

REPORT OF EXAMINATION
CITY OF EVARTS, KENTUCKY
FOR THE FISCAL YEAR
ENDED JUNE 30, 2019

City of Evarts, Kentucky
Table of Contents
For the Year Ended June 30, 2019

	<u>Page No.</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 8
Basic Financial Statements:	
Statement of Net Position	9
Statement of Activities	10 - 11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Notes to the Basic Financial Statements	18 - 29
Required Supplementary Information	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund	32
Other Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	33
Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	34
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – MRA Fund	35
Fund Balance – Budget to Actual – LGEA Fund	36
Fund Balance – Budget to Actual – Tourism Fund	37
Findings of Reportable conditions in the Internal Control Over Financial Reporting	38

RICHARD F. SCRUGGS

Certified Public Accountant

307 East Central Street

Harlan, KY 40831

Telephone: 606-573-3335

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Evarts, Kentucky
Evarts, Kentucky 40828

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evarts, Kentucky as of and for the year ending June 30, 2019, 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 of 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

City of Evarts, Kentucky
Independent Auditor's Report

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evarts, Kentucky as of June 30, 2019, 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 Supplemental 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 8 and the general fund budget to actual comparison on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Evarts, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and budget to actual comparisons on pages 33 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budget to actual comparisons 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. The 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 financial statements or to the financial statements themselves, and other additional

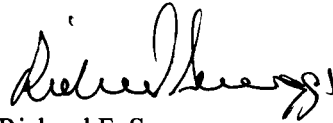
City of Evarts, Kentucky
Independent Auditor's Report

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2020 on our consideration of the City of Evarts, 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 on pages 30 and 31. 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* and should be considered in assessing the results of our audit.

Respectfully submitted,

 CDA

Richard F. Scruggs
Certified Public Accountant
July 11, 2020

CITY OF EVARTS, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2019

As management of the City of Evarts, Kentucky, we offer readers of the financial statements an overview and analysis of the financial activities of the City of Evarts for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the City of Evarts's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Evarts exceeded its liabilities at the close of the most recent fiscal year by \$3,645,772 (net position). Of this amount, \$222,707 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental total net position decreased by \$139,690 as compared to a decrease of \$90,082 for the previous year.
- At the close of the current fiscal year, the City of Evarts' governmental funds reported combined ending fund balances of \$191,355 as compared to \$205,555 for the previous year, a decrease of \$14,200 from last year.
- The City of Evarts' long-term debt of \$655,425 at year end decreased by \$59,242 during the current fiscal year. No new debt was incurred during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements are designed to provide readers with a broad overview of the City of Evarts's finances in a manner similar to that of private-sector businesses. The statements include:

The statement of net position presents the City's assets and liabilities, with the difference between the two reported as net position. Over time, the change in net position is an indicator of the improvement (an increase) or deterioration (a decrease) in the City's financial condition.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by tax and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities include general government, public safety, public works, and recreation. The business-type activities include the water and sewer operations.

The government-wide financial statements include not only the City of Evarts, but also the Evarts Tourism and Convention Commission, the Municipal Road Aid Fund, the Local Government Economic Aid Fund, the Water Fund, and the Sewer Fund. Financial information for these component units is reported separately from the financial information presented for the City.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required by state law and by bond covenants, while the City Council establishes other funds to control and manage money for particular purposes or to show that the City is properly using taxes and grants. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Evarts are governmental and proprietary.

Governmental funds are used to account for essentially the same functions reported as governmental activities in government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is different than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near 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 facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, MRA, LGFA, and tourism funds. Only the general fund is considered to be a major fund. Data from the other funds are provided in the form of combining statements elsewhere in this report.

The City maintains two different proprietary funds. These enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the activities of the water operations and the sewer operations.

Proprietary funds provide the same type information as government-wide financial statements, only in more detail. Services for which the City charges customers a fee are generally reported in the proprietary funds. The proprietary fund financial statements provide separate information for the water operations and the sewer operations.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the footnotes.

Other information

In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information concerning the City's schedule of budgetary comparisons and combining and individual fund statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the City of Evarts' governmental activities, assets exceeded liabilities by \$321,175 at the close of the most recent fiscal year end. The following table summarizes the assets, liabilities, and net assets for the years ending June 30, 2019 and 2018 for governmental activities and business-type activities:

City of Evarts, Kentucky's Net Position
June 30, 2019
(reported in thousands of dollars)

	Governmental activities		Business-type activities		Total government	
	2019	2018	2019	2018	2019	2018
Cash and investments	\$ 119	\$ 120	\$ 233	\$ 171	\$ 352	\$ 291
Other assets	110	121	(22)	(14)	88	107
Capital assets	<u>139</u>	<u>171</u>	<u>3,936</u>	<u>4,111</u>	<u>4,075</u>	<u>4,282</u>
Total Assets	368	412	4,147	4,268	4,515	4,680
Current liabilities	38	42	228	195	266	237
Long-term liabilities	<u>9</u>	<u>19</u>	<u>594</u>	<u>646</u>	<u>603</u>	<u>656</u>
Total liabilities	47	51	822	841	869	892
Net Position:						
Invested in assets, net of debt	130	153	3,290	3,415	3,420	3,568
Restricted	2	6	1	-	3	6
Unrestricted	<u>189</u>	<u>202</u>	<u>34</u>	<u>12</u>	<u>223</u>	<u>214</u>
Total Net Position	<u>\$ 321</u>	<u>\$ 361</u>	<u>\$ 3,325</u>	<u>\$ 3,427</u>	<u>\$ 3,646</u>	<u>\$ 3,788</u>

The largest portion of the City of Evarts's net position reflects its investment in capital assets, net of related debt used to acquire those assets. Capital assets are used to provide services to citizens and are not available for future spending. Although its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance of unrestricted net position of \$222,707 may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position.

