908	69,408	16,000	25,852	41,852
2020	27,500	41,716	69,216	16,500	25,132	41,632
2021	28,500	40,478	68,978	17,500	24,390	41,890
2022	30,000	39,196	69,196	18,000	23,602	41,602
2023-2027	171,500	174,468	345,968	103,000	105,644	208,644
2028-2032	213,500	132,252	345,752	128,500	79,742	208,242
2033-2037	266,000	79,718	345,718	160,500	48,060	208,560
2038-2040	<u>190,000</u>	<u>17,346</u>	<u>207,346</u>	<u>114,500</u>	<u>10,462</u>	<u>124,962</u>
<u>Totals</u>	<u>\$ 978,500</u>	<u>\$ 612,114</u>	<u>\$ 1,590,614</u>	<u>\$ 589,500</u>	<u>\$ 369,412</u>	<u>\$ 958,912</u>

City of Hazard Sewer System Revenue Bonds, 2/3/2003, original amount of loan, \$450,000. Fixed interest rate of 4.5%. The minimum obligations of the City at June 30, 2017 are as follows:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**7. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	8,000	16,965	\$ 24,965
2019	8,000	16,605	24,605
2020	9,000	16,245	25,245
2021	9,000	15,840	24,840
2022	9,000	15,435	24,435
2023-2027	54,000	70,515	124,515
2028-2032	67,000	57,285	124,285
2033-2037	84,000	40,725	124,725
2038-2042	105,000	20,025	125,025
2043	<u>24,000</u>	<u>1,080</u>	<u>25,080</u>
Total	<u>\$ 377,000</u>	<u>\$ 270,720</u>	<u>\$ 647,720</u>

In 1997 City of Hazard Sewer System received a loan from the Kentucky Infrastructure Authority in the amount of \$6,511,096 with a fixed interest rate of .60%. This loan was satisfied during the fiscal year ended June 30, 2017.

In fiscal year 2017, the City of Hazard Sewer System received a loan from the Kentucky Infrastructure Authority in the amount of \$1,005,000 with a fixed interest rate of 1.75%. As of June 30, 2017, \$977,170 of the total loan had been received. The loan requires a reserve account in the amount of \$2,800 per year until a balance of \$28,000 is reached. The minimum obligations of the City at June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	42,370	17,313	\$ 59,683
2019	43,115	16,658	59,773
2020	43,873	15,901	59,774
2021	44,644	15,129	59,773
2022	45,428	14,344	59,772
2023-2027	239,404	59,462	298,866
2028-2032	261,195	37,670	298,865
2033-2037	<u>284,971</u>	<u>13,893</u>	<u>298,864</u>
Total	<u>\$ 1,005,000</u>	<u>\$ 190,370</u>	<u>\$ 1,195,370</u>

City of Hazard Water System Revenue Bonds, consisting of \$1,569,000 of Series 2009 were issued with a date of January 27, 2010. Initial interest payment at a rate of 4.375% became due January 1, 2011 and the initial principal payment became due January 1, 2012. The minimum obligations for the City at June 30, 2017 are as follows:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**7. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	23,000	62,738	\$ 85,738
2019	24,000	61,732	85,732
2020	25,000	60,682	85,682
2021	26,000	59,588	85,588
2022	27,000	58,450	85,450
2023-2027	153,000	273,526	426,526
2028-2032	190,000	236,952	426,952
2033-2037	235,000	191,628	426,628
2038-2042	291,000	135,540	426,540
2043-2047	361,000	66,064	427,064
2048	<u>79,000</u>	<u>3,457</u>	<u>82,457</u>
Total	<u>\$ 1,434,000</u>	<u>\$ 1,210,357</u>	<u>\$ 2,644,357</u>

City of Hazard Water System Revenue Bonds, consisting of \$2,282,000 of Series A Bonds and \$392,000 of Series B Bonds were issued with a date of October 2, 2014. Initial interest payment at a rate of 2.125% and 2.375%, respectively, became due January 1, 2015 and the initial principal payment became due January 1, 2016. The minimum obligations for the City at June 30, 2017 are as follows:

	Series 2014A			Series 2014B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	41,500	46,351	87,851	6,600	8,927	15,527
2019	42,000	45,464	87,464	6,800	8,767	15,567
2020	43,000	44,561	87,561	7,000	8,603	15,603
2021	44,000	43,636	87,636	7,100	8,436	15,536
2022	45,000	42,690	87,690	7,300	8,265	15,565
2023-2027	240,000	198,522	438,522	39,500	38,595	78,095
2028-2032	266,000	171,676	437,676	44,600	33,605	78,205
2033-2037	295,500	141,866	437,366	50,400	27,973	78,373
2038-2042	328,500	108,738	437,238	57,100	21,598	78,698
2043-2047	365,000	71,926	436,926	64,600	14,379	78,979
2048-2052	405,000	31,063	436,063	73,000	6,221	79,221
2053	<u>86,500</u>	<u>919</u>	<u>87,419</u>	<u>15,200</u>	<u>180</u>	<u>15,380</u>
Totals	<u>\$ 2,202,000</u>	<u>\$ 947,412</u>	<u>\$ 3,149,412</u>	<u>\$ 379,200</u>	<u>\$ 185,549</u>	<u>\$ 564,749</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**7. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

Changes in Water System Revenue Bonds were as follows:

	Balance			Balance
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
Series 2000A	\$ 1,002,500	\$ -	\$ (24,000)	\$ 978,500
Series 2000B	604,000	-	(14,500)	589,500
Series 2009	1,456,000	-	(22,000)	1,434,000
Series 2014A	2,242,500	-	(40,500)	2,202,000
Series 2014B	<u>385,700</u>	<u>-</u>	<u>(6,500)</u>	<u>379,200</u>
<u>Total</u>	<u>\$ 5,690,700</u>	<u>\$ -</u>	<u>\$ (107,500)</u>	<u>\$ 5,583,200</u>

Total interest expense for year ended June 30, 2017 was \$301,022 and \$36,849 for proprietary funds and governmental funds, respectively.

In July 2017, subsequent to the financial statements, the City entered into a revolving line of credit with Peoples Bank & Trust for \$500,160. The note matures June 30, 2018 and is collateralized with pledged occupational license taxes and ad valorem property taxes. The proceeds were used to pay the City's general operation expenses.

8. - Cash and Investments - Restricted Funds

Certain assets of the City of Hazard are restricted at June 30, 2017 for customers' deposits and debt service. These assets consist of cash and short-term investments restricted as follows:

Water Fund	\$ 656,492
Gas Fund	25,000
Sewer Fund	<u>444,312</u>
 Total	 <u>\$ 1,125,804</u>

9. - Cash Flow Statement

For purpose of the cash flow statement cash at June 30, 2017 is as follows:

<u>Proprietary Funds</u>	
Cash - unrestricted	\$ 996,221
<u>Restricted</u>	
Cash	1,100,804
Investment	<u>25,000</u>
	<u>\$ 2,122,025</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**10. - Contingent Liabilities**

In the normal course of business, the City is a defendant in various lawsuits. Defense of the lawsuits is being handled by the City's attorneys and insurance carriers and losses, if any, are expected to be covered by insurance. Management is of the opinion that none of these lawsuits will have a material adverse effect on the City's financial position.

