

CITY OF BARBOURVILLE, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2018

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Mayor and the City Council
City of Barbourville
Barbourville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Barbourville, Kentucky (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Barbourville, Kentucky, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 50 through 52 be presented to supplement the basic financial statements in addition to the pension and OPEB schedules on pages 55 through 62. 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 inquires 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 Barbourville, Kentucky's basic financial statements. The combining nonmajor fund financial statements on pages 53 and 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 nonmajor fund financial statements 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 February 2, 2019 on our consideration of the City of Barbourville, 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 the 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 Barbourville, Kentucky's internal control over financial reporting and compliance.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
February 2, 2019

**CITY OF BARBOURVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Within this section of the City of Barbourville, Kentucky (City) annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

The financial statements included in this report provide insight into the financial status of the City as of and for the year ended June 30, 2018.

Financial Highlights (dollars are in thousands)

- Total net position is comprised of the following:
 - 1) Net investment in capital assets of \$2,372 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) There are no net assets restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - 3) Unrestricted net assets of -\$1,143 represent the deficits of the City as of June 30, 2018.
- During the year ended June 30, 2018 the City received \$3,412 in total revenues, an increase of \$72 (2.2%) from fiscal year 2017.
- Total expenditures increased during fiscal year 2018 by \$314 (9.0%) to \$3,811.
- The City's governmental activities reported ending net position of \$790 this year. This represents a decrease of \$42 from fiscal year 2017.
- At the end of fiscal year 2018, the fund balances from the General Fund increased \$126 (17.1%) over the year ended June 30, 2017 to \$864. The fund balance of the General Fund was 29.7% of total General Fund expenditures including transfers and 28.5% of total General Fund revenues including transfers and payments from component units.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Position. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and tourist and recreation. The business-type activity consists of Barbourville Recreation Park, and the component unit consists of utility services. Fiduciary activities such as the school tax agency fund are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting entity includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Most of the legally separate organizations operate like City departments, serve as financing vehicles for City Services, or are governed by a board of trustees of the City's Mayor and Council or appointed by the City's Mayor or Council. These organizations are blended into the primary government for financial reporting purposes. Examples of blended organizations reported as City funds include the Barbourville Tourist and Recreation Commission and the Barbourville Recreation Park, Inc. Others operate more independently or provide services directly to the citizens though the City remains accountable for their activities. The Barbourville Utility Commission is reported separately from the primary government, though included in the City's overall reporting entity as a discretely presented component unit.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinct view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The Recreational Park Fund is reported as an enterprise fund. Enterprise funds essentially encompass the same functions reported as a business-type activity in the government-wide statements. Services are provided to customers external to the City organization.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds and individual component units.

Fiduciary funds such as the school agency fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to financial statements begin immediately following the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Budgetary comparison statements for the general fund and the major special revenue fund are included as required supplementary information in addition to the required pension schedules. The budgetary comparison statements demonstrate compliance with the City's adopted and final revised budget. Other supplementary information includes the combining balance sheet and the combining statement of revenues, expenditures, and changes in fund balances for the non-major governmental funds. Supplementary information follows the notes to financial statements.

Financial Analysis of the City as a Whole

The following table provides a summary of the City's net position at June 30, 2018 and 2017:

	Summary of Net Position (dollars are in thousands)					
	Governmental Activities		Business-type Activity		Totals	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Current and other assets	\$ 2,038	\$ 1,520	\$ 72	\$ 74	\$ 2,110	\$ 1,594
Capital assets	2,071	2,145	400	440	2,471	2,585
Total assets	<u>\$ 4,109</u>	<u>\$ 3,665</u>	<u>\$ 472</u>	<u>\$ 514</u>	<u>\$ 4,581</u>	<u>\$ 4,179</u>
Deferred outflows of resources	1,311	432	\$ --	\$ --	\$ 1,311	\$ 432
Long-term liabilities	3,635	2,347	\$ --	\$ --	\$ 3,635	\$ 2,347
Other liabilities	505	99	33	13	538	112
Total liabilities	<u>\$ 4,140</u>	<u>\$ 2,446</u>	<u>\$ 33</u>	<u>\$ 13</u>	<u>\$ 4,173</u>	<u>\$ 2,459</u>
Deferred inflows of resources	490	233	\$ --	\$ --	\$ 490	\$ 233
Net position:						
Net investment in capital assets	1,972	\$ 1,995	400	440	\$ 2,372	\$ 2,434
Unrestricted	(1,182)	(577)	39	61	(1,143)	(516)
Total net position	<u>\$ 790</u>	<u>\$ 1,418</u>	<u>\$ 439</u>	<u>\$ 501</u>	<u>\$ 1,229</u>	<u>\$ 1,919</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The following table provides a summary of the City's changes in net position for the years ended June 30, 2018 and 2017:

Summary of Changes in Net Position (dollars are in thousands)

	Governmental Activities		Business-type Activity		Totals	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Revenues:						
Program revenues:						
Charges for services	\$ 401	\$ 404	\$ 145	\$ 150	\$ 546	\$ 554
Grants and contributions	169	146	--	--	169	146
General revenues:						
Occupational taxes	715	704	--	--	715	704
Insurance premium taxes	464	506	--	--	464	506
Property taxes	498	478	--	--	498	478
Restaurant and motel taxes	520	434	--	--	520	434
Franchise taxes	150	142	--	--	150	142
Utility taxes	24	14	--	--	24	14
Other taxes	45	44	--	--	45	44
Other revenues	272	307	9	11	281	318
Total revenues	<u>\$3,258</u>	<u>\$3,179</u>	<u>\$ 154</u>	<u>\$ 161</u>	<u>\$3,412</u>	<u>\$3,340</u>
Expenses:						
Governmental activities:						
General government	\$ 961	\$ 630	\$ --	\$ --	\$ 961	\$ 630
Public safety:						
Police department	1,229	1,296	--	--	1,229	1,296
Fire department	185	188	--	--	185	188
Public services	811	754	--	--	811	754
Tourist and recreation	294	300	--	--	294	300
Interest on long-term debt	4	4	--	--	4	4
Recreational park	--	--	327	325	327	325
Total expenses	<u>\$3,484</u>	<u>\$3,172</u>	<u>\$ 327</u>	<u>\$ 325</u>	<u>\$3,811</u>	<u>\$3,497</u>
Change in net position before transfers	<u>\$ (226)</u>	<u>\$ 7</u>	<u>\$ (173)</u>	<u>\$ (164)</u>	<u>\$ (399)</u>	<u>\$ (157)</u>
Transfers	185	187	111	103	296	290
Change in net position	<u>\$ (41)</u>	<u>\$ 194</u>	<u>\$ (62)</u>	<u>\$ (61)</u>	<u>\$ (103)</u>	<u>\$ 133</u>
Net position, beginning of year, as previously stated	\$ 1,418	\$ 1,224	\$ 501	\$ 562	\$ 1,919	\$ 1,786
Cumulative effect of adoption of new accounting principle	<u>(587)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(587)</u>	<u>--</u>
Net position, beginning of year, as restated	<u>831</u>	<u>1,224</u>	<u>501</u>	<u>562</u>	<u>1,332</u>	<u>1,786</u>
Ending net assets	<u>\$ 790</u>	<u>\$ 1,418</u>	<u>\$ 439</u>	<u>\$ 501</u>	<u>\$ 1,229</u>	<u>\$ 1,919</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$1,582,792, an increase of \$256,079 over the prior year.

Major Governmental Funds

The General Fund is the City's primary operating fund. The General Fund has an ending fund balance of \$864,377, an increase in the amount of \$125,837 over the prior year.

The Tourism and Recreation Fund has an ending fund balance of \$625,841, an increase in the amount of \$123,537 over the prior year.

Proprietary fund

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The Recreational Park Fund accounts for the operating activities of the City's recreational park. The Recreational Park Fund received \$110,505 in transfers from other funds to help support operations. This is an increase in transfers in from fiscal year 2017 of \$7,935. The Recreational Park Fund reported a decrease in net position for the year in the amount of \$62,098.

General Fund Budgetary Highlights

The final General Fund budget expenditures for the fiscal year 2018 were \$3,541,336. There were amendments to the budget, Ordinance No. 2017-2 which was to reallocate revenue and expenses. As a result, budgeted revenues increased by a total of \$96,115, transfers from other funds increased by \$4,300, appropriations for administrative expenses increased by \$59,085, appropriations for the police department decreased by \$22,820, public services appropriations increased by \$21,800, and capital outlay appropriations increased \$42,350.

The General Fund budget complied with financial policies approved by the City Council and maintained core City services.

