

**CITY OF OLIVE HILL, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2017**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and  
City Council  
City of Olive Hill  
Olive Hill, Kentucky

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, and the Special Revenue Fund – Municipal Road Aid for the year then ended in 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 information on pages 4 through 7, and the Schedule of City's Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions on pages 35 through 37 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018, on our consideration of the City of Olive Hill, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Kelley Holloway Smith Goolsby, PC*

Ashland, Kentucky  
January 12, 2018

**City of Olive Hill, Kentucky  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

The discussion and analysis of the City of Olive Hill, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Government exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by \$11,797,604 (net position). Governmental activities' unrestricted net position was \$75,558 and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was \$5,129.
- The Government's total net position decreased by \$173,665. Net position of governmental activities increased by \$113,584 and net position of business-type activities decreased by \$287,249.
- At June 30, 2017, the governmental activities had \$2,480,659 in assets and deferred outflows of resources and \$841,824 in liabilities and deferred inflows of resources. Business-type activities had \$13,280,948 in assets and deferred outflows of resources and \$3,122,179 in liabilities and deferred inflows of resources.
- Under GASB 68, the source of the pension liabilities with which the City's employees are covered is the Kentucky County Employee Retirement System. Under this system the City's share of the pension liabilities was \$1,825,263, as of June 30, 2016. The City does not believe these disclosures will have a major impact on their day to day operations or the financial health of the City.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, and recreation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The fund financial statements can be found on pages 10-19 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-34 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,797,604 at the close of the most recent fiscal year. The City’s net position decreased 1.45% percent which is reported as the change in net position in the statement of activities.

**City of Olive Hill, Kentucky’s Net Position**

	<u>Government- type Activities</u> 2017	<u>Business-type Activities</u> 2017	<u>Government- type Activities</u> 2016	<u>Business-type Activities</u> 2016
Current assets	\$ 594,522	\$ 1,738,138	\$ 382,040	\$ 1,642,465
Capital assets	1,774,359	11,204,950	1,777,373	11,639,172
Total assets	<u>2,368,881</u>	<u>12,943,088</u>	<u>2,159,413</u>	<u>13,281,637</u>
Deferred Outflows	<u>111,778</u>	<u>337,860</u>	<u>120,694</u>	<u>172,633</u>
Current liabilities	127,763	810,240	85,781	714,063
Long-term liabilities	<u>711,687</u>	<u>2,304,762</u>	<u>662,543</u>	<u>2,284,845</u>
Total liabilities	<u>839,450</u>	<u>3,115,002</u>	<u>748,324</u>	<u>2,998,908</u>
Deferred Inflows	<u>2,374</u>	<u>7,177</u>	<u>6,532</u>	<u>9,344</u>
Net position:				
Net investment in capital assets	1,563,277	9,949,640	1,551,665	10,197,476
Restricted	-	204,000	-	204,000
Unrestricted	75,558	5,129	(26,414)	44,542
Total net position	<u>\$ 1,638,835</u>	<u>\$ 10,158,769</u>	<u>\$ 1,525,251</u>	<u>\$ 10,446,018</u>

By far the largest portion of the City net position reflects its investment in capital assets (e.g., land, utility plants, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal year June 30, 2017 and 2016, respectively.

	<u>Government- type Activities</u> 2017	<u>Business-type Activities</u> 2017	<u>Government- type Activities</u> 2016	<u>Business-type Activities</u> 2016
<b>Revenues:</b>				
Charges for services	\$ -	\$ 4,677,903	\$ -	\$ 4,974,277
Tax levies	297,417	-	240,807	-
Occupational licenses	91,123	-	107,729	-
Licenses, fees and permits	8,250	-	6,600	-
Franchise fees	50,245	-	52,740	-
Grants/contributions	116,791	35,775	153,007	94,887
Rental income	85,373	-	85,315	-
Alcohol fees	90,347	-	83,028	-
Coal and mine severance	10,943	-	11,433	-
Interest income	172	801	104	482
Miscellaneous	143,981	-	71,383	-
Sanitation residual equity transfer	11,097	(11,097)	21,793	(21,793)
Transfers	-	-	-	-
<b>Total revenues</b>	<u>905,739</u>	<u>4,703,382</u>	<u>833,939</u>	<u>5,047,853</u>
<b>Expenses:</b>				
General government	101,198	-	87,668	-
Fire	76,627	-	106,826	-
Police	445,059	-	460,324	-
Highways and streets	90,180	-	76,927	-
Recreation	27,109	-	20,232	-
Community development	-	-	20,957	-
Library	18,000	-	18,000	-
Senior Center	12,817	-	12,817	-
Interest on debt	21,165	-	62,468	-
Utilities	-	4,990,631	-	5,021,945
<b>Total expenses</b>	<u>792,155</u>	<u>4,990,631</u>	<u>866,219</u>	<u>5,021,945</u>
<b>Change in net position</b>	<u>\$ 113,584</u>	<u>\$ (287,249)</u>	<u>\$ (32,280)</u>	<u>\$ 25,908</u>