11. - Excess Expenditures over Revenues

The following funds have excess operating expenditures over operating revenues before operating transfers in (out) and other financing sources (uses):

Pavilion Fund	\$ (290,950)
Water Fund	(985,020)
Sewer Fund	(197,321)
Municipal Road Aid	(5,203)
FEMA Grant Fund	(33,985)
Forum Fund	(187,650)
Public Improvement Corporation	(63,315)
Fire-Police Pension Fund	(455,948)

12. - Deficit in Fund Balance or Retained Earnings

As of June 30, 2017 the following funds had a deficit in fund balance or retained earnings.

Garbage Fund	\$ (355,040)
Fire-Police Pension Fund	(3,157,592)
General Fund	(20,464)

13. - Interfund Assets/Liabilities

Due from/to other funds balances at June 30, 2017 were as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Payroll Fund -		
Due to/from General Fund	\$ -	\$ 110,664
Due to/from Water Fund	-	33,042
Due to/from Gas Fund	-	10,583
Due to/from Garbage Fund	-	2,430
Due to/from Pavilion Fund	-	8,589
Due to/from Sewer Fund	-	15,088
<u>Total Payroll Fund</u>	<u>-</u>	<u>180,396</u>

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

13. - Interfund Assets/Liabilities (continued)

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Disbursement Fund -		
Due to/from General Fund	-	60,630
Due to/from Gas Fund	4,953	-
Due to/from Water Fund	-	30,349
Due to/from Fire-Police Pension Fund	-	287
Due to/from Forum Fund	-	411
Due to/from Garbage Fund	-	25,330
Due to/from Pavilion Fund	48	-
Due to/from Sewer Fund	13,021	-
Due to/from Road Aid Fund	-	62
<u>Total Disbursement Fund</u>	<u>18,022</u>	<u>117,069</u>
General Fund -		
Due to/from Disbursement Fund	60,630	-
Due to/from Road Aid Fund	-	36,973
Due to/from Gas Fund	94,800	-
Due to/from Fire Dept Equipment Fund	11,301	-
Due to/from Payroll Fund	110,664	-
<u>Total General Fund</u>	<u>277,395</u>	<u>36,973</u>
Gas Fund -		
Due to/from Payroll Fund	10,583	-
Due to/from Disbursement Fund	-	4,953
Due to/from General Fund	-	94,800
<u>Total Gas Fund</u>	<u>10,583</u>	<u>99,753</u>
Pavilion Fund -		
Due to/from Disbursement Fund	-	48
Due to/from Payroll Fund	8,589	-
<u>Total Pavilion Fund</u>	<u>8,589</u>	<u>48</u>
Sewer Fund -		
Due to/from Payroll Fund	15,088	-
Due to/from Disbursement Fund	-	13,021
Due to/from Water Fund	-	16,375
<u>Total Sewer Fund</u>	<u>15,088</u>	<u>29,396</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 201713. - **Interfund Assets/Liabilities (continued)**

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Garbage Fund -		
Due to/from Disbursement Fund	25,330	-
Due to/from Payroll Fund	<u>2,430</u>	<u>-</u>
<u>Total Garbage Fund</u>	<u>27,760</u>	<u>-</u>
Water Fund -		
Due to/from Disbursement Fund	30,349	-
Due to/from Sewer Fund	16,375	-
Due to/from Payroll Fund	<u>33,042</u>	<u>-</u>
<u>Total Water Fund</u>	<u>79,766</u>	<u>-</u>
Forum Fund -		
Due to/from Disbursement Fund	<u>411</u>	<u>-</u>
<u>Total Forum Fund</u>	<u>411</u>	<u>-</u>
Fire Dept Equipment Fund -		
Due to/from General Fund	-	11,301
<u>Total Fire Dept Equipment Fund</u>	<u>-</u>	<u>11,301</u>
Road Aid Fund -		
Due to/from Asset Forfeiture Fund	-	737
Due to/from General Fund	36,973	-
Due to/from Disbursement Fund	<u>62</u>	<u>-</u>
<u>Total Road Aid Fund</u>	<u>37,035</u>	<u>737</u>
Asset Forfeiture Fund -		
Due to/from Road Aid Fund	<u>737</u>	<u>-</u>
<u>Total Asset Forfeiture Fund</u>	<u>737</u>	<u>-</u>
Fire-Police Pension Fund -		
Due to/from Disbursement Fund	<u>287</u>	<u>-</u>
<u>Total F&P Pension Fund</u>	<u>287</u>	<u>-</u>
<u>Total</u>	<u>\$ 475,673</u>	<u>\$ 475,673</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**14. - Interfund Operating Transfers**

Individual Fund operating transfers for fiscal year 2017, were as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund -		
Transfer to/from Fire and Police Pension Fund	456,087	-
Transfer to/from Garbage Fund	353,500	754,000
Transfer to/from Gas Fund	12,000	421,000
Transfer to/from Pavilion Fund	237,700	-
Transfer to/from Payroll Fund	109,866	109,866
Transfer to/from Disbursement Fund	68,445	68,445
Transfer to/from Sewer Fund	312,000	200,089
Transfer to/from Water Fund	131,000	-
Transfer to/from LGEA Fund	-	73,400
Transfer to/from FEMA Grant Fund	33,985	-
Transfer to/from Public Improvement Corp Fund	270,988	-
<u>Total General Fund</u>	<u>1,985,571</u>	<u>1,626,800</u>
Special Revenue -		
Road Aid Fund		
Transfer to/from LGEA Fund	-	26,004
LGEA Fund		
Transfer to/from Road Aid Fund	26,004	-
Transfer to/from General Fund	73,400	-
<u>Total Special Revenue Funds</u>	<u>99,404</u>	<u>26,004</u>
Capital Projects -		
FEMA Grant Fund		
Transfer to/from General Fund	-	33,985
<u>Total Capital Projects</u>	<u>-</u>	<u>33,985</u>
Fiduciary Fund Type -		
Fire and Police Pension Fund		
Transfer to/from General Fund	-	456,087
Disbursement Fund		
Transfer to/from General Fund	68,445	68,445
Transfer to/from Water Fund	106,260	106,260
Transfer to/from Gas Fund	20,449	20,449
Transfer to/from Garbage Fund	22,962	22,962
Transfer to/from Sewer Fund	22,002	22,002
Payroll Fund		
Transfer to/from General Fund	109,866	109,866
Transfer to/from Water Fund	34,551	34,551
Transfer to/from Pavilion Fund	9,074	9,074
Transfer to/from Sewer Fund	6,839	6,839
Transfer to/from Gas Fund	10,000	10,000
<u>Total Fiduciary Funds</u>	<u>410,448</u>	<u>866,535</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**14. - Interfund Operating Transfers (continued)**