The governmental activities decreased the City's net position by \$37,048. The following table summarizes the key changes in net position for the years ending June 30, 2019 and 2018 for governmental activities and for the business-type activities:

City of Evarts, Kentucky's Change in Net Position
For the year ending June 30, 2019
(reported in thousands of dollars)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Charges for services	\$ 5	\$ 29	\$ 758	\$ 722	\$ 763	\$ 751
Grants and contributions	65	67	-	52	117	119
General revenues	107	123	-	-	107	123
Franchise taxes	113	150	-	-	113	150
Other	<u>14</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>23</u>
Total revenues	304	392	758	774	1,062	1,166
Expenses						
Governmental activities	341	366	-	-	341	366
Business-type expense	<u>-</u>	<u>-</u>	<u>861</u>	<u>890</u>	<u>861</u>	<u>890</u>
Total expenses	341	366	861	890	1,202	1,256
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ (37)</u>	<u>\$ 26</u>	<u>\$ (103)</u>	<u>\$ (116)</u>	<u>\$ (140)</u>	<u>\$ (90)</u>

Financial Analysis of the Governmental Funds

The focus of the City of Evarts's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending in future years.

The general fund is the primary operating fund of the City. As of June 30, 2019, unreserved general fund balance totaled \$188,838, as compared to the previous year's ending balance of \$200,574.

General Fund Budgetary Highlights

The City of Evarts adopts its budget on a fund basis. The adopted budget was not amended by the City Council during the year. Actual revenues of \$244,673 were less than budgeted revenues of \$310,500. Actual revenues were at 79% of budgeted revenue. Actual appropriations of \$291,144 exceeded the budgeted appropriations by \$44. Actual appropriations were at 100% of budgeted appropriations.

Capital Assets and Debt Administration

Capital assets

The City of Evarts's investments in capital assets for its governmental and business-type activities as of June 30, 2019 amounts to \$4,075,289, net of accumulated depreciation, as compared to \$4,281,938 for the previous year. The investment in capital assets includes water and sewer distribution and collection facilities, land, buildings, furniture, and equipment.

Long-term debt

Outstanding balance on long-term debt for the governmental activities totaled \$655,425 at year end as compared to \$714,667 for the previous year. The City incurred no additional debt during the year. Payments for the City applied to principal reduction were \$59,242 for the year.

City of Evarts, Kentucky
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 118,713	\$ 233,058	\$ 351,771
Receivables-other, net	23,848	63,226	87,074
Due from other funds	85,717	(85,717)	-
Prepaid expenses	110	684	794
Total current assets	228,388	211,251	439,639
Noncurrent assets:			
Capital assets	555,997	6,929,585	7,485,582
Less: Accumulated Depreciation	(416,665)	(2,993,628)	(3,410,293)
Construction in Process	-	-	-
Total noncurrent assets	139,332	3,935,957	4,075,289
Total assets	\$ 367,720	\$ 4,147,208	\$ 4,514,928
LIABILITIES			
Current liabilities			
Accounts payable	\$ 20,507	\$ 45,771	\$ 66,278
Accrued payroll and withholding obligations	2,933	5,145	8,078
Garbage collection payable	13,529	-	13,529
Accrued interest payable	64	15,271	15,335
Customer deposits	-	109,410	109,410
Current portion of notes payable	9,512	-	9,512
Current portion of bonds payable	-	51,600	51,600
Due to other funds	-	-	-
School tax payable	-	1,101	1,101
Total current liabilities	46,545	228,298	274,843
Noncurrent liabilities			
Notes Payable	-	25,334	25,334
Bonds Payable	-	568,979	568,979
Total noncurrent liabilities	-	594,313	594,313
Total liabilities	46,545	822,611	869,156
NET POSITION			
Invested in capital assets, net of related debt	129,820	3,290,044	3,419,864
Restricted for:			
Prepays	110	684	794
Transportation	416	-	416
Public Safety	1,991	-	1,991
Unrestricted net position	188,838	33,869	222,707
Total net position	321,175	3,324,597	3,645,772
Total liabilities and net position	\$ 367,720	\$ 4,147,208	\$ 4,514,928

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

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (107,515)	\$ -	\$ (107,515)
(166,354)	-	(166,354)
(9,104)	-	(9,104)
(19,020)	-	(19,020)
67	-	67
12,262	-	12,262
18,068	-	18,068
(271,596)	-	(271,596)
-	(72,288)	(72,288)
-	(26,536)	(26,536)
-	(3,748)	(3,748)
-	(102,572)	(102,572)
\$ (271,596)	\$ (102,572)	\$ (374,168)
107,282	-	107,282
-	-	-
112,964	-	112,964
11,019	-	11,019
-	-	-
3,283	-	3,283
-	-	-
234,548	-	234,548
(37,048)	(102,572)	(139,620)
358,223	3,427,169	3,785,392
\$ 321,175	\$ 3,324,597	\$ 3,645,772