**Government-type activity.** Government-type activity net position increased by \$113,584 or 7.5%.

**Business-type activity.** Business-type activity net position decreased by \$287,249 or 2.8%.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

**Governmental funds.** Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

**Proprietary funds.** The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

**Enterprise fund.** The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self supported from user charges.

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of June 30, 2017, amounts to \$12,979,309 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 0.60% percent, before current depreciation.

The main capital asset event during the current fiscal year was the purchase of two police cars, police computers and equipment, and a Ram water truck.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

### **Debt Administration**

At the end of the current fiscal year, the City had total debt outstanding of \$1,466,392. This is a decrease of \$201,012. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

### **Budget Comparisons**

- General fund revenues were \$145,362 more than budgeted primarily due to the City not budgeting for flood insurance proceeds in the amount of \$109,595 and not budgeting for the police car loan in the amount of \$48,367. General fund expenditures were \$3,420 less than budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$47,424 less than budgeted. Expenditures were \$78,623 less than budgeted.

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

In considering the City budget for the fiscal year 2018, the City expects no significant changes; however, water rates will increase by 2.5% each year, beginning on January 1, 2018 for a period of two years, totaling an increase of 5.0%.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Jerry Callihan, Mayor or Angela Owens, City Clerk at 225 Roger Patton Dr., Olive Hill, Kentucky 41164 or phone (606) 286-5532.

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 345,222	\$ 586,909	\$ 932,131
Accounts receivable:			
Unbilled receivables	-	122,358	122,358
Customers	-	740,653	740,653
Property taxes	44,152	-	44,152
Interest	-	153	153
Other	246,106	-	246,106
Allowance for doubtful accounts	(43,365)	(295,207)	(338,572)
Inventory for supplies	2,407	215,705	218,112
Investments - certificates of deposit	-	163,567	163,567
Restricted assets -			
Investments - certificates of deposit	-	204,000	204,000
Nondepreciable capital assets	521,337	10,278	531,615
Depreciable capital assets	3,118,546	21,469,104	24,587,650
Accumulated depreciation	(1,865,524)	(10,274,432)	(12,139,956)
<b>Total assets</b>	<b>2,368,881</b>	<b>12,943,088</b>	<b>15,311,969</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension related	111,778	337,860	449,638
<b>Total deferred outflows of resources</b>	<b>111,778</b>	<b>337,860</b>	<b>449,638</b>
<b>LIABILITIES</b>			
Accounts payable	28,896	291,201	320,097
Accrued wages	6,312	12,834	19,146
Other accrued liabilities	26,680	40,097	66,777
Current portion of long-term debt	64,719	256,894	321,613
Customer deposits	-	202,859	202,859
Accrued interest payable	1,156	6,355	7,511
Compensated absences, long-term	11,699	34,708	46,407
Net pension liability	553,625	1,271,638	1,825,263
Long-term debt, net of current portion	146,363	998,416	1,144,779
<b>Total liabilities</b>	<b>839,450</b>	<b>3,115,002</b>	<b>3,954,452</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred changes in proportionate share of liability	2,374	7,177	9,551
<b>Total deferred inflows of resources</b>	<b>2,374</b>	<b>7,177</b>	<b>9,551</b>
<b>NET POSITION</b>			
Net investment in capital assets	1,563,277	9,949,640	11,512,917
Restricted	-	204,000	204,000
Unrestricted	75,558	5,129	80,687
<b>Total net position</b>	<b>\$ 1,638,835</b>	<b>\$ 10,158,769</b>	<b>\$ 11,797,604</b>