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Proprietary Funds -		
Sewer Fund		
Transfer to/from General Fund	200,089	312,000
Transfer to/from Payroll Fund	6,839	6,839
Transfer to/from Disbursement Fund	22,002	22,002
Water Fund		
Transfer to/from General Fund	-	131,000
Transfer to/from Payroll Fund	34,551	34,551
Transfer to/from Disbursement Fund	106,260	106,260
Garbage Fund		
Transfer to/from General Fund	754,000	353,500
Transfer to/from Pavilion Fund	6,000	-
Transfer to/from Disbursement Fund	22,962	22,962
Public Improvement Corp Fund		
Transfer to/from General Fund	-	270,988
Transfer to/from Forum	52,506	-
Transfer to/from Gas Fund	79,207	-
Pavilion Fund		
Transfer to/from General Fund	-	237,700
Transfer to/from Payroll Fund	9,074	9,074
Transfer to/from Garbage Fund	-	6,000
Forum		
Transfer to/from Public Improvement Corp Fund	-	52,506
Gas fund		
Transfer to/from General Fund	421,000	12,000
Transfer to/from Payroll Fund	10,000	10,000
Transfer to/from Disbursement Fund	20,449	20,449
Transfer to/from Public Improvement Corp Fund	-	79,207
<u>Total Proprietary Funds</u>	<u>1,744,939</u>	<u>1,687,038</u>
 <u>Total All Funds</u>	 <u>\$ 4,240,362</u>	 <u>\$4,240,362</u>

Transfers were according to state law, budget or various operating purposes.

15. - Leasing Transactions

- As Lessor -

The City of Hazard, as lessor, has entered into the following agreements:

<u>Tenant</u>	<u>Leased thru</u>	<u>Monthly rent</u>
KVC Behavioral Healthcare, Inc.	Monthly	\$ 2,609
Commonwealth of Kentucky AML	Monthly	\$ 3,900
Summit Community Church	Monthly	\$ 2,900

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**16. - Grant Programs**

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

To ensure adequate funds for major maintenance and replacement of the wastewater projects funded by the Kentucky Infrastructure Authority, the City of Hazard is required to set aside annually to a replacement reserve fund from current sewer revenues, after taking into account costs of operations and maintenance and debt service requirements an amount determined by the cabinet. Monies may be withdrawn from the account when major maintenance or replacement of equipment in excess of budgeted amounts is required.

17. - Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years, with the exception of contingent liabilities disclosed in the notes to the financial statements.

18. - Commitments

The City continues to participate in an ongoing interlocal cooperation with Perry County Fiscal Court agreement dated May 7, 2003 for the development of waterline extensions throughout Perry County.

The City, acting as a political subdivision for a private activity bond issue, agreed to enter into a promissory note arrangement with Appalachian Regional Healthcare, Inc. (ARH) in the amount of \$55,867,000 after the end of the June 30, 2012 fiscal year. The City refinanced the issue named series 2014 anticipation note having a par amount of \$42,000,000. The proceeds are used to finance improvements to medical facilities in Perry County, Kentucky. Debt service payments will not be administered directly by City personnel. The City has no obligation to repay the bond issue.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2017**18. – Commitments (continued)**

The City entered into an agreement with Rumpke of Kentucky, Inc. beginning January 1, 2016, for a five year period, awarding franchise and license privileges within the City to provide residential and commercial solid waste collection, transfer and disposal services. The City will retain solid waste billing services and retain twenty percent of gross receipts from all collection and disposal services.

In addition, the City entered into an agreement with Perry Fiscal Court and Waste Connections of Kentucky, Inc. to provide billing and payment processing services at 8% of the total monthly amount billed for solid waste collection services to those customers who are also provided other City utility customer services.

The City approved acquiring new accounting and utility software from Springbrook for an initial cost of \$76,800 and four annual payments of \$33,624 implemented during fiscal year 2017.

The City approved a sewer rate ordinance increasing the minimum monthly charge in annual increments of \$8.20, \$8.74 and \$9.28 effective January 1, 2016, July 1, 2016 and January 1, 2017, respectively.

In addition, the City will propose subsequent to the financial statement date, a new sewer processing monthly rate to Sanitation District No. 1 in the amount of \$2.51 based on the audited financial statements.

In December 2016, the City passed an ordinance providing a regulatory license fee upon the gross receipts from the sale of alcoholic beverages within the City by the package or by the drink. The fee is 1.50% of the gross receipts of the sale of these beverages and is remitted quarterly.

19. – Restatement of Net Position

The City of Hazard increased net position by \$355,164 to adjust customer deposits payable. As part of the new accounting software package, customer deposits were transferred from a manual card system to a computerized system. This conversion noted customer deposits which were no longer valid. Water Fund net position was increased by \$292,148 and Gas Fund was increased by \$63,016.

SUPPLEMENTARY DATA

CITY OF HAZARD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2017

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Budget		
<u>REVENUES:</u>				
Taxes	\$2,365,610	\$ 2,365,610	\$ 2,524,985	\$ 159,375
Licenses and permits	3,131,061	3,131,061	3,900,842	769,781
Intergovernmental revenues	432,092	432,092	343,682	(88,410)
Charges for services	-	-	-	-
Fines and forfeits	30,300	30,300	39,238	8,938
Miscellaneous revenues	85,937	85,937	152,162	66,225
<u>Total revenues</u>	<u>6,045,000</u>	<u>6,045,000</u>	<u>6,960,909</u>	<u>915,909</u>
<u>EXPENDITURES:</u>				
<u>Current:</u>				
General government	992,686	992,686	1,299,556	(306,870)
Police department	2,223,866	2,223,866	2,346,307	(122,441)
Fire department	1,070,785	1,070,785	1,270,410	(199,625)
Public works department	1,088,500	1,088,500	1,600,826	(512,326)
Other expenditures	5,776	5,776	65,599	(59,823)
Capital outlay	-	-	84,177	(84,177)
Debt service	-	-	124,680	(124,680)
<u>Total expenditures</u>	<u>5,381,613</u>	<u>5,381,613</u>	<u>6,791,555</u>	<u>(1,409,942)</u>
<u>Excess of revenues over (under) expenditures</u>	<u>663,387</u>	<u>663,387</u>	<u>169,354</u>	<u>(494,033)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	382,393	382,393	1,626,800	1,244,407
Operating transfers (out)	(1,125,792)	(1,125,792)	(1,985,571)	(859,779)
Proceeds from notes	-	-	-	-
Other income	80,012	80,012	85,500	5,488
<u>Total other financing sources (uses)</u>	<u>(663,387)</u>	<u>(663,387)</u>	<u>(273,271)</u>	<u>390,116</u>
<u>Excess of revenues and other sources over (under) expenditures and other uses</u>	<u>-</u>	<u>-</u>	<u>(103,917)</u>	<u>(103,917)</u>
<u>FUND BALANCE, JULY 1</u>	<u>-</u>	<u>-</u>	<u>83,453</u>	<u>-</u>
<u>FUND BALANCE, JUNE 30</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,464)</u>	<u>\$ -</u>

See notes to financial statements and independent auditor's report.