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

City of Evarts, Kentucky
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 103,064	\$ 15,649	\$ 118,713
Accounts receivable	21,343	2,505	23,848
Due from other funds	85,718	-	85,718
Prepaid expenses	110	-	110
Total Assets	<u>\$ 210,235</u>	<u>\$ 18,154</u>	<u>\$ 228,389</u>
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts payable	\$ 19,517	\$ 992	\$ 20,509
Accrued payroll and withholding obligations	2,571	-	2,571
Accrued interest payable	64	362	426
County garbage collection	13,529	-	13,529
Total current liabilities	35,681	1,354	37,035
Fund balances:			
Nonspendable:			
Prepays	110	-	110
Restricted for:			
Transportation	-	416	416
Public Safety	-	1,991	1,991
Unassigned	174,445	14,393	188,838
Total fund balances	<u>174,555</u>	<u>16,800</u>	<u>191,355</u>
Total liabilities and fund balances	<u>\$ 210,236</u>	<u>\$ 18,154</u>	

Amounts reported for government 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 in the funds.	139,332
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	-
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(9,512)

Net position of governmental activities	<u>\$ 321,175</u>
--	--------------------------

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

City of Evarts, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES			
From local sources:			
Taxes			
Property tax	\$ 58,563	\$ -	\$ 58,563
Motor vehicle tax	3,857	-	3,857
Telecommunication tax	2,219	-	2,219
Restaurant and motel tax	-	29,037	29,037
Licenses and permits	13,606	-	13,606
Fees and services			
Franchise	33,716	-	33,716
Parking	70	-	70
Insurance	79,248	-	79,248
Fire	2,280	-	2,280
Recreational	4,727	-	4,727
Garbage collection commission	2,989	-	2,989
Other local revenues	22,313	-	22,313
Proceeds from sale of property	-	-	-
Intergovernmental			
Coal severance	-	12,262	12,262
Road fund	-	18,068	18,068
Commonwealth of Kentucky	11,233	-	11,233
Incentive reimbursement	-	-	-
Safety grant	9,852	-	9,852
Paving grant	-	-	-
Pride	-	-	-
Drug seizure money	-	-	-
County finance for police	-	-	-
Total revenues	<u>244,673</u>	<u>59,367</u>	<u>304,040</u>
EXPENDITURES			
Current:			
General and administrative	90,392	701	91,093
Tourism program expenses	-	27,351	27,351
Police	118,490	14,665	133,155
Fire	20,248	-	20,248
Streets and roads	14,174	17,942	32,116
Recreational department	4,660	-	4,660
Debt service			
Principal	9,617	-	9,617
Interest	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>257,581</u>	<u>60,659</u>	<u>318,240</u>
Excess (deficiency) of revenues over expenditures	(12,908)	(1,292)	(14,200)
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term capital-related debt	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	(12,908)	(1,292)	(14,200)
Fund balances - beginning	<u>191,557</u>	<u>13,998</u>	<u>205,555</u>
Fund balances - ending	<u>\$ 178,649</u>	<u>\$ 12,706</u>	<u>\$ 191,355</u>

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

City of Evarts, Kentucky
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds	\$ (14,200)
Amounts reported for <i>governmental activities</i> 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 allocated over their estimated useful life and reported as depreciation expense. This is the amount by which depreciation (\$31,962) exceeded capital outlays (\$-0-) in the current period.	(31,962)
Note proceeds provide current financial resources to governmental funds, but additional debt increases short-term and long-term liabilities in the statement of net assets.	-
Some expenditures reported in governmental funds require the use of current financial resources and therefore are not reported as expenses in the statement of activities.	9,114
	<hr/> -
Change in net position of governmental activities	<u>\$ (37,048)</u>

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

City of Evarts, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2019

	Water Fund	Sewer Fund	Sanitation Fund	Total
<u>ASSETS</u>				
Current Assets				
Cash and Temporary Investments	\$ 162,854	\$ 31,205	\$ 38,999	\$ 233,058
Receivables:				
User Charges and Fees	44,762	10,828	7,636	63,226
Due from Other Funds	-	-	-	-
Prepaid Insurance and Other Assets	684	-	-	684
Total Current assets	208,300	42,033	46,635	296,968
Noncurrent Assets				
Capital Assets:				
Land	-	12,000	-	12,000
Plant, furniture and equipment	5,738,846	1,075,156	103,583	6,917,585
Less: Accumulated Depreciation	(2,362,959)	(547,803)	(82,866)	(2,993,628)
Construction in Process	-	-	-	-
Total Noncurrent Assets	3,375,887	539,353	20,717	3,935,957
Total Assets	<u>\$ 3,584,187</u>	<u>\$ 581,386</u>	<u>\$ 67,352</u>	<u>\$ 4,232,925</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	\$ 22,346	\$ 19,361	\$ 4,064	\$ 45,771
Accrued payroll and related expenses	3,646	840	659	5,145
Accrued interest payable	9,909	5,362	-	15,271
Customer deposits	109,410	-	-	109,410
Current portion of notes payable	-	-	-	-
Current portion of bonds payable	40,600	11,000	-	51,600
Due to other funds	(102,158)	159,552	28,323	85,717
School tax payable	1,101	-	-	1,101
Total Current Liabilities	84,854	196,115	33,046	314,015
Noncurrent Liabilities				
Notes payable	25,334	-	-	25,334
Bonds payable	365,514	203,465	-	568,979
Total Noncurrent Liabilities	390,848	203,465	-	594,313
Total liabilities	475,702	399,580	33,046	908,328
<u>NET POSITION</u>				
Invested in Capital Assets, Net of Related Debt	2,944,439	324,888	20,717	3,290,044
Unrestricted	164,046	(143,082)	13,589	34,553
Total Net Position	3,108,485	181,806	34,306	3,324,597
Total Liabilities and Net Position	<u>\$ 3,584,187</u>	<u>\$ 581,386</u>	<u>\$ 67,352</u>	<u>\$ 4,232,925</u>