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2018 was \$2,071,475 and \$400,016, respectively. Major capital asset additions for the fiscal year for governmental activities included approximately \$17,000 for general government equipment, \$42,000 in infrastructure, \$10,000 in tourism and recreation equipment, \$22,000 in public service equipment, \$29,000 in police equipment, and \$48,000 in police vehicles.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Assets Net of Accumulated Depreciation (dollars are in thousands)

	Governmental Activities		Business-type Activity		Totals	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Non-Depreciable Assets:						
Land	\$ 325	\$ 325	\$ 126	\$ 126	\$ 451	\$ 451
Depreciable Assets:						
Buildings	674	697	50	55	724	752
Improvements Other than Land	573	586	51	62	624	648
Equipment and Vehicles	499	537	173	197	672	734
Total	<u>\$2,071</u>	<u>\$2,145</u>	<u>\$ 400</u>	<u>\$ 440</u>	<u>\$2,471</u>	<u>\$2,585</u>

Long-Term Debt

At the end of the fiscal year, the City had total long-term debt obligations of \$100,246, a decrease of \$50,504 from the previous year.

Economic Environment

In prior years, the City of Barbourville has received HB Coal Severance funds for special projects. For the year ended June 30, 2018, no monies were received and no money was budgeted for in the June 30, 2019 year. Consequently, the Department of Local Government has informed governments that the coal severance taxes will be reduced for the June 30, 2019 budget year, therefore the budgeted amount for 2019 has decreased to \$10,000.

The Police Department applied for a grant from the Kentucky Transportation Cabinet, Highway Safety Program, in the amount of \$28,075 for the June 30, 2018 fiscal year. They were approved for \$8,000. For the year ending June 30, 2019, the city has applied for \$21,400, and \$8,400 has been approved.

The City of Barbourville expects to receive approximately \$61,382 in the form of municipal aid money from the Department of Transportation for maintenance and repairs on city streets/sidewalks, and the purchase of equipment and labor.

The Occupational tax lawsuit with the City of Corbin is still ongoing in the court system. For the June 30, 2019 fiscal year, the City of Barbourville will receive 25% of the occupational taxes collected from the Knox County Fiscal Court. The current agreement will expire December 31, 2018.

For the year ended June 30, 2018, \$143,201 was collected for alcohol regulatory and license fees. \$145,000 has been budgeted for the year ending June 30, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Administrator, City of Barbourville, 196 Daniel Boone Drive, Box 1300, Barbourville, KY 40906.

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF NET POSITION
June 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activity	Total	
ASSETS				
Current assets:				
Cash	\$ 1,292,183	\$ 71,885	\$ 1,364,068	\$ 428,004
Insurance premium taxes receivable	110,884	--	110,884	--
Property taxes receivable	32,276	--	32,276	--
Franchise taxes receivable	20,769	--	20,769	--
Restaurant and motel taxes receivable	45,050	--	45,050	--
Intergovernmental receivable	30,064	--	30,064	--
Accounts receivable	71,062	--	71,062	1,305,883
Inventory, parts not in service	--	--	--	741,943
Total current assets	<u>1,602,288</u>	<u>71,885</u>	<u>1,674,173</u>	<u>2,475,830</u>
Restricted assets:				
Customers' deposits	--	--	--	924,923
Total restricted assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>924,923</u>
Non-current assets:				
Investments	435,618	--	435,618	5,352,716
Capital assets				
Land, water rights, and construction in process	324,735	126,000	450,735	2,851,604
Other capital assets, net of depreciation	1,746,740	274,016	2,020,756	27,126,188
Total non-current assets	<u>2,507,093</u>	<u>400,016</u>	<u>2,907,109</u>	<u>35,330,508</u>
Total assets	<u>\$ 4,109,381</u>	<u>\$ 471,901</u>	<u>\$ 4,581,282</u>	<u>\$38,731,261</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	974,405	--	974,405	1,799,106
Deferred outflows related to OPEB	336,692	--	336,692	479,620
Total deferred outflows of resources	<u>\$ 1,311,097</u>	<u>\$ --</u>	<u>\$ 1,311,097</u>	<u>\$ 2,278,726</u>

The Notes to the Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

STATEMENT OF NET POSITION (Continued)
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activity	Total	
LIABILITIES				
Current liabilities:				
Current maturities of long-term debt	\$ 50,000	\$ --	\$ 50,000	\$ 480,112
Accounts payable	43,469	24,514	67,983	1,421,234
Accrued salaries and payroll withholdings	62,986	8,013	70,999	287,383
Accrued interest payable	2,951	--	2,951	28,590
Accrued benefit obligation	345,708	--	345,708	--
Total current liabilities	<u>505,114</u>	<u>32,527</u>	<u>537,641</u>	<u>2,217,319</u>
Liabilities payable from restricted assets:				
Customers' deposits	--	--	--	924,923
Total liabilities payable from restricted assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>924,923</u>
Non-current liabilities:				
Long-term debt, less current maturities	50,246	--	50,246	9,216,405
Net pension liability	2,641,291		2,641,291	5,095,421
Net OPEB liability	943,799	--	943,799	1,750,043
Total non-current liabilities	<u>3,635,336</u>	<u>--</u>	<u>3,635,336</u>	<u>16,061,869</u>
Total liabilities	<u>\$ 4,140,450</u>	<u>\$ 32,527</u>	<u>\$ 4,172,977</u>	<u>\$19,204,111</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	\$ 434,006	\$ --	\$ 434,006	\$ 481,083
Deferred inflows related to OPEB	56,128	--	56,128	91,627
Total deferred inflows of resources	<u>\$ 490,134</u>	<u>\$ --</u>	<u>\$ 490,134</u>	<u>\$ 572,710</u>
NET POSITION				
Net investment in capital assets	1,971,728	400,016	2,371,744	21,834,976
Unrestricted (Deficit)	<u>(1,181,834)</u>	<u>39,358</u>	<u>(1,142,476)</u>	<u>(601,810)</u>
Total net position	<u>\$ 789,894</u>	<u>\$ 439,374</u>	<u>\$ 1,229,268</u>	<u>\$21,233,166</u>

The Notes to the Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 961,208	\$ 33,871	\$ --	\$ --
Public safety:				
Police department	1,229,416	8,557	55,993	--
Fire department	184,709	--	--	--
Public services	810,672	359,054	110,519	--
Tourist and recreation	293,879	--	2,909	--
Interest on long-term debt	3,839	--	--	--
Total governmental activities	<u>3,483,723</u>	<u>401,482</u>	<u>169,421</u>	<u>--</u>
Business-type activity:				
Recreational park	327,180	145,440	--	--
Total business-type activity	<u>327,180</u>	<u>145,440</u>	<u>--</u>	<u>--</u>
Total primary government	<u>3,810,903</u>	<u>546,922</u>	<u>169,421</u>	<u>--</u>
Component unit:				
Barbourville Utility Commission	16,269,271	15,617,808	349,227	--
Total component unit	<u>\$ 16,269,271</u>	<u>\$ 15,617,808</u>	<u>\$ 349,227</u>	<u>\$ --</u>

General revenues:

Taxes:

Occupational taxes

Insurance premium taxes

Property taxes

Restaurant and motel taxes

Franchise taxes

Utility taxes

Other taxes

Gain on sale of assets

Investment income

Miscellaneous

Payments from component unit (to) City

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as previously reported

Cumulative effect of adoption of new accounting principle

Net position, beginning of year, as restated

Net position, end of year

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>			
<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>	<u>Component Unit</u>
\$ (927,337)	\$ --	\$ (927,337)	\$ --
(1,164,866)	--	(1,164,866)	--
(184,709)	--	(184,709)	--
(341,099)	--	(341,099)	--
(290,970)	--	(290,970)	--
(3,839)	--	(3,839)	--
<u>(2,912,820)</u>	<u>--</u>	<u>(2,912,820)</u>	<u>--</u>
<u>--</u>	<u>(181,740)</u>	<u>(181,740)</u>	<u>--</u>
<u>--</u>	<u>(181,740)</u>	<u>(181,740)</u>	<u>--</u>
<u>(2,912,820)</u>	<u>(181,740)</u>	<u>(3,094,560)</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>(302,236)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (302,236)</u>
714,555	--	714,555	--
463,618	--	463,618	--
498,171	--	498,171	--
520,131	--	520,131	--
149,858	--	149,858	--
23,895	--	23,895	--
44,587	--	44,587	--
37,918	--	37,918	--
6,535	--	6,535	67,757
227,562	9,137	236,699	279,461
295,332	--	295,332	(295,332)
(110,505)	110,505	--	--
<u>2,871,657</u>	<u>119,642</u>	<u>2,991,299</u>	<u>51,886</u>
<u>(41,163)</u>	<u>(62,098)</u>	<u>(103,261)</u>	<u>(250,350)</u>
1,418,219	501,472	1,919,691	22,756,863
<u>(587,162)</u>	<u>--</u>	<u>(587,162)</u>	<u>(1,273,347)</u>
<u>831,057</u>	<u>501,472</u>	<u>1,332,529</u>	<u>21,483,516</u>
<u>\$ 789,894</u>	<u>\$ 439,374</u>	<u>\$ 1,229,268</u>	<u>\$ 21,233,166</u>