CITY OF HAZARDSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2017

	Employer's Proportionate Share of Net Pension Liability								
	2017			2016			2015		
	CERS	CERS	Fire-Police	CERS	CERS	Fire-Police	CERS	CERS	Fire-Police
	Nonhazardous	Hazardous	Pension Fund	Nonhazardous	Hazardous	Pension Fund	Nonhazardous	Hazardous	Pension Fund
Employer's proportion of the net pension liability	0.176530%	0.010380%	100.00%	0.189850%	0.010900%	100.00%	0.166407%	0.016623%	100.00%
Employer's proportionate share of the net pension liability	8,691,781	178,044	4,602,159	8,162,517	167,284	4,602,159	5,399,000	200,000	4,602,159
Employer's covered employee payroll	4,020,479	55,002	-	4,244,921	53,943	-	4,456,896	55,741	-
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	216%	324%	N/a	192%	310%	N/a	121%	359%	N/a
Plan fiduciary net position as a percentage of the total pension liability	55.50%	53.95%	23.20%	59.97%	57.52%	23.20%	62.60%	59.80%	23.20%

	Employer's Contributions								
	2017			2016			2015		
	CERS	CERS	Fire-Police	CERS	CERS	Fire-Police	CERS	CERS	Fire-Police
	Nonhazardous	Hazardous	Pension Fund	Nonhazardous	Hazardous	Pension Fund	Nonhazardous	Hazardous	Pension Fund
Contractually required contribution	501,538	10,969	455,949	566,818	11,777	458,435	432,000	15,000	471,580
Contributions in relation to the contractually required contribution	494,600	10,929	456,087	564,747	11,555	463,334	432,000	15,000	474,306
Contribution deficiency (excess)	6,938	40	(138)	2,071	222	(4,899)	-	-	(2,726)
City's covered employee payroll	4,020,479	55,002	-	4,244,921	53,943	-	4,456,896	55,741	-
Contributions as a percentage of covered employee payroll	12.30%	19.87%	N/a	13.30%	21.42%	N/a	9.69%	26.91%	N/a

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDSJune 30, 2017

	Mayor and Commissioners Special Recreation	Asset Forfeiture Fund
<u>ASSETS</u>		
Cash	\$ 4,400	\$ 32,693
Receivables - other	-	-
Due from other funds	-	737
<u>Total assets</u>	<u>4,400</u>	<u>33,430</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
<u>Liabilities:</u>		
Accounts payable	-	-
Due to other funds	-	-
<u>Total liabilities</u>	<u>-</u>	<u>-</u>
 <u>Fund balances:</u>		
Restricted	4,400	33,430
<u>Total fund balance</u>	<u>4,400</u>	<u>33,430</u>
 <u>Total liabilities and fund balances</u>	<u>\$ 4,400</u>	<u>\$ 33,430</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS (CONTINUED)June 30, 2017

<u>Municipal Road Aid</u>	<u>LGEA Coal and Mineral Severance</u>	<u>Police Report Fund</u>	<u>Daniel Boone Warrior Trail Fund</u>	<u>Hazard Flood Inundation Mapping Project</u>	<u>Total</u>
\$ 288,229	\$ 34	\$ 6,435	\$ 1,501	\$ 55,030	\$ 388,322
-	-	-	-	-	-
<u>37,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,772</u>
<u>325,264</u>	<u>34</u>	<u>6,435</u>	<u>1,501</u>	<u>55,030</u>	<u>426,094</u>
-	-	-	-	-	-
<u>737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>737</u>
<u>737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>737</u>
<u>324,527</u>	<u>34</u>	<u>6,435</u>	<u>1,501</u>	<u>55,030</u>	<u>425,357</u>
<u>324,527</u>	<u>34</u>	<u>6,435</u>	<u>1,501</u>	<u>55,030</u>	<u>425,357</u>
<u>\$ 325,264</u>	<u>\$ 34</u>	<u>\$ 6,435</u>	<u>\$ 1,501</u>	<u>\$ 55,030</u>	<u>\$ 426,094</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – ALL SPECIAL REVENUE FUNDSFor the Year Ended June 30, 2017

	Mayor and Commissioners Special Recreation	Asset Forfeiture Fund
<u>REVENUES:</u>		
Intergovernmental	\$ -	\$ 20,849
Other revenues	<u>572</u>	<u>-</u>
<u>Total revenues</u>	<u>572</u>	<u>20,849</u>
<u>EXPENDITURES:</u>		
Highway and streets	-	-
Other expenditures	<u>-</u>	<u>15,994</u>
<u>Total expenditures</u>	<u>-</u>	<u>15,994</u>
Excess of revenues <u>(over) under expenditures</u>	<u>572</u>	<u>4,855</u>
<u>OTHER FINANCING SOURCES (USES):</u>		
Other transfers in	-	-
Other transfers (out)	<u>-</u>	<u>-</u>
<u>Total other financial sources (uses)</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources <u>over (under) expenditures and other sources</u>	572	4,855
<u>FUND BALANCE - JULY 1</u>	<u>3,828</u>	<u>28,575</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ 4,400</u>	<u>\$ 33,430</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS (CONTINUED)For the Year Ended June 30, 2017

<u>Municipal Road Aid</u>	<u>LGEA Coal and Mineral Severance</u>	<u>Police Report Fund</u>	<u>Daniel Boone Warrior Trail Fund</u>	<u>Hazard Flood Inundation Mapping Project</u>	<u>Total</u>
\$ 86,734	\$ 99,108	\$ -	\$ -	\$ 55,000	\$ 261,691
<u>1,349</u>	<u>13</u>	<u>11,256</u>	<u>1,501</u>	<u>30</u>	<u>14,721</u>
<u>88,083</u>	<u>99,121</u>	<u>11,256</u>	<u>1,501</u>	<u>55,030</u>	<u>276,412</u>
93,286	-	-	-	-	93,286
<u>-</u>	<u>-</u>	<u>6,963</u>	<u>-</u>	<u>-</u>	<u>22,957</u>
<u>93,286</u>	<u>-</u>	<u>6,963</u>	<u>-</u>	<u>-</u>	<u>116,243</u>
<u>(5,203)</u>	<u>99,121</u>	<u>4,293</u>	<u>1,501</u>	<u>55,030</u>	<u>160,169</u>
26,004	-	-	-	-	26,004
<u>-</u>	<u>(99,404)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(99,404)</u>
<u>26,004</u>	<u>(99,404)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73,400)</u>
20,801	(283)	4,293	1,501	55,030	86,769
<u>303,726</u>	<u>317</u>	<u>2,142</u>	<u>-</u>	<u>-</u>	<u>338,588</u>
<u>\$ 324,527</u>	<u>\$ 34</u>	<u>\$ 6,435</u>	<u>\$ 1,501</u>	<u>\$ 55,030</u>	<u>\$ 425,357</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL CAPITAL PROJECTSJune 30, 2017