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

City of Evarts, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position -
Proprietary Funds
For the Year Ending June 30, 2019

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating revenues				
Sales and services	531,502	119,517	93,527	744,546
Deposits	-	-	224	224
Miscellaneous	<u>3,525</u>	<u>9,667</u>	<u>18</u>	<u>13,210</u>
Total operating revenues	<u>535,027</u>	<u>129,184</u>	<u>93,769</u>	<u>757,980</u>
Operating expenses				
Salaries and wages	213,679	19,726	40,423	273,828
Payroll taxes	-	-	-	-
Other employee benefits	-	2,327	-	2,327
Advertising	309	-	-	309
Professional fees	8,820	5,040	5,500	19,360
Maintenance and repairs	54,108	26,823	2,635	83,566
Utilities	58,231	30,669	-	88,900
Communications and postage	3,680	-	-	3,680
Other contractual services	38,951	10,205	30,431	79,587
Technical supplies	36,706	19,249	638	56,593
Motor fuels	6,414	1,330	3,340	11,084
Office supplies	3,399	375	1,448	5,222
Other materials and supplies	4,113	194	182	4,489
Dues and subscriptions	1,918	714	-	2,632
Miscellaneous expenses	10,451	1,260	391	12,102
Vehicle expense	3,893	-	2,171	6,064
Technical equipment	-	-	-	-
Travel and lodging	-	-	-	-
Depreciation expense	<u>141,407</u>	<u>26,822</u>	<u>10,358</u>	<u>178,587</u>
Total operating expenses	<u>586,079</u>	<u>144,734</u>	<u>97,517</u>	<u>828,330</u>
Operating income (loss)	(51,052)	(15,550)	(3,748)	(70,350)
Nonoperating revenues (expenses)				
State grants	-	-	-	-
Interest expense	<u>(21,236)</u>	<u>(10,986)</u>	<u>-</u>	<u>(32,222)</u>
Total nonoperating revenues (expenses)	<u>(21,236)</u>	<u>(10,986)</u>	<u>-</u>	<u>(32,222)</u>
Operating transfers				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income (loss)	(72,288)	(26,536)	(3,748)	(102,572)
Total net position, Beginning	<u>3,180,773</u>	<u>208,342</u>	<u>38,054</u>	<u>3,427,169</u>
Total net position, Ending	<u>3,108,485</u>	<u>181,806</u>	<u>34,306</u>	<u>3,324,597</u>

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

City of Evarts, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash provided by operating activities:				
Cash received from sales and services	\$ 538,119	\$ 130,564	\$ 92,720	\$ 761,403
Cash received from other activities	3,525	-	-	3,525
Cash payments to employees for services	(213,679)	(22,053)	(40,423)	(276,155)
Cash payments to supplies for goods and services	(223,790)	(70,317)	(47,002)	(341,109)
Increase in accrued liability	-	-	-	-
Cash received for customer deposits	-	-	224	224
Net cash provided by operating activities	104,175	38,194	5,519	147,888
Cash flows from non-capital financing activities				
Operating transfers (to) from general fund	-	-	-	-
Net cash provided (used) by non-capital financing activities	-	-	-	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets, net	(3,900)	-	-	(3,900)
Proceeds from bonds and notes	-	-	-	-
Proceeds from capital grants	-	-	-	-
Payment on note principal	-	-	-	-
Payment on bond principal	(39,600)	(10,500)	-	(50,100)
Interest paid on bonds and notes	(21,238)	(10,986)	-	(32,224)
Capital contributions	-	-	-	-
Net cash provided (used) by capital and related financing activities	(64,738)	(21,486)	-	(86,224)
Cash flows from Noncapital Financing Activities:				
Transfers in/out	-	-	-	-
Net cash provided by investing activities	-	-	-	-
Net change in cash and cash equivalents	39,437	16,708	5,519	61,664
Cash and cash equivalents at beginning of year	123,417	14,497	33,480	171,394
Cash and cash equivalents at end of year	<u>\$ 162,854</u>	<u>\$ 31,205</u>	<u>\$ 38,999</u>	<u>\$ 233,058</u>
Reconciliation of operating income before operating transfer to net cash provided by operating activities:				
Operating income (loss) before operating transfer	\$ (51,052)	\$ (15,550)	\$ (3,748)	\$ (70,350)
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by operating activities:				
Prior period adjustment	-	-	-	-
Provision for bad debt expense	-	-	-	-
Depreciation	141,407	26,822	10,358	178,587
Changes in Assets and Liabilities:				
(Increase) decrease in accounts receivable	6,617	1,380	(825)	7,172
(Increase) decrease in prepaid expenses	507	-	-	507
Increase (decrease) in accounts payable	8,272	14,601	(610)	22,263
Increase (decrease) in accrued liabilities	(597)	26	62	(509)
Increase (decrease) in accrued interest	(1,242)	(262)	-	(1,504)
Increase (decrease) in customer deposits	10,234	-	-	10,234
Increase (decrease) in due to other funds	(10,186)	11,177	282	1,273
Increase (decrease) in school tax payable	215	-	-	215
Total Adjustments	155,227	53,744	9,267	218,238
Net cash provided by operating activities	<u>\$ 104,175</u>	<u>\$ 38,194</u>	<u>\$ 5,519</u>	<u>\$ 147,888</u>

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

CITY OF EVARTS, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1. Summary of Significant Accounting Policies

The City of Evarts (City) is a full-service city incorporated by charter under the Mayor-Council plan of organization provided in Kentucky Revised Statutes 83A.130. The City provides police, fire, streets, sanitation, utilities, economic development, public improvements, planning and zoning, and general administrative services with a class five city designation by the Commonwealth of Kentucky.