CITY OF BARBOURVILLE, KENTUCKY

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	<u>General Fund</u>	<u>Tourism and Recreation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 823,472	\$ 401,930	\$ 66,781	\$ 1,292,183
Insurance premium taxes receivable	110,884	--	--	110,884
Property taxes receivable	32,276	--	--	32,276
Franchise taxes receivable	20,769	--	--	20,769
Restaurant and motel taxes receivable	45,050	--	--	45,050
Intergovernmental receivable	4,271	--	25,793	30,064
Accounts receivable	71,062	--	--	71,062
Due from other funds	--	90,629	--	90,629
Investments	285,000	150,618	--	435,618
Total assets	<u>\$ 1,392,784</u>	<u>\$ 643,177</u>	<u>\$ 92,574</u>	<u>\$ 2,128,535</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 26,133	\$ 17,336	\$ --	\$ 43,469
Accrued salaries and payroll withholdings	62,986	--	--	62,986
Due to other funds	90,629	--	--	90,629
Accrued interest	2,951	--	--	2,951
Accrued benefit obligation	345,708	--	--	345,708
Total liabilities	<u>528,407</u>	<u>17,336</u>	<u>--</u>	<u>545,743</u>
FUND BALANCES				
Restricted	--	--	15,348	15,348
Committed	--	625,841	77,226	703,067
Assigned	140,627	--	--	140,627
Unassigned	723,750	--	--	723,750
Total fund balances	<u>864,377</u>	<u>625,841</u>	<u>92,574</u>	<u>1,582,792</u>
Total liabilities and fund balances	<u>\$ 1,392,784</u>	<u>\$ 643,177</u>	<u>\$ 92,574</u>	<u>\$ 2,128,535</u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2018

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,582,792

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental fund financial statements. 6,587,196

Accumulated depreciation has not been included in the
governmental fund financial statements. (4,515,721)

Long-term liabilities are not due and payable in the current
period and, therefore, are not reported as liabilities
in the governmental fund financial statements. (100,246)

Liabilities such as net pension and OPEB liabilities are not due and
payable in the current period and, therefore, are not reported
as liabilities in governmental funds. The City's net pension and OPEB
liabilities are reported in the statement of net position. (3,585,090)

Deferred outflows and inflows of resources related to pension and OPEB
plans are related to future periods and, therefore, are not reported
in governmental funds. The City's deferred outflows (\$1,311,097)
and deferred inflows (\$490,134) are reported in the government-wide
statement of net position. 820,963

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 789,894

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Tourism and Recreation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Occupational taxes	\$ 714,555	\$ --	\$ --	\$ 714,555
Insurance premium taxes	463,618	--	--	463,618
Property taxes	498,171	--	--	498,171
Restaurant and motel taxes	--	520,131	--	520,131
Charges for services	359,054	--	--	359,054
Franchise taxes	149,858	--	--	149,858
Utility taxes	23,895	--	--	23,895
Other taxes	44,587	--	--	44,587
Licenses, fees, and permits	42,428	--	--	42,428
Intergovernmental revenue	78,493	2,909	229,864	311,266
Fines and forfeitures	--	--	15,225	15,225
Other revenues	56,823	13,665	--	70,488
Investment income	4,668	1,830	37	6,535
	<u>2,436,150</u>	<u>538,535</u>	<u>245,126</u>	<u>3,219,811</u>
Total revenues				
EXPENDITURES				
Current:				
General government	618,756	--	7,220	625,976
Public safety:				
Police department	1,143,322	--	--	1,143,322
Fire department	142,416	--	--	142,416
Public services	781,537	--	--	781,537
Tourist and recreation	8,893	261,636	--	270,529
Debt service:				
Principal payments	50,504	--	--	50,504
Interest on debt	8,279	--	--	8,279
Capital outlays	157,860	10,486	--	168,346
	<u>2,911,567</u>	<u>272,122</u>	<u>7,220</u>	<u>3,190,909</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (475,417)</u>	<u>\$ 266,413</u>	<u>\$ 237,906</u>	<u>\$ 28,902</u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General Fund	Tourism and Recreation Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	\$ 263,572	\$ --	\$ --	\$ 263,572
Transfers to other funds	--	(142,876)	(231,201)	(374,077)
Payments from component units	295,332	--	--	295,332
Sale of assets	42,350	--	--	42,350
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net other financing sources (uses)	601,254	(142,876)	(231,201)	227,177
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	125,837	123,537	6,705	256,079
Fund balances, July 1, 2017	738,540	502,304	85,869	1,326,713
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balances, June 30, 2018	<u>\$ 864,377</u>	<u>\$ 625,841</u>	<u>\$ 92,574</u>	<u>\$ 1,582,792</u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 256,079
--	------------

Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is shown as an increase in capital assets.	168,346
Capital assets are depreciated over their estimated useful lives and reported as depreciation expense in the statement of net assets. The effect of the current year's depreciation is to decrease net assets.	(237,413)
In the statement of activities, the net effect of various transactions involving capital assets, (sale or disposal) is reported. The change in net assets differs from the change in fund balance by this difference.	(4,432)
Debt service principal payments are reported as a reduction in liabilities in the statement of net position, but are reported as expenditures in the fund financial statements because they use current financial resources.	50,504
Governmental funds report the City's pension plan contributions (\$144,139) and OPEB contributions (\$52,704) as expenditures. However, in the government-wide statement of activities, the cost of pension and OPEB benefits earned, net of employee contributions, is reported as pension expense (\$346,758) and OPEB expense (\$128,777).	(278,692)
Some expenses/revenue in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures/revenue in the governmental funds:	
Differences in accrued interest and interest paid associated with long-term liabilities	<u>4,445</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (41,163)</u></u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2018

	<u>Recreational Park Fund</u>
ASSETS	
Current assets:	
Cash	\$ 71,885
Total current assets	<u>71,885</u>
Non-current assets:	
Capital assets	
Land	126,000
Land development	523,389
Buildings	133,139
Equipment	658,390
Less accumulated depreciation	<u>(1,040,902)</u>
Total non-current assets	<u>400,016</u>
Total assets	<u><u>\$ 471,901</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 24,514
Wages and payroll taxes payable	<u>8,013</u>
Total current liabilities	<u>32,527</u>
Total liabilities	<u>32,527</u>
NET POSITION	
Net investment in capital assets	400,016
Unrestricted	<u>39,358</u>
Total net position	<u><u>\$ 439,374</u></u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2018**

	<u>Recreational Park Fund</u>
OPERATING REVENUES	
Charges for services:	
Water park gate receipts	\$ 62,226
Water park season passes	2,750
Other water park revenues	776
Private party revenues	15,000
Putt putt revenues	138
Paddleboat revenues	491
RV pad rental income	61,059
Other rental income	3,000
Total charges for services	<u>145,440</u>
Other revenues	<u>9,137</u>
Total operating revenues	<u>154,577</u>
OPERATING EXPENSES	
Personal services	87,563
Repairs and maintenance	60,059
Utilities	71,463
Operations expense	57,766
Supplies	9,432
Depreciation	40,235
Other operating expenses	662
Total operating expenses	<u>327,180</u>
Operating (loss)	<u>(172,603)</u>
NON-OPERATING REVENUE	
Transfers from other funds	<u>110,505</u>
Total non-operating revenue	<u>110,505</u>
Change in net position	(62,098)
Net position, beginning	<u>501,472</u>
Net position, ending	<u>\$ 439,374</u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2018**

	<u>Recreational Park Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 145,690
Cash payments to suppliers for goods and services	(183,258)
Cash payments to employees for services	(84,044)
Other cash receipts	9,137
Net cash (used in) operating activities	<u>(112,475)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>110,505</u>
Net cash provided by noncapital financing activities	<u>110,505</u>
Net (decrease) in cash	(1,970)
Cash at July 1, 2017	<u>73,855</u>
Cash at June 30, 2018	<u><u>\$ 71,885</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES	
Operating (loss)	<u>\$ (172,603)</u>
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation and amortization	40,236
Change in assets and liabilities net of the effects: of investing and financing activities:	
Accounts receivable	250
Accounts payable	16,123
Wages and payroll taxes payable	3,519
Total adjustments	<u>60,128</u>
Net cash (used in) operating activities	<u><u>\$ (112,475)</u></u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2018

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 9,086
Property taxes receivable	<u>32,424</u>
Total assets	<u><u>\$ 41,510</u></u>
LIABILITIES	
Due to Board of Education	<u>\$ 41,510</u>
Total liabilities	<u><u>\$ 41,510</u></u>

The Notes to Financial Statements are an integral part of this statement.