	Fire Department Equipment Fund	FEMA Grant Fund	Totals
<u>ASSETS</u>			
Cash	\$ 55,162	\$ 15,432	\$ 70,594
Grants receivable	-	-	-
<u>Total assets</u>	<u>55,162</u>	<u>15,432</u>	<u>70,594</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities:</u>			
Accounts payable	-	-	-
Due to other funds	11,301	-	11,301
<u>Total liabilities</u>	<u>11,301</u>	<u>-</u>	<u>11,301</u>
 <u>Fund Equity</u>			
<u>Fund balance:</u>			
Restricted	43,861	15,432	59,293
<u>Total fund equity</u>	<u>43,861</u>	<u>15,432</u>	<u>59,293</u>
 <u>Total liabilities and fund equity</u>	<u>\$ 55,162</u>	<u>\$ 15,432</u>	<u>\$ 70,594</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – ALL CAPITAL PROJECTSFor the Year Ended June 30, 2017

	Fire Department Equipment Fund	FEMA Grant Fund	Totals
<u>REVENUES:</u>			
Intergovernmental revenues	\$ 35,143	\$ -	\$ 35,143
Other revenues	-	-	-
<u>Total revenues</u>	<u>35,143</u>	<u>-</u>	<u>35,143</u>
<u>EXPENDITURES:</u>			
Capital outlay	<u>5,203</u>	<u>33,985</u>	<u>39,188</u>
Excess of revenues over (under) <u>expenditures</u>	<u>29,940</u>	<u>(33,985)</u>	<u>(4,045)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in (out)	-	33,985	33,985
Interest income	-	-	-
<u>Total other financing sources (uses)</u>	<u>-</u>	<u>33,985</u>	<u>33,985</u>
Excess of revenues and other sources over (under) expenditures and other uses	29,940	-	29,940
<u>FUND BALANCE, JULY 1</u>	<u>13,921</u>	<u>15,432</u>	<u>29,353</u>
<u>FUND BALANCE, JUNE 30</u>	<u>\$ 43,861</u>	<u>\$ 15,432</u>	<u>\$ 59,293</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDSJune 30, 2017

	<u>Public Improvement Corporation</u>	<u>The Hazard Forum</u>	<u>Hazard Pavilion</u>	<u>Totals</u>
Assets:				
- Current Assets -				
Cash and cash equivalents	\$ 1,161	\$ 84,505	\$ 2,103	\$ 87,769
Receivables, net of allowances:				
Fees and services	-	-	-	-
Due from other funds	-	411	8,589	9,000
Other	-	-	-	-
Inventories of supplies, at cost	<u>-</u>	<u>-</u>	<u>4,038</u>	<u>4,038</u>
<u>Total current assets</u>	<u>1,161</u>	<u>84,916</u>	<u>14,730</u>	<u>100,807</u>
-Restricted Assets -				
Cash	-	-	-	-
Investments, at cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total restricted assets</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Noncurrent Assets -				
Capital assets	3,905,985	7,060,964	1,832,618	12,799,567
Less: accumulated depreciation	<u>(1,876,366)</u>	<u>(2,571,597)</u>	<u>(1,344,436)</u>	<u>(5,792,399)</u>
<u>Total noncurrent assets</u>	<u>2,029,619</u>	<u>4,489,367</u>	<u>488,182</u>	<u>7,007,168</u>
Deferred Outflows of Resources:				
Deferred outflows - pension resources	<u>-</u>	<u>-</u>	<u>87,075</u>	<u>87,075</u>
Total assets and deferred outflows of resources	<u>\$ 2,030,780</u>	<u>\$ 4,574,283</u>	<u>\$ 589,987</u>	<u>\$ 7,195,050</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDS

	<u>June 30, 2017</u>			
	<u>Public</u>	<u>The</u>	<u>Hazard</u>	<u>Totals</u>
	<u>Improvement</u>	<u>Hazard</u>	<u>Hazard</u>	
	<u>Corporation</u>	<u>Forum</u>	<u>Pavilion</u>	
Liabilities:				
- Current Liabilities -				
Accounts payable	\$ 220	\$ 10,896	\$ 4,490	\$ 15,606
Accrued interest payable	1,413	146	-	1,559
Accrued wages	-	-	3,803	3,803
Accrued vacation payable	-	-	2,416	2,416
Due to other funds	-	-	48	48
Current portion of long-term debt	92,619	39,086	-	131,705
<u>Total current liabilities</u>	<u>94,252</u>	<u>50,128</u>	<u>10,757</u>	<u>155,137</u>
- Noncurrent Liabilities -				
Notes payable	546,288	417,044	-	963,332
Due to other taxing units	-	-	-	-
Revenue bonds payable	-	-	-	-
Net pension liability	-	-	469,810	469,810
<u>Total noncurrent liabilities</u>	<u>546,288</u>	<u>417,044</u>	<u>469,810</u>	<u>1,433,142</u>
- Other Liabilities -				
Deposits	-	-	-	-
<u>Total other liabilities</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total liabilities</u>	<u>640,540</u>	<u>467,172</u>	<u>480,567</u>	<u>1,588,279</u>
Deferred Inflows of Resources:				
Deferred inflows - pension related	-	-	26,805	26,805
Net Position:				
Net investment in capital assets	1,390,712	4,033,237	488,182	5,912,131
Restricted	-	-	-	-
Unrestricted (deficit)				
Pension resources	-		(409,540)	(409,540)
Unrestricted - other	(472)	73,874	3,973	77,375
<u>Total net position</u>	<u>1,390,240</u>	<u>4,107,111</u>	<u>82,615</u>	<u>5,579,966</u>
Total liabilities, deferred inflows of <u>resources and net position</u>	<u>\$ 2,030,780</u>	<u>\$ 4,574,283</u>	<u>\$ 589,987</u>	<u>\$ 7,195,050</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – NONMAJOR PROPRIETARY FUNDSFor the Year Ended June 30, 2017

	Public Improvement Corporation	The Hazard Forum	Hazard Pavilion	Totals
Operating revenues:				
Charges for services	\$ -	\$ 122,176	\$ 88,660	\$ 210,836
Other	-	-	-	-
<u>Total operating revenues</u>	<u>-</u>	<u>122,176</u>	<u>88,660</u>	<u>210,836</u>
Operating expenses:				
Salaries and wages	-	-	294,704	294,704
Contract services	2,788	122,944	8,449	134,181
Materials and supplies	-	10,035	22,333	32,368
Depreciation	60,512	176,847	54,124	291,483
Other operating expenses	15	-	-	15
<u>Total operating expenses</u>	<u>63,315</u>	<u>309,826</u>	<u>379,610</u>	<u>752,751</u>
<u>Operating income (loss)</u>	<u>(63,315)</u>	<u>(187,650)</u>	<u>(290,950)</u>	<u>(541,915)</u>
Non-operating revenues (expenses):				
Interest income	2	114	-	116
Interest expense	(43,888)	(13,571)	-	(57,459)
Other income/(loss)	-	-	-	-
<u>Total non-operating revenues (expenses)</u>	<u>(43,886)</u>	<u>(13,457)</u>	<u>-</u>	<u>(57,343)</u>
<u>Net income (loss) before operating transfer</u>	<u>(107,201)</u>	<u>(201,107)</u>	<u>(290,950)</u>	<u>(599,258)</u>
<u>Operating transfers in (out)</u>	<u>139,275</u>	<u>52,506</u>	<u>243,700</u>	<u>435,481</u>
<u>Net income (loss)</u>	<u>32,074</u>	<u>(148,601)</u>	<u>(47,250)</u>	<u>(163,777)</u>
<u>Net Position - Beginning</u>	<u>1,358,166</u>	<u>4,255,712</u>	<u>129,865</u>	<u>5,743,743</u>
<u>Contributed capital</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position - Ending</u>	<u>\$ 1,390,240</u>	<u>\$ 4,107,111</u>	<u>\$ 82,615</u>	<u>\$ 5,579,966</u>

See independent auditor's report.