The accounting policies of the City of Evarts substantially comply with the rules and directives of the Department of Local Government for the Commonwealth of Kentucky which conforms to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City of Evarts, Kentucky. The reporting entity consists of the primary government; organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statement to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. Based on the application of these criteria, the following are included with the reporting entity: City of Evarts Water Fund, City of Evarts Sewage Fund, and the City of Evarts Sanitation Fund.

B. Basis of Presentation

The accounts of the City are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts which comprise its assets, liabilities, net position, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled.

Note 1. Summary of Significant Accounting Policies (continued)

The basic financial statements of the City include both government-wide statements and fund financial statements. The focus of the government-wide statements is on reporting the operating results and financial position of the City as a whole and presents a longer-term view of the City's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the City and presents a short-term view of how operations were financed and what remains for future spending.

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component units. These statements report the financial activities of the overall government. Eliminations have been made to minimize the double counting of activities between funds. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net position presents the financial position of the government and business-type activities of the City of Evarts at year end.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating revenues consist of sale of water and sewerage collection and disposal.

Operating expenses are defined as the ordinary costs and expenses for the operation, maintenance, and repairs of the water facility and sewer facility. Operating expenses include cost of production, purchased power, maintenance of transmission and distribution systems, administrative and general expenses, and depreciation and amortization. Operating expenses do not include the principal and interest on indebtedness and related costs.

City of Evarts, Kentucky

Notes to the Basic Financial Statements

June 30, 2019

Note 1. Summary of Significant Accounting Policies (continued)

The City reports on the following major and nonmajor governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The City's nonmajor funds are the Tourism and Convention Commission, the MRA Fund and the LGEA fund.

The City reports on the following enterprise funds:

The City of Evarts Water fund accounts for the operation of the waterworks system.

The City of Evarts Sewage fund accounts for the operation of sewer collection and disposal system.

The City of Evarts Sanitation fund accounts for the operation of garbage collection and disposal.

The Water, Sewage, and Sanitation funds are major funds.

C. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims

Note 1. Summary of Significant Accounting Policies (continued)

and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. This means that only current assets and current liabilities are generally reported on their balance sheets. Their reported net current assets are considered a measure of available spendable resources, and are segregated into restricted and unrestricted net assets. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

All government and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Budget

State law and local ordinances require an annual budget be adopted for all governmental and proprietary funds. The City presently adopts an annual budget for all governmental funds based on the cash basis of accounting, which differs from accounting principles generally accepted in the United States of America. The major differences between these include recognition of expenditures at the beginning of a capital lease (generally accepted) rather than as cash paid (budgetary) and the recording of tax revenues when susceptible to accrual (generally accepted) rather than when received in cash (budgetary).

The annual budget is presented annually for review and approval by the Mayor and the City Council. The adopted budget presented to City Council was not amended during the year. The budget is approved by ordinance on two readings and is effective for the fiscal year, beginning on July 1. Budgetary control is by the Mayor at the function/department level. Amendments to the budget are made after the fact by ordinance approved by the City Council.

E. Assets, Liabilities, and Net Position

1. Cash and cash equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

2. Receivable and Payables

All trade receivables are shown net of any allowance for uncollectibles.

Note 1. Summary of Significant Accounting Policies (continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Accordingly, a portion of the fund balances of the governmental funds equal to the prepaid insurance is reserved at year-end for this purpose.

4. Deferred Inflows of Resources

The statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. The City of Evarts does not have a type of this item that qualifies for reporting in this category.

5. Capital Assets

Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year, with the exception of computers, digital cameras, and real property for which there is no threshold. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market.

The costs or normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	25 – 50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5 - 10 years
Audio-visual equipment	15 years
Food service equipment	10 – 12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Note 1. Summary of Significant Accounting Policies (continued)

6. Interfund transactions

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due to/from other funds". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

7. Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements until due.

8. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. The liability for unused compensated time is not reported in the governmental-wide financial statements as payments for unused compensated absences are recorded as expenditures in the year they are paid.

9. Use of Estimates

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

10. Fund Balance Reserves

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriations in future periods. Fund equity reserves have been established for fixed assets.

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019

Note 1. Summary of Significant Accounting Policies (continued)

11. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets less accumulated depreciation and reduced by any outstanding balances of borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Note 2. Cash and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The City's depository bank during the year was Home Federal Bank. The depository bank deposits for safekeeping with the City's third party agent approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract.

The carrying value cash deposits on June 30, 2019 was \$358,341, as compared to \$335,212 for the previous year, and was secured at the end of the year by pledged collateral to the extent that deposits were not insured by the Federal Deposit Insurance Corporation (FDIC).