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

CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
<b>Governmental Activities</b>							
General government	\$ 101,198	\$ -	\$ 2,027	\$ -	\$ (99,171)	\$ -	\$ (99,171)
Fire	76,627	-	23,095	-	(53,532)	-	(53,532)
Police	445,059	-	-	-	(445,059)	-	(445,059)
Highways and streets	90,180	-	31,123	-	(59,057)	-	(59,057)
Community development	-	-	60,546	-	60,546	-	60,546
Recreation	27,109	-	-	-	(27,109)	-	(27,109)
Library	18,000	-	-	-	(18,000)	-	(18,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	21,165	-	-	-	(21,165)	-	(21,165)
Total governmental activities	<u>792,155</u>	<u>-</u>	<u>116,791</u>	<u>-</u>	<u>(675,364)</u>	<u>-</u>	<u>(675,364)</u>
<b>Business-Type Activities</b>							
Utility fund	4,990,631	4,677,903	-	35,775	-	(276,953)	(276,953)
Total business-type activities	<u>4,990,631</u>	<u>4,677,903</u>	<u>-</u>	<u>35,775</u>	<u>-</u>	<u>(276,953)</u>	<u>(276,953)</u>
<b>Total primary government</b>	<u>\$ 5,782,786</u>	<u>\$ 4,677,903</u>	<u>\$ 116,791</u>	<u>\$ 35,775</u>	<u>\$ (675,364)</u>	<u>\$ (276,953)</u>	<u>\$ (952,317)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 297,417	\$ -	\$ 297,417
Occupational licenses					91,123	-	91,123
Franchise fees					50,245	-	50,245
Rent income					85,373	-	85,373
Licenses, fees and permits					8,250	-	8,250
Alcohol fees					90,347	-	90,347
Coal and mine severance					10,943	-	10,943
Other revenues					143,981	-	143,981
Interest income					172	801	973
Transfers					11,097	(11,097)	-
Total general revenues and transfers					788,948	(10,296)	778,652
Change in net position					113,584	(287,249)	(173,665)
Net position, June 30, 2016					<u>1,525,251</u>	<u>10,446,018</u>	<u>11,971,269</u>
Net position, June 30, 2017					<u>\$ 1,638,835</u>	<u>\$ 10,158,769</u>	<u>\$ 11,797,604</u>

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

**CITY OF OLIVE HILL, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	General	Municipal Road Aid	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 284,559	\$ 60,663	\$ 345,222
Taxes receivable	44,152	-	44,152
Allowance for doubtful accounts	(43,365)	-	(43,365)
Other receivables	246,106	-	246,106
Inventory for supplies	2,407	-	2,407
<b>Total assets</b>	<b>\$ 533,859</b>	<b>\$ 60,663</b>	<b>\$ 594,522</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 28,896	\$ -	\$ 28,896
Accrued wages	6,312	-	6,312
Accrued interest payable	1,156	-	1,156
Other accrued liabilities	26,680	-	26,680
<b>Total liabilities</b>	<b>63,044</b>	<b>-</b>	<b>63,044</b>
<b>Fund Balances:</b>			
Nonspendable	2,407	-	2,407
Assigned	-	60,663	60,663
Unassigned	468,408	-	468,408
<b>Total fund balances</b>	<b>470,815</b>	<b>60,663</b>	<b>531,478</b>
<b>Total liabilities and fund balances</b>	<b>\$ 533,859</b>	<b>\$ 60,663</b>	<b>\$ 594,522</b>

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

**CITY OF OLIVE HILL, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

Total fund balance - Governmental Funds \$ 531,478

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

Capital assets of \$3,639,883 net of accumulated depreciation of \$1,865,524 used in governmental activities are not financial resources and therefore are not reported in the governmental funds. 1,774,359

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred differences in pension experience	1,981
Deferred changes in pension assumptions	24,038
Deferred pension investment earnings	42,657
Deferred changes in proportionate share of liability	8,816
Deferred pension contributions	31,912

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Net pension liabilities	(553,625)
Long-term debt	(211,082)
Compensated absences	(11,699)
	(776,406)