Jones, Nale & Mattingly PLC

CITY OF BARBOURVILLE, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The City of Barbourville, Kentucky (City) was incorporated under the provisions set forth by the Commonwealth of Kentucky. The City operates under a Mayor - Council form of government and provides the following services as authorized by its charter: public safety (police and fire), street improvements, planning and zoning, and general administrative services. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Component Units

Component units are reported in the City's Comprehensive Annual Financial Report (CAFR) as follows:

Blended Component Units Reported with the Primary Government:

Barbourville Tourist and Recreation Commission - The Commission was created in April 1994 to promote recreational, convention, and tourist activities in Barbourville and Knox County, Kentucky. The Commission's board is appointed by the Mayor of the City of Barbourville and the Barbourville City Council includes the Commission in its annual budget. The Commission is funded through a 3% restaurant and 3% motel tax which is collected by the Barbourville City Clerk and disbursed to the Commission in accordance with the Commission's annual budget.

Barbourville Recreational Park, Inc. - Accounts for all water park, ball park and RV park revenues and expenses in a separate enterprise fund.

Discretely Presented Component Unit:

The Barbourville Utility Commission - The Utility Commission was organized to administer and operate the utility system of the City of Barbourville. The Utility Commission is a wholly-owned agency of the City of Barbourville and commissioners are appointed by the City Council. The Utility Commission is self-supporting and renders services on a user-charge basis. Any excess funds available from the operations of the Utility Commission may be requested by the City for its general use. This transfer of funds does not result in a liability to the City. The Utility Commission issues separately audited financial statements and reports using the enterprise fund model. Copies of the component unit report may be obtained from the Utility Commission office at 202 Daniel Boone Drive, Barbourville, KY 40906.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Related Organization

Related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the related organization. The City has one related organization as follows:

Housing Authority of the City of Barbourville - The Authority was chartered as a public corporation under the laws of the Commonwealth of Kentucky. The purpose of the Authority is to administer a low rent housing program. The Authority's Board of Commissioners is appointed by the Mayor of the City of Barbourville. Any surpluses of the Authority are not recoverable by the City. All excess funds not needed for operations are returned to the U.S. Department of Housing and Urban Development (HUD) and the City is not responsible for any deficits of the Authority. The Authority reports independently.

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. The primary government and component unit are 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, forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. 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.

The fiduciary fund is custodial in nature and does not involve measurement of results of operations. Accordingly, the statement presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported 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. Proprietary and fiduciary fund financial statements and financial statements of the City component unit 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.

Governmental fund financial statements are reported 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 long-term obligation principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: restaurant and motel taxes, property taxes, franchise taxes, insurance premium taxes, and intergovernmental revenues. 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Types and Major Funds

The City reports the following major governmental funds:

General Fund – This fund reports as the primary fund of the City. It accounts for all financial resources not reported in other funds. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Tourism and Recreation Fund (Barbourville Tourist and Recreation Commission) – This fund accounts for the City's restaurant and motel tax receipts and expenditures related to promoting tourism and recreation in the City.

The City reports the following major proprietary fund:

Recreational Park Fund (Barbourville Recreational Park, Inc.) – Accounts for the operating activities of the City's recreational park.

The City also reports the following fiduciary fund:

Agency Fund – Agency funds account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. The School Tax Fund is used to account for school tax receipts collected and held by the City on behalf of the Board of Education.

Accounts receivable

Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Intergovernmental receivable

Intergovernmental receivables are comprised of amounts due from state grants. Revenue is recorded as earned when eligibility requirements are met.

Parts not in service

Parts not in service represents component unit inventories of expendable supplies which are stated at lower of cost or net realizable value on a first-in, first-out basis. They are reported at cost and are recorded as expenditures at the time individual inventory items are used.

Investments

Investments are carried at fair value which approximates cost. Investments representing customer deposits in the component unit are classified as restricted assets in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

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 component unit 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.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 40
Land Improvements	15 - 20
Infrastructure	25
Equipment	5 - 20
Vehicles	5 - 15

Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. All vacation pay must be used in the year it is earned. Unused sick leave is purchased by the City in December at the regular rate of pay. An employee who has completed probation and whose employment is terminated shall be paid for all accumulated vacation leave. As of June 30, 2018, the liability for accrued vacation leave included in the financial statements of the City was \$23,020.

The employees of the discretely presented component unit are entitled to vacation pay at similar terms except that vacation pay earned and not used can be carried over to subsequent years. An employee can request disbursement of unused vacation pay in lieu of time off. As of June 30, 2018, accrued vacation leave for the component unit was \$233,729.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Long-term obligations are recognized as an expenditure of a governmental fund only when payment is made or when payment is due in the current period. Issuance costs are reported as expenditures.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Equity

Beginning with fiscal year 2012, the City implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

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

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Property Taxes

Property taxes are levied annually on October 1st and are based on the assessed value of property as listed on the previous January 1st. Taxes are due November 30th with payments prior to October 31st discounted. Penalties are assessed in December and interest accrues beginning in January. Assessed values are an approximation of market value.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Proper allowances are made for estimated uncollectible accounts and delinquent accounts. Over time, substantially all property taxes are collected. The City's property taxes on motor vehicles are collected by the Knox County Clerk as vehicles are registered. These taxes are remitted to the City monthly.

Insurance Premium Fees

The City has an ordinance imposing a 9% license fee on insurance premium policies written within the corporate limits of the City.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Payment from Component Units

The Barbourville Utility Commission is a component unit of the City and any excess monies available may be requested by the City for its general use. The City received \$295,332 in transfers from the utility commission during the year ended June 30, 2018. This is comprised of \$295,332 in cash payments.

Budgetary Information

Formal budgetary accounting is employed as a management control for certain funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund, the special revenue funds, and the proprietary fund. Once approved, the City council may amend the legally adopted budget when unexpected modifications are required in estimating revenues and appropriations.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and detail line items. The budgets are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable disbursement is expected to occur. Actual results are reported on the GAAP basis, and variances reflect reconciliation differences primarily due to revenue and expenditure accruals.

Excess of expenditures over appropriations

For the year ended June 30, 2018, actual expenditures and proceeds from debt issuance exceeded budgeted appropriations in the General Fund. These over expenditures were funded by transfers from other funds and the component unit as well as proceeds from asset disposals.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through February 2, 2019 the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Investments and Fair Values

The City's cash and investments consist of \$1,364,068 in cash and \$435,618 in certificates of deposit at June 30, 2018. The discretely presented component unit's cash and investments consist of \$428,004 in cash and \$5,352,716 in certificates of deposit. The portion of certificates of deposit resulting from customer deposits is shown as restricted assets of the component unit. At June 30, 2018, the amount shown as restricted assets totaled \$924,923.

GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a City's own assumptions of market participant valuation (Level 3).

Financial instruments that are subject to fair value measurements are limited to investments. Fair values of these financial instruments have been valued using a market approach and are measured using Level 2 inputs. The fair value of investments approximates its carrying amount.

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The entire bank balances were covered by federal depository insurance or by collateralized U.S. government agency and local government agency securities held by the City's agent in the City's name as of June 30, 2018.

Note 3. Property Taxes Receivable

Property taxes receivable as of June 30, 2018, consist of the following items:

Assessment Year	Property Taxes Due	Less Allowance	Net Property Taxes
2014	\$ 3,747	\$ 1,874	\$ 1,873
2015	6,638	3,319	3,319
2016	7,892	3,947	3,945
2017	7,978	3,989	3,989
2018	19,150	--	19,150
Totals	<u>\$ 45,405</u>	<u>\$ 13,129</u>	<u>\$ 32,276</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Interfund Activity

Due To/From Other Funds

Balances representing due to/from other funds represent restaurant and motel taxes receivable and collections in the General Fund that have not yet been transferred to the Tourism and Recreation Fund. At June 30, 2018, the amount due to the Tourism and Recreation Fund from the General Fund amounted to \$90,629. Any residual balances outstanding between the governmental activities and business-type activities would be reported in the government-wide financial statement as internal balances.

Interfund Transfers

Interfund transfers are used to reallocate budgeted support or special revenues from the fund that collects them to the fund that is budgeted to expend them or to move unrestricted revenues collected within a fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the component unit is inconsistent with the activities of that unit.