Note 3. Property Taxes

The City Council sets property tax rates by ordinance, usually in September, on the assessed value as of the prior January 1. The assessed values of the tax roll, before exonerations, for the 2018 levy applicable for the 2019 fiscal year was \$14,419,415 for real property and \$834,978 for personal property.

The tax rate for real property and personal property was set at \$.415 per \$100 assessed value to finance the General Fund operations.

The City entered into an agreement with the Sheriff of Harlan County to collect the City of Evarts' property taxes beginning with the 2016 property tax levy. The Sheriff receives a collection fee of 4.25% of the original tax bill.

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Governmental Activities</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Buildings and improvements	\$ 148,532	\$ -	\$ -	\$ 148,532
Vehicles	152,187	-	-	152,187
General Equipment	<u>255,278</u>	<u>-</u>	<u>-</u>	<u>255,278</u>
Totals at historical cost	555,997	-	-	555,997
Less accumulated depreciation for:				
Buildings and improvements	\$ (74,265)	\$ (2,970)	\$ -	\$ (77,235)
Vehicles	(122,529)	(12,711)	-	(135,240)
General Equipment	<u>(187,909)</u>	<u>(16,281)</u>	<u>-</u>	<u>(204,190)</u>
Property, plant, and equipment, net	(384,703)	(31,962)	-	(416,665)
Business -type activities capital assets, net	<u>\$ 171,294</u>	<u>\$ (31,962)</u>	<u>\$ -</u>	<u>\$ 139,332</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
General government	\$ 4,398
Street and samitation	4,846
Fire	9,700
Police	13,018
Tourism	-
Total business-type activities	<u>\$ 31,962</u>

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019 (Note 4 continued)

	Business-type activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Construction in progress	-	-	-	-
Total assets not being depreciated	12,000	-	-	12,000
Property, plant, and equipment	6,913,685	3,900	-	6,917,585
Less accumulated depreciation for:				
Property, plant, and equipment	(2,815,041)	(178,587)	-	(2,993,628)
Property, plant, and equipment, net	4,098,644	(174,687)	-	3,923,957
Business -type activities capital assets, net	<u>\$ 4,110,644</u>	<u>\$ (174,687)</u>	<u>\$ -</u>	<u>\$ 3,935,957</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Water	\$ 141,407
Sewage	26,822
Sanitation	10,358
Total business-type activities	<u>\$ 178,587</u>

Note 5. Bonded Debt

The original amount of each bond issue, the issue date, interest rates, and a summary of the changes are summarized below:

Description	Maturity	Interest Rates	Original Issue	Principal Balance 06/30/18	Debt Issued	Debt Paid	Principal Balance 06/30/19	Due Within One year
BONDS:								
91-10	Jan-34	4.50%	\$ 20,000	\$ 12,200	\$ -	\$ 600	\$ 11,600	\$ 600
91-07	Jan-33	5.00%	255,000	156,500	-	7,500	149,000	7,500
91-13	Jan-25	5.00%	355,522	147,022	-	18,000	129,022	18,500
91-15	Jan-33	5.00%	348,465	224,965	-	10,500	214,465	11,000
93-14	Jan-26	5.00%	287,992	129,992	-	13,500	116,492	14,000
			<u>\$ 1,266,979</u>	<u>\$ 670,679</u>	<u>\$ -</u>	<u>\$ 50,100</u>	<u>\$ 620,579</u>	<u>\$ 51,600</u>

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019 (Note 5 continued)

Principal payments on the bond issues are as follows:

<u>Year-End</u>	<u>Interest</u>	<u>Principal</u>	<u>Payment</u>
2020	\$ 29,682	\$ 51,600	\$ 81,282
2021	27,018	55,100	82,118
2022	24,216	57,100	81,316
2023	21,262	61,200	82,462
2024	18,105	65,200	83,305
2025-2029	49,826	196,914	246,740
2030-2034	17,118	133,465	150,583
	-	-	-
Totals	<u>\$ 187,227</u>	<u>\$ 620,579</u>	<u>\$ 807,806</u>

Note 6. Long-Term Debt

Change in long-term liabilities for the year follows:

Future payments for the 1994 Spartan Pumper and the KIA Loan are as follows:

<u>Year-End</u>	<u>1994 Spartan pumper</u>			<u>KIA</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 385	\$ 9,512	\$ 9,897	\$ -	\$ -	\$ -
2021	-	-	-	-	25,334	25,334
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Totals	<u>\$ 385</u>	<u>\$ 9,512</u>	<u>\$ 9,897</u>	<u>\$ -</u>	<u>\$ 25,334</u>	<u>\$ 25,334</u>

Note 7. Capital Lease Payable

The City was not entered into any material capital leases as of June 30, 2019.

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019

Note 8. Transfer of Funds

The following transfers were made during the year:

<u>Transfers</u>	<u>Transfers</u>	<u>Purpose</u>	<u>Amount</u>
<u>From</u>	<u>To</u>		
LGEA Fund	General Fund	Operations	\$ -0-
MRA Fund	General Fund	Operations	-0-
	Totals		<u>\$ -0-</u>

Note 9. Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City purchases coverage plans from private insurance agents on a competitive bidding basis. There have been no significant reductions in coverage from the previous year and settlements have not exceeded coverage in the past three years.

Note 10. Retirement Plan

City employees are not covered by a retirement plan.

Note 11. Commitments and Contingencies

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City officials and attorneys that resolution of these matters will not have a materially adverse effect on the financial condition of the government.