CITY OF HAZARD

COMBINING STATEMENT OF CASH FLOWS –
NONMAJOR PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Public Improvement Corporation	The Hazard Forum	Hazard Pavilion	Totals
Cash flows from operating activities:				
Cash received from:				
Charges for services	\$ -	\$ 122,176	\$ 80,071	\$ 202,247
Other operating revenue	-	-	-	-
Cash paid to/for:				
Employees	-	-	(279,431)	(279,431)
Supplies/contractual	(2,268)	(136,018)	(30,264)	(168,550)
Other operating expenses	(15)	-	-	(15)
<u>Net cash provided/(used) by operating activities</u>	<u>(2,283)</u>	<u>(13,842)</u>	<u>(229,624)</u>	<u>(245,749)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	-	(1,300)	(13,500)	(14,800)
Principal paid on notes and bonds	(92,619)	(39,085)	-	(131,704)
Proceeds from notes and bonds	-	-	-	-
Interest paid on notes and bonds	(43,888)	(13,571)	-	(57,459)
Nonoperating - income	-	-	-	-
Contributed capital	-	-	-	-
<u>Net cash provided (used) for capital and related financing</u>	<u>(136,507)</u>	<u>(53,956)</u>	<u>(13,500)</u>	<u>(203,963)</u>
Cash flows from non-capital financing activities:				
Operating transfers - in (out)	<u>139,275</u>	<u>52,506</u>	<u>243,700</u>	<u>435,481</u>
Cash flows from investing activities:				
Interest income	<u>2</u>	<u>114</u>	<u>-</u>	<u>116</u>
<u>Net cash provided (used) for investing activities</u>	<u>2</u>	<u>114</u>	<u>-</u>	<u>116</u>
Net increase (decrease) in cash	487	(15,178)	576	(14,115)
Cash, beginning of year	<u>674</u>	<u>99,683</u>	<u>1,527</u>	<u>101,884</u>
Cash, end of year	<u>1,161</u>	<u>84,505</u>	<u>2,103</u>	<u>87,769</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:				
Operating income (loss)	(63,315)	(187,650)	(290,950)	(541,915)
Adjustment to reconcile operating income to cash provided (used) by operating activities:				
Depreciation	60,512	176,847	54,124	291,483
Changes in current assets/liabilities:				
Accounts receivable	-	-	-	-
Due from other funds	-	-	(8,589)	(8,589)
Other receivables	-	-	-	-
Inventory	-	-	-	-
Accounts payable	(893)	(3,039)	1,003	(2,929)
Accrued interest payable	1,413	-	-	1,413
Accrued wages	-	-	773	773
Accrued vacation payable	-	-	(2,872)	(2,872)
Due to other funds	-	-	(485)	(485)
Due to other taxing units	-	-	-	-
Customer deposits	-	-	-	-
Deferred outflows - pension resources	-	-	24,472	24,472
Deferred inflows - pension related	-	-	(35,868)	(35,868)
Net pension liability	-	-	28,768	28,768
<u>Net cash provided (used) by operating activities</u>	<u>\$ (2,283)</u>	<u>\$ (13,842)</u>	<u>\$ (229,624)</u>	<u>\$ (245,749)</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – ALL FIDUCIARY TYPE FUNDSJune 30, 2017

	<u>Fire-Police Pension Fund</u>	<u>Jacklot Hollow Development Trust</u>
<u>ASSETS</u>		
<u>Restricted Assets:</u>		
Cash and cash equivalents	\$ 1,046	\$ 122,507
Investments	1,442,209	-
Other receivables	1,025	20,035
Due from other funds	<u>287</u>	<u>-</u>
<u>Total assets</u>	<u>1,444,567</u>	<u>142,542</u>
<u>LIABILITIES</u>		
Due to other funds	-	-
Net pension liability	<u>4,602,159</u>	<u>-</u>
<u>Total liabilities</u>	<u>4,602,159</u>	<u>-</u>
<u>NET POSITION</u>		
Designated for employee retirement	(3,157,592)	-
Designated for a specific purpose	<u>-</u>	<u>142,542</u>
<u>Total net position</u>	<u>(3,157,592)</u>	<u>142,542</u>
	<u>\$ 1,444,567</u>	<u>\$ 142,542</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – ALL FIDUCIARY TYPE FUNDS
(CONTINUED)June 30, 2017

<u>Disbursement Fund</u>	<u>Payroll Fund</u>	<u>Totals</u>
\$ 99,047	\$ 180,396	\$ 402,996
-	-	1,442,209
-	-	21,060
<u>18,022</u>	<u>-</u>	<u>18,309</u>
<u>117,069</u>	<u>180,396</u>	<u>1,884,574</u>
117,069	180,396	297,465
<u>-</u>	<u>-</u>	<u>4,602,159</u>
<u>117,069</u>	<u>180,396</u>	<u>4,899,624</u>
-	-	(3,157,592)
<u>-</u>	<u>-</u>	<u>142,542</u>
<u>-</u>	<u>-</u>	<u>(3,015,050)</u>
<u>\$ 117,069</u>	<u>\$ 180,396</u>	<u>\$ 1,884,574</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF CHANGES IN NET POSITION –
TRUST FUNDSFor the Year Ended June 30, 2017