Interfund transfers within these units for the year ended June 30, 2018, consisted of the following amounts:

	Transfers From Other Funds	Transfers To Other Funds
Governmental Funds		
General Fund	558,904	--
Tourism & Recreation Fund	--	142,876
Nonmajor Funds	--	231,201
Proprietary Fund		
Recreation Park	110,505	--
Component Unit	--	295,332
Total Transfers	<u>\$ 669,409</u>	<u>\$ 669,409</u>

Note 5. Capital Assets

During the year ended June 30, 2010, the discretely presented Component Unit deeded and transferred certain capital assets to the City in relation to mineral rights. The net book value of these assets was \$63,655. The mineral rights were then leased by the City to ARWI Robert Stivers Wellness Center, Inc. with an initial lease term of 25 years and no payment due on the lease. The rights are to be used for the purpose of a wellness center and will revert back to the City should these purposes be avoided or the company dissolve. It is expected that the lease will be renewed at the end of the term.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

The following table provides a summary of changes in capital assets:

		CAPITAL ASSETS, DEPRECIATED				
	CAPITAL ASSETS NOT DEPRECIATED		Infrastructure and Improvements			
		Buildings	Other Than Buildings	Equipment and Vehicles	Totals	
Primary Government:						
Governmental Activities:						
Balance, June 30, 2017	\$ 324,735	\$ 1,400,918	\$ 1,299,088	\$ 3,488,006	\$ 6,512,747	
Increases	--	5,723	41,880	120,743	168,346	
Decreases	--	--	--	(93,897)	(93,897)	
Balance, June 30, 2018	\$ 324,735	\$ 1,406,641	\$ 1,340,968	\$ 3,514,852	\$ 6,587,196	
Accumulated Depreciation:						
Balance, June 30, 2017	\$ --	\$ 703,910	\$ 713,532	\$ 2,950,331	\$ 4,367,773	
Increases	--	29,111	54,731	153,571	237,413	
Decreases	--	--	--	(89,465)	(89,465)	
Balance, June 30, 2018	\$ --	\$ 733,021	\$ 768,263	\$ 3,014,437	\$ 4,515,721	
Governmental Activities						
Capital Assets, Net	\$ 324,735	\$ 673,620	\$ 572,705	\$ 500,415	\$ 2,071,475	
Business-type Activity:						
Balance, June 30, 2017	\$ 126,000	\$ 133,139	\$ 523,389	\$ 658,390	\$ 1,440,918	
Increases	--	--	--	--	--	
Decreases	--	--	--	--	--	
Balance, June 30, 2018	\$ 126,000	\$ 133,139	\$ 523,389	\$ 658,390	\$ 1,440,918	
Accumulated Depreciation:						
Balance, June 30, 2017	\$ --	\$ 77,683	\$ 461,524	\$ 461,460	\$ 1,000,667	
Increases	--	5,306	11,241	23,688	40,235	
Decreases	--	--	--	--	--	
Balance, June 30, 2018	\$ --	\$ 82,989	\$ 472,765	\$ 485,148	\$ 1,040,902	
Business-type Activity						
Capital Assets, Net	\$ 126,000	\$ 50,150	\$ 50,624	\$ 173,242	\$ 400,016	
Primary Government						
Capital Assets, Net	\$ 450,735	\$ 723,770	\$ 623,329	\$ 673,657	\$ 2,471,491	
Component Unit:						
Balance, June 30, 2017	\$ 2,851,604	\$ 25,781,108	\$ --	\$ 23,521,569	\$ 52,154,281	
Increases	--	37,380	--	3,801,686	3,839,066	
Decreases	--	(740,252)	--	--	(740,252)	
Balance, June 30, 2018	\$ 2,851,604	\$ 25,078,236	\$ --	\$ 27,323,255	\$ 55,253,095	
Accumulated Depreciation:						
Balance, June 30, 2017	\$ --	\$ 12,072,484	\$ --	\$ 12,039,602	\$ 24,112,086	
Increases	--	743,549	--	1,159,919	1,903,468	
Decreases	--	(740,251)	--	--	(740,251)	
Balance, June 30, 2018	\$ --	\$ 12,075,782	\$ --	\$ 13,199,521	\$ 25,275,303	
Component Unit						
Capital Assets, Net	\$ 2,851,604	\$ 13,002,454	\$ --	\$ 14,123,734	\$ 29,977,792	

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General government	\$ 63,760
Public safety:	
Police department	78,875
Fire department	42,293
Public services	29,135
Tourist and recreation	23,350
	<hr/>
Total governmental activities	237,413
	<hr/>
Business-type Activity:	
Recreational park	40,235
	<hr/>
Total business-type activity	40,235
	<hr/>
Total depreciation expense	<u><u>\$ 277,648</u></u>

Note 6. Self-Insurance Program

The City records an estimated liability for a self-insurance program for hospitalization and medical coverage for its employees. The liability is based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based on historical experience. At June 30, 2018, the liability for unpaid claims is \$345,708. The City limits its losses through the use of stop-loss policies from re-insurers. Specific individual losses for claims are limited to \$30,000 per individual with an aggregating specific of \$30,000 per year. Additionally, individual high cost claims may be segregated from the group and subjected to a \$125,000 specific stop loss.

Changes in the balances of claims liabilities during the year ended June 30, 2018 is as follows:

Year Ending	Beginning Balance	Claims and changes in estimates	Claim Payments	Ending Balance
2018	\$ 111,162	\$ 725,060	\$ 490,514	\$ 345,708

The component unit has a similar self-insurance program for its employees. Under this plan, specific individual losses for claims are limited to \$35,000 a year. The claim payments related to the self-insurance program were \$366,322 for the year ended June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

The City had a note payable to the Kentucky Department of Highways, originating in July of 1997 in the amount of \$11,000 for the purpose of purchasing property for the fire department. The note was unsecured, non-interest bearing and payable in 22 annual installments of \$500. The balance was paid in full as of June 30, 2018.

The City has a note payable to Commercial Bank, originating August 5, 2016 in the amount of \$150,250 for the purpose of purchasing police cruisers. The note is secured by the police cruisers, with an interest rate of 3.50%, payable in 3 annual installments of \$50,000. The balance due as of June 30, 2018 was \$100,246.

On November 5, 2009, the component unit made an agreement with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir. In consideration of this right, the Commission signed a note in the amount of \$1,291,299, with an interest rate of 4.625% adjusted at five-year intervals throughout the (30) thirty year repayment period, beginning December 2009. The interest rate at June 30, 2018 was 3.50%. Principal and interest payments are payable annually on December 1. The balance due as of June 30, 2018 was \$1,012,977.

On December 20, 2011, the component unit made an agreement with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir. In consideration of this right, the Commission signed a note in the amount of \$612,310, with an interest rate of 4.125% adjusted at five-year intervals throughout the (30) thirty year repayment period, beginning March 2012. The interest rate at June 30, 2018 was 2.50%. Principal and interest payments are payable annually on March 1. The balance due as of June 30, 2018 was \$504,516.

On February 1, 2012, the component unit made an agreement with the Kentucky Infrastructure Authority to borrow up to \$4,000,000 to upgrade the raw water intake system at an interest rate of 1%. Interest payments are due beginning six months after the first construction draw with principal due once the project is complete. In addition, 40% of each draw is forgiven at the time of request. The project was completed during the year ended June 30, 2015, and the component unit began making principal and interest payments during the year ended June 30, 2016. The balance due as of June 30, 2018 was \$2,069,801.

On November 2, 2012, the component unit made an agreement with the Kentucky Infrastructure Authority to borrow up to \$6,800,000 to expand the sewer system at an interest rate of 1%. Principal and interest payments are due on June 1 and December 1 each year and the note is scheduled to be paid in full June 2035. The maximum amount of \$1,200,000 was forgiven during the year ended June 30, 2014. The balance due as of June 30, 2018 was \$4,477,512.

On October 1, 2016, the component unit made an agreement was made with the Kentucky Infrastructure Authority to borrow up to \$1,856,109 to rehab the sewer collection lines at an interest rate of 0.75%. The amount of \$185,611 was forgiven on the loan leaving a principal balance of \$1,670,498. Interest payments are due on June 1 or December 1 immediately succeeding the date of the initial draw of funds. The Commission utilized the remaining \$353,231 of the loan and \$35,323 of principal was forgiven during the year ended June 30, 2018. The balance due as of June 30, 2018 was \$1,631,711.