Note 12. Deficit Operating/Fund Balances

There are no funds of the City that currently have a deficit fund balance. However, the following proprietary funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Water Fund	\$ (72,288)
Sewage Fund	\$ (26,536)
Sanitation	\$ (3,748)

City of Evarts, Kentucky
Notes to the Basic Financial Statements
June 30, 2019

Note 13 – Date of Management’s Review

Management has evaluated subsequent events through July 11, 2020, the date on which the financial statements were available to be issued.

RICHARD F. SCRUGGS

Certified Public Accountant

307 East Central Street

Harlan, KY 40831

Telephone: (606)-573-3335

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an Audit of the
Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of the City Council
City of Evarts, Kentucky
Evarts, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evarts, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Evarts, Kentucky's basic financial statements and have issued our report thereon dated July 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Evarts, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Evarts, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Evarts, Kentucky's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

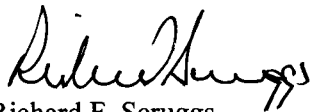
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Evarts Kentucky's financial statements are free of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-001.

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.

Respectfully submitted,

 CMA

Richard F. Scruggs
Certified Public Accountant
Harlan, Kentucky
July 11, 2020

Required Supplementary Information
City of Evarts, Kentucky
Statement of Revenues, Expenses and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2019

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
From local sources				
Taxes				
Property tax	78,000	78,000	58,563	(19,437)
Motor vehicle tax	-	-	3,857	3,857
Telecommunication tax	-	-	2,219	2,219
Licenses and permits	15,500	15,500	13,606	(1,894)
Fees and services				
Franchise	33,000	33,000	33,716	716
Parking	-	-	70	70
Insurance	78,000	78,000	79,248	1,248
Fire	-	-	2,280	2,280
Recreational	28,000	28,000	4,727	(23,273)
Garbage collection commission			2,989	2,989
Other local revenues	20,000	20,000	22,313	2,313
Proceeds from sale of property	-	-	-	-
Intergovernmental				
Commonwealth of Kentucky	16,000	16,000	11,233	(4,767)
Incentive reimbursement	-	-	-	-
Safety grant	32,000	32,000	9,852	(22,148)
Paving grant	-	-	-	-
Pride	-	-	-	-
Drug seizure money	-	-	-	-
County finance for police	10,000	10,000	-	(10,000)
Total revenue	310,500	310,500	244,673	(65,827)
Expenditures				
General and administrative	98,500	98,500	90,392	8,108
Police department	152,600	152,600	118,490	34,110
Fire department	10,000	10,000	20,248	(10,248)
Street and roads	-	-	14,174	(14,174)
Recreational department	30,000	30,000	4,660	25,340
Principal and interest	-	-	9,617	(9,617)
Capital	-	-	-	-
Total expenditures	291,100	291,100	257,581	33,519
Excess (deficit) of revenues over expenditures	19,400	19,400	(12,908)	(32,308)
Other Financing Sources (Uses)				
Proceeds of long-term capital-related debt	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	19,400	19,400	(12,908)	(32,308)
Fund Balance, Beginning	90,000	90,000	191,557	101,557
Fund Balance, Ending	\$ 109,400	\$ 109,400	\$ 178,649	\$ 69,249

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

City of Evarts, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

	Municipal Road Aid Fund	LGEA Fund	Tourist and Convention Bureau Fund	Total Nonmajor Governmental Funds
<u>ASSETS</u>				
Current Assets				
Cash and temporary investments	\$ 416	\$ 1,991	\$ 13,242	\$ 15,649
Restaurant and motel tax receivable			2,505	\$ 2,505
Prepaid insurance	-	-	-	-
Total current assets	416	1,991	15,747	18,154
Noncurrent Assets				
Land	-	-	-	-
Office equipment	-	-	-	-
Building	-	-	-	-
Accumulated depreciation	-	-	-	-
Total fixed assets	-	-	-	-
Total assets	416	1,991	15,747	18,154
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities				
Accounts payable	-	-	992	992
Accrued payroll and related expense	-	-	362	362
Total Liabilities	-	-	1,354	1,354
Fund Balances				
Designated and undesignated fund balances				
Designated	416	1,991	-	2,407
Undesignated	-	-	14,393	14,393
Total net position	416	1,991	14,393	16,800
Total Liabilities and Net Position	\$ 416	\$ 1,991	\$ 15,747	\$ 18,154

The accompanying notes to the other supplementary information are an integral part of the financial statements.

City of Evarts, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Municipal Road Aid Fund	LGEA Fund	Tourism Fund	Total Nonmajor Governmental Funds
REVENUES				
From local sources				
Taxes				
Restaurant and motel tax	\$ -	\$ -	\$ 29,037	\$ 29,037
Other local revenues	-	-	-	-
Coal severance	-	12,262	-	12,262
Road Fund	18,068	-	-	18,068
Commonwealth of Kentucky	-	-	-	-
Total Revenues	<u>18,068</u>	<u>12,262</u>	<u>29,037</u>	<u>59,367</u>
EXPENDITURES				
General and administrative	-	-	701	701
Program expenses	<u>17,942</u>	<u>14,665</u>	<u>23,257</u>	<u>55,864</u>
Total Expenditures	<u>17,942</u>	<u>14,665</u>	<u>23,958</u>	<u>56,565</u>
Excess (deficiency) of revenues over (under) expenditures	<u>126</u>	<u>(2,403)</u>	<u>5,079</u>	<u>2,802</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	126	(2,403)	5,079	2,802
Fund Balance, Beginning	<u>290</u>	<u>4,394</u>	<u>9,314</u>	<u>13,998</u>
Fund Balance, Ending	<u>\$ 416</u>	<u>\$ 1,991</u>	<u>\$ 14,393</u>	<u>\$ 16,800</u>

The accompanying notes to the other supplementary information are an integral part of the financial statements.