Net position, end of year - Governmental Activities \$ 1,638,835

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

CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	General	Municipal Road Aid	Total Governmental Funds
<b>Revenues</b>			
Taxes:			
Insurance	\$ 204,614	\$ -	\$ 204,614
Property	92,803	-	92,803
Occupational licenses	91,123	-	91,123
Franchise fees	50,245	-	50,245
Alcohol fees	90,347	-	90,347
Intergovernmental revenue:			
Base court	2,027	-	2,027
KLEPF	23,095	-	23,095
State fire aid	-	-	-
Grants	60,546	-	60,546
License, fees, & permits	8,250	-	8,250
Municipal road aid	-	31,123	31,123
Coal and mine severance	10,943	-	10,943
Pole rental	24,468	-	24,468
Rent income	60,905	-	60,905
Interest income	146	26	172
Other revenues	143,981	-	143,981
Total revenues	<u>863,493</u>	<u>31,149</u>	<u>894,642</u>
<b>Expenditures</b>			
General government	93,719	-	93,719
Fire	78,909	-	78,909
Police	447,543	-	447,543
Highways and streets	49,984	-	49,984
Community development	-	-	-
Recreation	16,488	-	16,488
Library	18,000	-	18,000
Debt service	21,165	-	21,165
Capital outlay	48,367	-	48,367
Arts and education pass-through	-	-	-
Total expenditures	<u>774,175</u>	<u>-</u>	<u>774,175</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,318</u>	<u>31,149</u>	<u>120,467</u>
<b>Other Financing Sources</b>			
Loan proceeds	48,367	-	48,367
Loss on disposition	-	-	-
Sanitation residual equity transfer	11,097	-	11,097
Transfers	-	-	-
Total other financing sources	<u>59,464</u>	<u>-</u>	<u>59,464</u>
Net change in fund balances	148,782	31,149	179,931
Fund balances, beginning of year	<u>322,033</u>	<u>29,514</u>	<u>351,547</u>
Fund balances, end of year	<u>\$ 470,815</u>	<u>\$ 60,663</u>	<u>\$ 531,478</u>

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

**CITY OF OLIVE HILL, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances - Governmental Funds \$ 179,931

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was less than depreciation expense in the current period.

Capital outlay	99,878	
Depreciation expense	(102,892)	(3,014)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

Pension expense		(83,900)
CERS Contributions		3,673

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Bond and capital lease proceeds	(48,367)	
Bond and capital lease payments	62,993	
Change in compensated absences	2,268	16,894

Change in net position of Governmental Activities		\$ 113,584
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The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	Business Type Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 586,909
Accounts receivable:	
Unbilled receivables	122,358
Customers	740,653
Interest	153
Allowance for doubtful accounts	(295,207)
Inventory for supplies	215,705
Investments - certificates of deposit	163,567
Restricted assets -	
Investment - certificates of deposit	204,000
Nondepreciable capital assets	10,278
Depreciable capital assets	21,469,104
Accumulated depreciation	(10,274,432)
	12,943,088
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension contributions	337,860
Total deferred outflows of resources	337,860
 <b>LIABILITIES</b>	
Accounts payable	291,201
Accrued wages	12,834
Other accrued liabilities	40,097
Current portion of long-term debt	256,894
Customer deposits	202,859
Accrued interest payable	6,355
Compensated absences	34,708
Net pension liability	1,271,638
Long-term debt, net of current portion	998,416
	3,115,002
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension investment earnings	7,177
Total deferred inflows of resources	7,177
 <b>NET POSITION</b>	
Net investment in capital assets	9,949,640
Restricted	204,000
Unrestricted	5,129
	10,158,769
Total net position	\$ 10,158,769

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

**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	Business Type Activities
<b>OPERATING REVENUES</b>	
Electric	\$ 2,748,258
Water	972,002
Gas	446,862
Sewer	284,828
Sanitation	225,953
Total operating revenues	4,677,903
<b>OPERATING EXPENSES</b>	
Electric:	
Electric purchases	1,959,267
Salaries and benefits	334,350
Contractual services	101,984
Depreciation	59,036
Materials and supplies	70,665
Other operating expenses	27,689
	2,552,991
Water:	
Water purchases	49,450
Salaries and benefits	516,557
Contractual services	244,445
Depreciation	253,961
Materials and supplies	163,177
Other operating expenses	20,831
	1,248,421
Gas:	
Gas purchases	151,362
Salaries and benefits	138,390
Contractual services	144,103
Depreciation	50,027
Materials and supplies	20,344
Other operating expenses	14,984
	519,210