	Fire-Police Pension Fund	Jacklot Hollow Development Trust	Total
<u>OPERATING REVENUES:</u>			
Miscellaneous	\$ -	\$ 22,246	\$ 22,246
<u>Total operating revenues</u>	<u>-</u>	<u>22,246</u>	<u>22,246</u>
<u>OPERATING EXPENSES:</u>			
Pension	455,948	-	455,948
Administrative expenses	-	-	-
Materials and supplies	-	-	-
<u>Total operating expenses</u>	<u>455,948</u>	<u>-</u>	<u>455,948</u>
<u>Operating income (loss)</u>	<u>(455,948)</u>	<u>22,246</u>	<u>(433,702)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	14,767	489	15,256
Transfers in (out)	<u>456,087</u>	<u>-</u>	<u>456,087</u>
<u>Total non-operating revenues (expenses)</u>	<u>470,854</u>	<u>489</u>	<u>471,343</u>
<u>Net income (loss)</u>	<u>14,906</u>	<u>22,735</u>	<u>37,641</u>
<u>NET POSITION - JULY 1</u>	<u>(3,172,498)</u>	<u>119,807</u>	<u>(3,052,691)</u>
<u>NET POSITION - JUNE 30</u>	<u>\$ (3,157,592)</u>	<u>\$ 142,542</u>	<u>\$ (3,015,050)</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
WATER FUNDJune 30, 2017 and 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 258,459	\$ 279,883
Receivables, net of allowances:		
Fees and services	799,164	855,575
Due from other funds	79,766	25,966
Other	105,624	-
Inventories of supplies, at cost	115,070	131,915
<u>Total current assets</u>	<u>1,358,083</u>	<u>1,293,339</u>
 -Restricted Assets -		
Cash	<u>656,492</u>	<u>761,819</u>
 - Noncurrent Assets -		
Capital assets	51,276,297	50,208,873
Less: accumulated depreciation	<u>(18,584,384)</u>	<u>(17,573,153)</u>
<u>Total noncurrent assets</u>	<u>32,691,913</u>	<u>32,635,720</u>
 Deferred Outflows of Resources:		
Deferred outflows - pension resources	<u>299,552</u>	<u>392,735</u>
 <u>Total assets and deferred outflows of resources</u>	<u>\$ 35,006,040</u>	<u>\$ 35,083,613</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
WATER FUND (CONTINUED)June 30, 2017 and 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Liabilities :		
- Current Liabilities -		
Accounts payable	\$ 388,086	\$ 251,064
Accrued wages	14,266	10,275
Accrued vacation payable	6,075	17,634
Due to other funds	-	1,510
Current portion of long-term debt	139,638	198,644
<u>Total current liabilities</u>	<u>548,065</u>	<u>479,127</u>
- Noncurrent Liabilities -		
Notes payable	41,575	70,717
Due to other taxing units	23,189	23,707
Revenue bonds payable	5,472,100	5,583,200
Net pension liability	1,549,233	1,439,690
<u>Total noncurrent liabilities</u>	<u>7,086,097</u>	<u>7,117,314</u>
- Other Liabilities -		
Deposits	585,560	797,883
<u>Total liabilities</u>	<u>8,219,722</u>	<u>8,394,324</u>
Deferred Inflows of Resources :		
Deferred inflows - pension related	75,303	211,879
Net Position:		
Net investment in capital assets	27,038,600	26,783,159
Restricted	-	178,649
Unrestricted (deficit)		
Pension resources	(1,324,984)	(1,258,834)
Unrestricted - other	997,399	774,436
<u>Total net position</u>	<u>26,711,015</u>	<u>26,477,410</u>
 Total liabilities, deferred inflows of resources and net position	 \$ 35,006,040	 \$ 35,083,613

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - WATER FUNDFor the Years Ended June 30, 2017 and 2016

	<u>Year Ended</u>	
	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for services	\$ 3,468,027	\$ 3,817,905
Other	<u>16,921</u>	<u>79,291</u>
<u>Total operating revenues</u>	<u>3,484,948</u>	<u>3,897,196</u>
Operating expenses:		
Salaries and wages	1,447,361	1,521,470
Contract services	1,110,805	1,223,893
Materials and supplies	894,840	911,220
Depreciation	1,011,231	1,025,539
Other operating expenses	<u>5,731</u>	<u>2,965</u>
<u>Total operating expenses</u>	<u>4,469,968</u>	<u>4,685,087</u>
<u>Operating income (loss)</u>	<u>(985,020)</u>	<u>(787,891)</u>
Non-operating revenues (expenses):		
Interest income	1,438	1,979
Interest expense	(193,819)	(195,671)
Other income	<u>-</u>	<u>-</u>
<u>Total non-operating revenues (expenses)</u>	<u>(192,381)</u>	<u>(193,692)</u>
<u>Net income (loss) before operating transfers</u>	<u>(1,177,401)</u>	<u>(981,583)</u>
<u>Operating transfers in (out)</u>	<u>131,000</u>	<u>91,312</u>
<u>Net income (loss)</u>	<u>(1,046,401)</u>	<u>(890,271)</u>
<u>Net Position - Beginning, restated</u>	<u>26,769,558</u>	<u>26,615,207</u>
Contributed Capital	987,858	752,474
<u>Net Position - Ending</u>	<u>\$ 26,711,015</u>	<u>\$ 26,477,410</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
SEWER FUNDJune 30, 2017 and 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 387,574	\$ 393,558
Receivables, net of allowances:		
Fees and services	289,776	317,832
Due from other funds	15,088	8,249
Other	2,927	-
Inventories of supplies, at cost	12,508	12,117
<u>Total current assets</u>	<u>707,873</u>	<u>731,756</u>
 -Restricted Assets -		
Cash	<u>444,312</u>	<u>651,720</u>
 - Noncurrent Assets -		
Capital assets	13,936,027	12,757,459
Less: accumulated depreciation	<u>(7,945,276)</u>	<u>(7,485,571)</u>
<u>Total noncurrent assets</u>	<u>5,990,751</u>	<u>5,271,888</u>
 Deferred Outflows of Resources:		
Deferred outflows - pension resources	<u>54,238</u>	<u>72,684</u>
 <u>Total assets and deferred outflows of resources</u>	<u>\$ 7,197,174</u>	<u>\$ 6,728,048</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
SEWER FUND (CONTINUED)June 30, 2017 and 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Liabilities:		
- Current Liabilities -		
Accounts payable	\$ 64,112	\$ 65,261
Accrued wages	4,922	3,784
Accrued vacation payable	6,236	2,330
Due to other funds	29,396	37,818
Current portion of long-term debt	61,460	363,167
<u>Total current liabilities</u>	<u>166,126</u>	<u>472,360</u>
- Noncurrent Liabilities -		
Notes payable	1,328,763	413,268
Due to other taxing units	-	23,257
Net pension liability	268,847	247,163
<u>Total noncurrent liabilities</u>	<u>1,597,610</u>	<u>683,688</u>
<u>Total liabilities</u>	<u>1,763,736</u>	<u>1,156,048</u>
Deferred Inflows of Resources:		
Deferred inflows - pension related	10,681	37,716
Net Position:		
Net investment in capital assets	4,600,528	4,495,453
Restricted	377,026	347,937
Unrestricted (deficit)		
Pension resources	(225,290)	(212,195)
Unrestricted - other	670,493	903,089
<u>Total net position</u>	<u>5,422,757</u>	<u>5,534,284</u>
Total liabilities, deferred inflows of resources and <u>net position</u>	<u>\$ 7,197,174</u>	<u>\$ 6,728,048</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - SEWER FUNDFor the Years Ended June 30, 2017 and 2016