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

Description	Balance 7/1/2017	Increases	Decreases	Balance 6/30/2018	Due Within One Year
Primary Government Governmental Activities Notes Payable	<u>\$ 150,750</u>	<u>\$ --</u>	<u>\$ 50,504</u>	<u>\$ 100,246</u>	<u>\$ 50,000</u>
Component Unit Long-term debt	<u>\$9,815,534</u>	<u>\$ 353,231</u>	<u>\$ 472,248</u>	<u>\$9,696,517</u>	<u>\$480,112</u>

The annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30	Governmental Activities		Component Unit	
	Principal	Interest	Principal	Interest
2019	\$ 50,000	\$ 3,555	\$ 480,112	\$ 124,745
2020	50,246	1,782	485,746	119,112
2021	--	--	491,467	113,391
2022	--	--	497,278	107,580
2023	--	--	503,183	101,676
2022-2026	--	--	2,607,844	416,438
2027-2031	--	--	2,770,563	253,725
2032-2036	--	--	1,627,314	92,642
2037-2041	--	--	233,010	13,394
Totals	<u>\$ 100,246</u>	<u>\$ 5,337</u>	<u>\$9,696,517</u>	<u>\$ 1,342,703</u>

Note 8. Operating Leases

The City entered into a 15 year lease agreement with Estil and Elizabeth Scalf to lease approximately 100 acres of land in Knox County for a landfill. This lease agreement has subsequently expired; however, the City's landfill committee has agreed to continue paying lease payments in the amount of \$100 per month. For the year ended June 30, 2018, lease payments for the landfill totaled \$1,200.

The City entered into a 20 year lease agreement with Union College effective September 16, 1976, for the purpose of developing and operating a county wide recreation park for the establishment of recreation facilities for the benefit and use of the citizens and youth of Knox County, Kentucky. Lease payments in the amount of \$1 were due annually. In November of 1995, the City exercised an option for an additional 10 year period under the same terms and conditions and prepaid the 10 year lease amount. The City has extended this lease, on an annual basis since the September 16, 2006 expiration. It is the City's plan to continue annual renewals of this lease agreement.

NOTES TO FINANCIAL STATEMENTS

Note 8. Operating Leases (Continued)

The City entered into a 10 year lease agreement with Evans Investment to lease land by the Cumberland River to be used for recreational purposes. The lease was effective March 15, 2007. Payments for the leased property are \$400 per year paid annually on the anniversary date of the lease agreement. This lease expired in March 2017 and was renewed under the same terms and conditions for another 10 year term to expire March 2027.

The City entered into a 10 year lease with Commercial Bank, formerly known as Union National Bank and Trust Company, for a parking lot to be used as a free parking lot. The lease was effective December 6, 2006. Payment terms for the lease were as follows: the City paid on behalf of the Bank, as they became due each year, during the term of the lease, all State, County, City and School property taxes assessed against the property, the Bank had six spaces in the leased premises reserved for bank employees. This lease agreement was terminated by the City in writing on April 11, 2014. Subsequently, the lease was renewed in July 2015, with new terms and conditions. The Bank is now responsible for all property taxes assessed and will still retain six parking spots for bank employees.

Note 9. County Employees' Retirement System

Plan Description: The City has elected to participate in the County Employees Retirement System (CERS), pursuant to Kentucky Revised Statute 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Historical trend information showing CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-696-8800.

Benefits Provided: Benefits fully vested on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Contributions: Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The City's contribution rate for nonhazardous employees was 14.48%, 13.95%, and 12.42% for the years ended June 30, 2018, 2017, and 2016, respectively. Total nonhazardous contributions made by the City were \$82,866, \$70,943 and \$55,287 for the years ended June 30, 2018, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. County Employees' Retirement System (Continued)

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9.00% of their salary to be allocated as follows: 8.00% will go to the member's account and 1.00% will go to the KRS's insurance fund. The City's contribution rate for hazardous employees was 22.20%, 21.71%, and 20.26% for the years ended June 30, 2018, 2017, and 2016, respectively. Total hazardous contributions made by the City were \$61,273, \$74,207 and \$72,305 for the years ended June 30, 2018, 2017 and 2016, respectively.

The employees of the component unit are also covered under CERS and are all nonhazardous employees. Total nonhazardous contributions made by the Component Unit were \$304,456, \$292,965 and \$244,965 for the years ended June 30, 2018, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018, the City and component unit reported a liability of \$2,641,291 and \$5,095,421, respectively, for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City and component unit's proportion of the net pension liability was based on a projection of the City and component unit's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the City's proportion was 0.062876% for hazardous covered employees and 0.021092% for nonhazardous covered employees. At June 30, 2017, the component unit's proportion was 0.087052% for nonhazardous covered employees.

For the City, pension expense totaled \$346,758 for the year ended June 30, 2018. As of June 30, 2018, the City had deferred outflows and inflows of resources related to its pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 508,420	\$ --
Net differences between projected and actual earnings on investments	190,046	(162,483)
Difference between actual and expected experience	53,128	(31,339)
Changes in proportion and differences between City's contributions and proportionate share of contributions	78,672	(240,184)
City contributions subsequent to the measurement date	144,139	--
	<u>\$ 974,405</u>	<u>\$ (434,006)</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. County Employees' Retirement System (Continued)

The City's deferred outflows of resources totaling \$144,139 will be recognized as a reduction of the net pension liability during the year ending June 30, 2019. Amounts reported as deferred outflows and inflows of resources as of June 30, 2018 will be recognized into pension expense as follows:

Year Ending June 30:	
2019	\$ 118,699
2020	204,995
2021	103,768
2022	(31,202)
	<u>\$ 396,260</u>

For the component unit, pension expense totaled \$821,539 for the year ended June 30, 2018. As of June 30, 2018, the component unit had deferred outflows and inflows of resources related to its pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 940,243	\$ --
Net differences between projected and actual earnings on investments	403,551	(340,527)
Difference between actual and expected experience	6,320	(129,344)
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	144,536	(11,212)
Commission contributions subsequent to the measurement date	304,456	--
	<u>\$ 1,799,106</u>	<u>\$ (481,083)</u>

The component unit's deferred outflows of resources totaling \$304,456 will be recognized as a reduction of the net pension liability during the year ending June 30, 2019. Amounts reported as deferred outflows and inflows of resources as of June 30, 2018 will be recognized into pension expense as follows:

Year Ending June 30:	
2019	\$ 437,519
2020	442,576
2021	198,901
2022	(65,429)
	<u>\$ 1,013,567</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. County Employees' Retirement System (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	2.30%
Salary increases:	3.05%, average
Investment rate of return:	6.25%

The Mortality Table used for active members is RP-200 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

NOTES TO FINANCIAL STATEMENTS

Note 9. County Employees' Retirement System (Continued)

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease - 5.25%	Current Discount Rate - 6.25%	1% Increase - 7.25%
Net Pension Liability - Nonhazardous	\$ 1,557,072	\$ 1,234,580	\$ 964,817
Net Pension Liability - Hazardous	1,768,685	1,406,711	1,107,774
Total Net Pension Liability	<u>\$ 3,325,757</u>	<u>\$ 2,641,291</u>	<u>\$ 2,072,591</u>

Sensitivity of the component unit's proportionate share of the net pension liability to changes in the discount rate: The following presents the component unit's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the component unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease - 5.25%	Current Discount Rate - 6.25%	1% Increase - 7.25%
Net Pension Liability - Nonhazardous	<u>\$ 6,426,427</u>	<u>\$ 5,095,421</u>	<u>\$ 3,982,044</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

Note 10. Other Postemployment Benefits

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The City and the Component Unit participates in both the nonhazardous and hazardous plan.

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Portion Paid by Insurance Fund</u>	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

New Accounting Principle

Effective, July 1, 2017, the City and Component Unit adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement requires the liability of employers, such as the City and the Component Unit, to employees for net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Net position of the City and the Component Unit has been restated for the cumulative effect of the adoption of this statement as follows:

City

Net OPEB liability as of July 1, 2017	\$ (643,176)
Deferred outflows - City's 2017 OPEB contributions	56,014
Cumulative effect of adoption	<u><u>\$ (587,162)</u></u>

Component Unit

Net OPEB liability as of July 1, 2017	\$ (1,372,682)
Deferred outflows - Component Unit's 2017 OPEB contributions	99,335
Cumulative effect of adoption	<u><u>\$ (1,273,347)</u></u>

Contributions: Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The City and Component Unit's contribution rate to the KRS Insurance Fund for nonhazardous employees was 4.70%, 4.73%, and 4.64% for the years ended June 30, 2018, 2017 and 2016, respectively.

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9.00% of their salary. The City's OPEB contribution rate for hazardous employees was 9.35%, 9.35%, and 12.69% for the years ended June 30, 2018, 2017, and 2016, respectively. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation.