City of Evarts, Kentucky
Statement of Revenues, Expenses and Changes in Fund Balance - Budget to Actual
Municipal Road Aid Fund
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>MRA Fund Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
From local sources				
Intergovernmental				
Road Fund	\$ 18,000	\$ 18,000	\$ 18,068	\$ 68
Total Revenues	18,000	18,000	18,068	68
 EXPENDITURES				
Streets and roads	18,250	18,250	(17,942)	-
Total Expenditures	18,250	18,250	(17,942)	-
 Excess (deficiency) of revenues over (under) expenditures	(250)	(250)	36,010	36,260
 OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
 Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(250)	(250)	36,010	36,260
 Fund Balance, Beginning	250	250	285	35
Fund Balance, Ending	\$ -	\$ -	\$ 36,295	\$ 36,295

The accompanying notes to the other supplementary information are an integral part of the financial statements.

City of Evarts, Kentucky
Statement of Revenues, Expenses and Changes in Fund Balance - Budget to Actual
LGEA Fund
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>LGEA Fund Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
From local sources				
Intergovernmental				
Coal severance	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 12,262</u>	<u>\$ (12,738)</u>
Total Revenues	<u>25,000</u>	<u>25,000</u>	<u>12,262</u>	<u>(12,738)</u>
EXPENDITURES				
Parks and recreation	-	-		
Fire	<u>5,000</u>	<u>5,000</u>		
Police	<u>24,400</u>	<u>24,400</u>	<u>(14,665)</u>	<u>-</u>
Total Expenditures	<u>29,400</u>	<u>29,400</u>	<u>(14,665)</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,400)</u>	<u>(4,400)</u>	<u>26,927</u>	<u>31,327</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(4,400)</u>	<u>(4,400)</u>	<u>26,927</u>	<u>31,327</u>
Fund Balance, Beginning	<u>4,400</u>	<u>4,400</u>	<u>4,394</u>	<u>(6)</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,321</u>	<u>\$ 31,321</u>

The accompanying notes to the other supplementary information are an integral part of the financial statements.

City of Evarts, Kentucky
Statement of Revenues, Expenses and Changes in Fund Balance - Budget to Actual
Tourism Fund
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Tourism Fund Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
From local sources				
Taxes				
Restaurant and motel tax	\$ 25,000	\$ 25,000	\$ 29,037	\$ 4,037
Other local revenue	500	500	-	(500)
Intergovernmental				
Grants	-	-	-	-
Total Revenue	<u>25,500</u>	<u>25,500</u>	<u>29,037</u>	<u>3,537</u>
EXPENDITURES				
General and administrative	-	-	701	(701)
Tourism program expenses	<u>39,500</u>	<u>39,500</u>	<u>23,257</u>	<u>16,243</u>
Total Expenditures	<u>39,500</u>	<u>39,500</u>	<u>23,958</u>	<u>15,542</u>
Excess (deficiency) of revenues over (under) expenditures	(14,000)	(14,000)	5,079	19,079
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(14,000)	(14,000)	5,079	19,079
Fund Balance, Beginning	<u>14,000</u>	<u>14,000</u>	<u>13,735</u>	<u>(265)</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,814</u>	<u>\$ 18,814</u>

The accompanying notes to the other supplementary information are an integral part of the financial statements.

City of Evarts, Kentucky
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Financial Statement Findings

The finding below was reported in prior year audits and continues to be a finding in the current year audit.

2019 – 001 Deficiency in compliance with ordinance

Condition:

The Depreciation Reserve account in the Proprietary funds has not been properly funded during the year.

Criteria:

The City's bond covenants call for a certain amount of funds be kept aside in an individual fund for the refunding of the bonds.

Cause of condition:

The City has not imposed proper internal control over billing practices to ensure that monies sufficient to refund the Depreciation Reserve accounts are available.

Recommendation:

We recommend the Depreciation Reserve accounts be calculated to be properly funded and that the accounts be brought to that level.

Response:

The City will try to refund the Depreciation Reserve accounts properly as funds become available.

City of Evarts, Kentucky
Statement of Activities
For the Year Ending June 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General and administrative	\$ 118,748	\$ -	\$ 11,233	\$ -
Police	176,276	70	9,852	-
Fire	22,384	-	13,280	-
Streets and roads	19,020	-	-	-
Recreational department	4,660	4,727	-	-
Local govt economic assistance	-	-	12,262	-
Municipal road aid fund	-	-	18,068	-
Total governmental activities	341,088	4,797	64,695	-
Business-type activities				
Water fund	607,315	535,027	-	-
Sewage fund	155,720	129,184	-	-
Sanitation fund	97,517	93,769	-	-
Total business-type activities	860,552	757,980	-	-
Total primary government	<u>\$ 1,201,640</u>	<u>\$ 762,777</u>	<u>\$ 64,695</u>	<u>\$ -</u>

General Revenues

Taxes
Licenses & permits
Franchise fees
Other
Proceeds from sale of property
Miscellaneous
Transfers in/out

Total general revenues

Change in net position

Net position - beginning

Net position - ending

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