	<u>Year Ended</u>	
	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for services	<u>\$ 1,521,456</u>	<u>\$ 1,400,648</u>
<u>Total operating revenues</u>	<u>1,521,456</u>	<u>1,400,648</u>
Operating expenses:		
Salaries and wages	428,996	282,234
Contract services	578,851	447,065
Materials and supplies	247,155	216,181
Depreciation	459,705	451,010
Other operating expenses	<u>4,070</u>	<u>971</u>
<u>Total operating expenses</u>	<u>1,718,777</u>	<u>1,397,461</u>
<u>Operating income (loss)</u>	<u>(197,321)</u>	<u>3,187</u>
Non-operating revenues (expenses):		
Interest income	2,139	2,275
Interest expense	(28,256)	(24,697)
Other income	<u>-</u>	<u>56,000</u>
<u>Total non-operating revenues (expenses)</u>	<u>(26,117)</u>	<u>33,578</u>
<u>Net income (loss) before operating transfers</u>	<u>(223,438)</u>	<u>36,765</u>
<u>Operating transfers in (out)</u>	<u>111,911</u>	<u>132,951</u>
<u>Net income (loss)</u>	<u>(111,527)</u>	<u>169,716</u>
<u>Net Position - Beginning</u>	<u>5,534,284</u>	<u>5,364,568</u>
Contributed Capital	-	-
<u>Net Position - Ending</u>	<u>\$ 5,422,757</u>	<u>\$ 5,534,284</u>

See independent auditor's report.

Chris Gooch

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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*

Honorable Mayor and City Commissioners
City of Hazard, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazard, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Hazard, Kentucky's basic financial statements and have issued our report thereon dated January 5, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency, 2017-001.

Compliance and Other Matters

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

City of Hazard, Kentucky's Response to Findings

City of Hazard, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hazard, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

January 5, 2018

CITY OF HAZARDSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSJune 30, 2017**2016-001**

Condition:	Fund financial statements presented for audit required several significant adjustments related to reconciliation and reclassification.
Criteria:	End of year closing information in anticipation of audited financial statements should be reviewed and reconciled to underlying documentation. Any potential differences should be documented to indicate management is aware of potential adjusting entries.
Cause:	Management does not have formal monitoring procedures to document differences and potential adjustments for end of year financial reporting.
Effect:	Annual financial reporting information presented for audit required significant adjustments to assure financial statements were fairly stated.
Recommendations:	The City should enhance its controls over fiscal year-end and interim processing to include review of transactions for all fund types to ensure significant adjustments are entered or acknowledged and significant account balances are reconciled.
Management's Response:	The City is in process of establishing procedures over fiscal year-end processing to include review of transactions for all fund types to assure significant adjustments are entered or acknowledged and significant account balances are reconciled. The City has purchased new accounting software anticipated to improve this deficiency. The City had begun conversion to the new accounting system at report date.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

CITY OF HAZARDSCHEDULE OF FINDINGS AND QUESTIONED COSTSJune 30, 2017- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness was disclosed by the audit of the financial statements, however a significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. City of Hazard had the following major programs:
 - U.S. Department of Interior
 - Passed through Kentucky Natural Resources and
 - Environmental Protection Cabinet
 - Abandoned Mine Land Reclamation (AMLR) Program
 - AML Multisite Project—CFDA #15.252
8. The dollar threshold to distinguish between Type A and Type B programs was \$750,000.
9. The auditee qualified as a low-risk auditee under Section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

CITY OF HAZARDSCHEDULE OF FINDINGS AND QUESTIONED COSTSJune 30, 2017- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2017-001**

Condition:	Fund financial statements presented for audit required several significant adjustments related to reconciliation and reclassification.
Criteria:	End of year closing information in anticipation of audited financial statements should be reviewed and reconciled to underlying documentation. Any potential differences should be documented to indicate management is aware of potential adjusting entries.
Cause:	Management does not have formal monitoring procedures to document differences and potential adjustments for end of year financial reporting.
Effect:	Annual financial reporting information presented for audit required significant adjustments to assure financial statements were fairly stated.
Recommendations:	The City should enhance its controls over fiscal year-end and interim processing to include review of transactions for all fund types to ensure significant adjustments are entered or acknowledged and significant account balances are reconciled.
Management's Response:	The City is in process of establishing procedures over fiscal year-end processing to include review of transactions for all fund types to assure significant adjustments are entered or acknowledged and significant account balances are reconciled. The City has implemented new accounting software anticipated to improve this deficiency. The City had begun conversion to the new accounting system at report date on a departmental basis.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

CITY OF HAZARDSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2017

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>SUBRECIPIENT AMOUNT</u>	<u>PROGRAM AWARDS EXPENDED</u>
Executive Office of the President:				
Office of National Drug Control Policy				
- Passed through Laurel County Fiscal Court -				
High Intensity Drug Trafficking Areas Program	95.001	GIDAP001A	N/A	\$ <u>15,901</u>
U.S. Department of Interior:				
- Passed through Kentucky Natural Resources and				
Environmental Protection Cabinet -				
Abandoned Mine Land Reclamation (AMLR) Program-				
AML Multisite Project	15.252	N/A	N/A	<u>824,156</u>
U.S. Department of Agriculture				
- Passed through Cabinet for Health and Family Services				
Supplemental Nutrition Assistance Program (SNAP)				
Recipient Trafficking Prevention Grants	10.598	736-15-1135	N/A	2,428
Recipient Trafficking Prevention Grants	10.598	736-16-2114	N/A	9,692
- Direct -				
Community Facilities Loans and Grants	10.766	N/A	N/A	21,416
Water and Waste Disposal Systems for				
Rural Communities - Water Systems Improvement Grant	10.760	N/A	N/A	<u>70,481</u>
<u>Total U.S. Department of Agriculture</u>				<u>104,017</u>
U.S. Department of Justice:				
- Direct -				
Congressionally Recommended Awards	16.753	N/A	N/A	<u>39,563</u>

See independent auditor's report.

CITY OF HAZARDSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)For the Year Ended June 30, 2017

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>SUBRECIPIENT AMOUNT</u>	<u>PROGRAM AWARDS EXPENDED</u>
U.S. Department of Transportation:				
- Direct -				
Technical Assistance Grants	20.710	M2HVE16-08	N/A	2,849
Technical Assistance Grants	20.710	M2HVE17-04	N/A	6,231
<u>Total U.S. Department of Transportation</u>				<u>9,080</u>
<u>Total Federal Awards Expended</u>				<u>\$ 992,717</u>

Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of City of Hazard, under programs of the federal government for the year ended June 30, 2017 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Hazard, it is not intended to and does not present the financial position, changes in net assets, or cash flows of City of Hazard.

Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. City of Hazard has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

See independent auditor's report.

Chris Gooch

Certified Public Accountant
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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


Report on Internal Control over Compliance

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

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

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

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



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

January 5, 2018

APPENDIX A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF HAZARD

For the Year Ended June 30, 2017

The City of Hazard hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by applicable Kentucky Revised Statutes.



Sam Stacy
Assistant City Manager