Contributions to the KRS Insurance Fund from the City were \$52,704 and \$56,014 for the years ended June 30, 2018 and 2017, respectively. Contributions to the KRS Insurance Fund from the Component Unit were \$98,822 and \$99,335 for the years ended June 30, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2018, the City and Component Unit reported a liability of \$943,799 and \$1,750,043, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The City and Component Unit's proportion of the net OPEB liability was based on the City and Component Unit's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2018, the City and Component Unit's proportion was .021092% and .087052%, respectively, for nonhazardous covered employees. For hazardous covered employees the City's proportion was .062876% and the Component Unit did not have any hazardous covered employees.

For the year ended June 30, 2018, the City and Component Unit recognized OPEB expense of \$128,777 and \$187,525, respectively. At June 30, 2018, the City and Component Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

City

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 283,988	\$ --
Net differences between projected and actual earnings on investments	--	(52,651)
Difference between actual and expected experience	--	(2,389)
Changes in proportion and differences between City's contributions and proportionate share of contributions	--	(1,088)
City contributions subsequent to the measurement date	52,704	--
	<u>\$ 336,692</u>	<u>\$ (56,128)</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

Component Unit

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 380,798	\$ --
Net differences between projected and actual earnings on investments	--	(82,706)
Difference between actual and expected experience	--	(4,861)
Changes in proportion and differences between City's contributions and proportionate share of contributions	--	(4,060)
City contributions subsequent to the measurement date	98,822	--
	<u>\$ 479,620</u>	<u>\$ (91,627)</u>

The City and Component Unit's deferred outflows of resources of \$52,704 and \$98,822, respectively, related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources as of June 30, 2018 will be recognized into OPEB expense as follows:

City

Year Ending June 30:

2019	\$ 57,691
2020	57,691
2021	57,691
2022	32,948
2023	17,065
2024	4,774
	<u>\$ 227,860</u>

Component Unit

Year Ending June 30:

2019	\$ 49,755
2020	49,755
2021	49,755
2022	49,755
2023	70,431
2024	19,720
	<u>\$ 289,171</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

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

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

The mortality for active members in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for nonhazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the KRS Board's current funding policy, which includes the requirement that each participating employer in KRS contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees of KRS. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from KRS. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of KRS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City and Component Unit's proportionate share of the net OPEB liability to changes in the discount rate: The following presents the City and Component Unit's proportionate share of the net OPEB liability calculated using the discount rate of 5.84% for nonhazardous and 5.96% for hazardous, as well as what the City and Component Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for nonhazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for nonhazardous and 6.96% for hazardous) than the current rate:

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

City

	1% Decrease - 4.84% Nonhazardous, 4.96% Hazardous	Current Discount Rate - 5.84% Nonhazardous, 5.96% Hazardous	1% Increase - 6.84% Nonhazardous, 6.96% Hazardous
Net OPEB Liability - Nonhazardous	\$ 539,544	\$ 424,021	\$ 327,889
Net OPEB Liability - Hazardous	696,574	519,778	375,130
Total Net OPEB Liability	<u>\$ 1,236,118</u>	<u>\$ 943,799</u>	<u>\$ 703,019</u>

Component Unit

	1% Decrease - 4.84% Nonhazardous	Current Discount Rate - 5.84% Nonhazardous	1% Increase - 6.84% Nonhazardous
Net OPEB Liability - Nonhazardous	<u>\$ 2,226,833</u>	<u>\$ 1,750,043</u>	<u>\$ 1,353,279</u>

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

City

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability - Nonhazardous	\$ 325,246	\$ 424,021	\$ 552,423
Net OPEB Liability - Hazardous	367,943	519,778	707,697
Total Net OPEB Liability	<u>\$ 693,189</u>	<u>\$ 943,799</u>	<u>\$ 1,260,120</u>

Component Unit

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability - Nonhazardous	<u>\$ 1,342,373</u>	<u>\$ 1,750,043</u>	<u>\$ 2,279,990</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

Note 11. Asset Forfeitures

During 2018, the City maintained an asset forfeiture account as a result of investigations or prosecutions that resulted in forfeited drug money and property. These funds are legally restricted for law enforcement activities, including training, equipment and operations, facilities and equipment, drug education and awareness. These funds are not available for excess fee purposes. As of June 30, 2018, the total cash balance, reserved for these purposes was \$65,505. Collections and expenditures for the year ended June 30, 2018 were \$15,225 and \$7,220, respectively.

Note 12. Fund Balances – Governmental Funds

As of June 30, 2018, fund balances are composed of the following:

	General Fund	Tourism and Recreation Fund	Other Governmental Funds	Total Governmental Funds
Restricted for:				
Street maintenance	\$ --	\$ --	\$ 15,348	\$ 15,348
Committed to:				
Law enforcement	--	--	77,226	77,226
Tourism and recreation	--	625,841	--	625,841
Assigned to:				
Fire service	140,627	--	--	140,627
Unassigned:	723,750	--	--	723,750
Total fund balances	<u>\$ 864,377</u>	<u>\$ 625,841</u>	<u>\$ 92,574</u>	<u>\$ 1,582,792</u>

When an expenditure is incurred for purposes for which both assigned and unassigned fund balance is available, the City considers assigned funds to have been spent first.

SUPPLEMENTARY INFORMATION

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2018**

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Occupational taxes	\$ 700,000	\$ 700,000	\$ 714,555	\$ 14,555
Insurance premium taxes	520,000	520,000	463,618	(56,382)
Property taxes	430,000	433,465	498,171	64,706
Charges for services	382,500	382,500	359,054	(23,446)
Franchise taxes	140,000	140,000	149,858	9,858
Utility taxes	13,500	13,500	23,895	10,395
Other taxes	105,000	105,000	44,587	(60,413)
Licenses, fees, and permits	38,100	38,100	42,428	4,328
Intergovernmental revenue	36,500	86,500	78,493	(8,007)
Other revenues	571,133	570,433	56,823	(513,610)
Investment income	2,500	3,500	4,668	1,168
Total revenues	2,939,233	2,992,998	2,436,150	(556,848)
EXPENDITURES				
Current:				
General government	1,239,042	1,298,127	618,756	(679,371)
Public safety:				
Police department	1,220,675	1,197,855	1,143,322	(54,533)
Fire department	142,101	142,101	142,416	315
Public services	748,771	770,571	781,537	10,966
Tourist and recreation	--	--	8,893	8,893
Debt service	55,332	55,332	58,783	3,451
Capital outlays	35,000	77,350	157,860	80,510
Total expenditures	3,440,921	3,541,336	2,911,567	(629,769)
(Deficiency) of revenues (under) expenditures	\$ (501,688)	\$ (548,338)	\$ (475,417)	\$ 72,921

CITY OF BARBOURVILLE, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	\$ 206,356	\$ 210,656	\$ 263,572	\$ 52,916
Payments from component units	295,332	295,332	295,332	--
Sale of assets	--	42,350	42,350	--
Net other financing sources	501,688	548,338	601,254	52,916
Net change in fund balances	--	--	125,837	125,837
Fund balance, July 1, 2017	738,540	738,540	738,540	--
Fund balance, June 30, 2018	\$ 738,540	\$ 738,540	\$ 864,377	\$ 125,837

CITY OF BARBOURVILLE, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - TOURISM AND RECREATION FUND
Year Ended June 30, 2018**

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Restaurant tax	\$ 464,945	\$ 464,945	\$ 497,973	\$ 33,028
Motel tax	22,000	22,000	22,158	158
Intergovernmental revenue	1,600	1,600	2,909	1,309
Other revenues	18,450	18,450	13,665	(4,785)
Investment income	--	--	1,830	1,830
Total revenues	506,995	506,995	538,535	31,540
EXPENDITURES				
Current:				
Tourist and recreation	387,990	387,990	261,636	(126,354)
Capital outlays	8,500	8,500	10,486	1,986
Total expenditures	396,490	396,490	272,122	(124,368)
Excess of revenues over expenditures	110,505	110,505	266,413	155,908
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(110,505)	(110,505)	(142,876)	(32,371)
Net other financing (uses)	(110,505)	(110,505)	(142,876)	(32,371)
Net change in fund balances	--	--	123,537	123,537
Fund balance, July 1, 2017	502,304	502,304	502,304	--
Fund balance, June 30, 2018	\$ 502,304	\$ 502,304	\$ 625,841	\$ 123,537

CITY OF BARBOURVILLE, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018**

	Asset Forfeiture Fund	Municipal Aid Road Fund	Coal Severance Tax Fund	Alcohol Fund	Rural Development Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash	\$ 65,505	\$ 455	\$ 821	\$ --	\$ --	\$ 66,781
Accounts receivable, intergovernmental	--	7,463	6,609	11,721	--	25,793
Total assets	<u>\$ 65,505</u>	<u>\$ 7,918</u>	<u>\$ 7,430</u>	<u>\$ 11,721</u>	<u>\$ --</u>	<u>\$ 92,574</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Total liabilities	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
FUND BALANCES						
Restricted	--	7,918	7,430	--	--	15,348
Committed	65,505	--	--	11,721	--	77,226
Total fund balances	<u>65,505</u>	<u>7,918</u>	<u>7,430</u>	<u>11,721</u>	<u>--</u>	<u>92,574</u>
Total liabilities and fund balances	<u>\$ 65,505</u>	<u>\$ 7,918</u>	<u>\$ 7,430</u>	<u>\$ 11,721</u>	<u>\$ --</u>	<u>\$ 92,574</u>

CITY OF BARBOURVILLE, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

	Asset Forfeiture Fund	Municipal Aid Road Fund	Coal Severance Tax Fund	Alcohol Fund	Total Nonmajor Governmental Funds
REVENUES					
Intergovernmental revenue	\$ --	\$ 62,055	\$ 25,965	\$ 141,844	\$ 229,864
Investment income	--	30	7	--	37
Fines and forfeitures	15,225	--	--	--	15,225
Total revenues	15,225	62,085	25,972	141,844	245,126
EXPENDITURES					
Current:					
General government	7,220	--	--	--	7,220
Total expenditures	7,220	--	--	--	7,220
Excess (deficiency) of revenues over (under) expenditures	8,005	62,085	25,972	141,844	237,906
OTHER FINANCING (USES)					
Transfers to other funds	--	(63,000)	(25,000)	(143,201)	(231,201)
Net other financing (uses)	--	(63,000)	(25,000)	(143,201)	(231,201)
Net change in fund balances	8,005	(915)	972	(1,357)	6,705
Fund balances, July 1, 2017	57,500	8,833	6,458	13,078	85,869
Fund balances, June 30, 2018	<u>\$ 65,505</u>	<u>\$ 7,918</u>	<u>\$ 7,430</u>	<u>\$ 11,721</u>	<u>\$ 92,574</u>

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

	June 30,			
	2017	2016	2015	2014
NONHAZARDOUS				
City's proportion of net pension liability	0.021092%	0.018660%	0.018790%	0.017800%
City's proportionate share of the net pension liability	\$ 1,234,580	\$ 918,761	\$ 807,729	\$ 577,000
City's covered-employee payroll	\$ 508,555	\$ 445,144	\$ 464,700	\$ 408,224
City's proportionate share of the net pension liability as a percentage of its employee-covered payroll	242.76%	206.40%	173.82%	141.34%
Plan Fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%
HAZARDOUS				
City's proportion of net pension liability	0.062876%	0.068646%	0.090920%	0.103680%
City's proportionate share of the net pension liability	\$ 1,406,711	\$ 1,177,929	\$ 1,395,644	\$ 1,246,000
City's covered-employee payroll	\$ 341,809	\$ 356,885	\$ 461,345	\$ 451,323
City's proportionate share of the net pension liability as a percentage of its employee-covered payroll	411.55%	330.06%	302.52%	276.08%
Plan Fiduciary net position as a percentage of the total pension liability	49.80%	53.95%	57.52%	63.50%

* June 30, 2017, 2016, 2015 and 2014 reflect the respective dates for the actuarial valuation.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

	June 30,				
	2018	2017	2016	2015	2014
NONHAZARDOUS					
Contractually required contribution	\$ 82,866	\$ 70,943	\$ 55,287	\$ 59,249	\$ 56,090
Contributions in relation to the contractually required contribution	(82,866)	(70,943)	(55,287)	(59,249)	(56,090)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered employee-payroll	\$ 572,274	\$ 508,555	\$ 445,144	\$ 464,700	\$ 408,224
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%
HAZARDOUS					
Contractually required contribution	\$ 61,273	\$ 74,207	\$ 72,305	\$ 95,637	\$ 98,253
Contributions in relation to the contractually required contribution	(61,273)	(74,207)	(72,305)	(95,637)	(98,253)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered employee-payroll	\$ 276,001	\$ 341,809	\$ 356,885	\$ 461,345	\$ 451,323
Contributions as a percentage of covered-employee payroll	22.20%	21.71%	20.26%	20.73%	21.77%

* June 30, 2018, 2017, 2016, 2015 and 2014 reflect financial reporting dates.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET OPEB LIABILITY

	<u>June 30, 2017</u>
NONHAZARDOUS	
City's proportion of net OPEB liability	0.021092%
City's proportionate share of the net OPEB liability	\$ 424,021
City's covered-employee payroll	\$ 508,555
City's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	83.38%
Plan Fiduciary net position as a percentage of the total OPEB liability	52.40%
HAZARDOUS	
City's proportion of net OPEB liability	0.062876%
City's proportionate share of the net OPEB liability	\$ 519,778
City's covered-employee payroll	\$ 341,809
City's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	152.07%
Plan Fiduciary net position as a percentage of the total OPEB liability	59.00%

* June 30, 2017 reflects the respective dates for the actuarial valuation.

CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY OPEB CONTRIBUTIONS

	June 30,	
	2018	2017
NONHAZARDOUS		
Contractually required contribution	\$ 26,898	\$ 24,055
Contributions in relation to the contractually required contribution	(26,898)	(24,055)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
City's covered employee-payroll	\$ 572,274	\$ 508,555
Contributions as a percentage of covered-employee payroll	4.70%	4.73%
HAZARDOUS		
Contractually required contribution	\$ 25,806	\$ 31,959
Contributions in relation to the contractually required contribution	(25,806)	(31,959)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
City's covered employee-payroll	\$ 276,001	\$ 341,809
Contributions as a percentage of covered-employee payroll	9.35%	9.35%

* June 30, 2018 and 2017 reflect financial reporting dates.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF COMPONENT UNIT'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY**

	June 30,			
	2017	2016	2015	2014
NONHAZARDOUS				
Commission's proportion of net pension liability	0.087052%	0.082493%	0.082194%	0.084334%
Commission's proportionate share of the net pension liability	\$ 5,095,421	\$ 4,061,660	\$ 3,533,964	\$ 2,736,000
Commission's covered-employee payroll	\$ 2,100,107	\$ 1,972,346	\$ 1,920,397	\$ 1,934,753
Commission's proportionate share of the net pension liability as a percentage of its employee-covered payroll	242.63%	205.93%	184.02%	141.41%
Plan Fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

* June 30, 2017, 2016, 2015 and 2014 reflect the respective dates for the actuarial valuation.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF COMPONENT UNIT PENSION CONTRIBUTIONS

	June 30,				
	2018	2017	2016	2015	2014
NONHAZARDOUS					
Contractually required contribution	\$ 304,456	\$ 292,965	\$ 244,965	\$ 244,851	\$ 265,835
Contributions in relation to the contractually required contribution	(304,456)	(292,965)	(244,965)	(244,851)	(265,835)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Commission's covered employee-payroll	\$ 2,102,594	\$ 2,100,107	\$ 1,972,346	\$ 1,920,397	\$ 1,934,753
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%

* June 30, 2018, 2017, 2016, 2015 and 2014 reflect financial reporting dates.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF COMPONENT UNIT'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY**

	<u>June 30, 2017</u>
NONHAZARDOUS	
Commission's proportion of net OPEB liability	0.087052%
Commission's proportionate share of the net OPEB liability	\$ 1,750,043
Commission's covered-employee payroll	\$ 2,100,107
Commission's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	83.33%
Plan Fiduciary net position as a percentage of the total OPEB liability	52.40%

* June 30, 2017 reflect the respective dates for the actuarial valuation.

**CITY OF BARBOURVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF COMPONENT UNIT OPEB CONTRIBUTIONS

	June 30,	
	2018	2017
NONHAZARDOUS		
Contractually required contribution	\$ 98,822	\$ 99,335
Contributions in relation to the contractually required contribution	(98,822)	(99,335)
Contribution deficiency (excess)	<u>\$ - -</u>	<u>\$ - -</u>
Commission's covered employee-payroll	\$ 2,102,594	\$ 2,100,107
Contributions as a percentage of covered-employee payroll	4.70%	4.73%

* June 30, 2018 and 2017 reflect financial reporting dates.



Jones, Nale & Mattingly PLC

**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***

Mayor and the City Council
City of Barbourville
Barbourville, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barbourville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Barbourville, Kentucky's basic financial statements and have issued our report thereon dated February 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Barbourville, 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 Barbourville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Barbourville, 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Barbourville, 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*.

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.

This report is intended solely for the information and use of management, the Mayor and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
February 2, 2019