**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET POSITION (CONCLUDED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Sewer:	
Salaries and benefits	136,403
Contractual services	123,192
Depreciation	122,327
Materials and supplies	25,974
Other operating expenses	6,601
	414,497
Sanitation:	
Salaries and benefits	99,108
Contractual services	75,088
Materials and supplies	12,652
Other operating expenses	28,008
	214,856
Total operating expenses	4,949,975
OPERATING LOSS	(272,072)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(40,656)
Interest income	801
Capital grant revenues	25,000
Sanitation residual equity transfer	(11,097)
Total non-operating revenues (expenses)	(25,952)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(298,024)
CAPITAL CONTRIBUTIONS (TAP FEES)	10,775
DECREASE IN NET POSITION	(287,249)
NET POSITION, JUNE 30, 2016	10,446,018
NET POSITION, JUNE 30, 2017	\$ 10,158,769

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

**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	Business Type Activities
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,643,228
Cash payments to suppliers for goods and services	(3,143,922)
Cash payments to employees	(1,159,345)
Net cash provided by operating activities	339,961
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(11,097)
Net cash used for non-capital financing activities	(11,097)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(51,129)
Capital contributions	10,775
Interest income	801
Capital grant revenues	25,000
Issuance of debt	151,129
Principal paid on long-term debt	(337,515)
Interest paid on long-term debt	(40,656)
Net cash used for capital and related financing activities	(241,595)
Net increase in cash and cash equivalents	87,269
Cash and cash equivalents, June 30, 2016	867,207
Cash and cash equivalents, June 30, 2017	\$ 954,476
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (272,072)
Adjustments:	
Depreciation	485,351
Net pension expense	60,719
Changes in assets and liabilities:	
Change in accounts receivable	(32,615)
Change in inventory	24,211
Change in prepaid items	-
Change in accounts payable	80,036
Change in accrued wages	3,081
Change in other accrued liabilities	(8,353)
Change in compensated absences	1,663
Change in customer deposits	(2,060)
Net cash provided by operating activities	\$ 339,961

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

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Taxes:					
Insurance	\$ 145,000	\$ 54,530	\$ 199,530	\$ 204,614	\$ 5,084
Property	94,000	85	94,085	92,803	(1,282)
Occupational licenses	105,500	(10,785)	94,715	91,123	(3,592)
Alcohol revenue	65,000	21,000	86,000	90,347	4,347
Franchise fees	47,000	2,750	49,750	50,245	495
Intergovernmental revenues:					
Base court	8,600	(5,768)	2,832	2,027	(805)
KLEFPF	20,000	3,600	23,600	23,095	(505)
State fire aid	8,500	-	8,500	-	(8,500)
Grants	56,000	30,339	86,339	60,546	(25,793)
License, fees, & permits	7,000	1,250	8,250	8,250	-
Coal and mine severance	-	-	-	10,943	10,943
Pole rental	24,400	-	24,400	24,468	68
Rent income	60,000	-	60,000	60,905	905
Sanitation fees	240,000	(16,000)	224,000	225,953	1,953
Loans	-	-	-	48,367	48,367
Interest income	-	-	-	146	146
Other revenues	30,000	450	30,450	143,981	113,531
<b>Total revenues</b>	<b>911,000</b>	<b>81,451</b>	<b>992,451</b>	<b>1,137,813</b>	<b>145,362</b>
<b>Expenditures</b>					
General government	70,000	18,000	88,000	87,520	480
Fire	90,875	-	90,875	78,909	11,966
Police	420,500	34,000	454,500	447,543	6,957
Highways and streets	64,125	(9,125)	55,000	49,984	5,016
Library	18,000	-	18,000	18,000	-
Sanitation	192,000	-	192,000	214,856	(22,856)
Community development	8,500	-	8,500	-	8,500
Alcohol Administration	6,500	-	6,500	6,199	301
Capital outlay	28,000	24,485	52,485	48,367	4,118
Debt service	-	-	-	21,165	(21,165)
Recreation	12,500	14,091	26,591	16,488	10,103
<b>Total expenditures</b>	<b>911,000</b>	<b>81,451</b>	<b>992,451</b>	<b>989,031</b>	<b>3,420</b>
Net change in fund balances	-	-	-	148,782	141,942
Fund balance, beginning of year	-	-	-	322,033	322,033
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,815</u>	<u>\$ 463,975</u>
Adjustments to Generally Accepted Accounting Principles -					
Sanitation fees included as Proprietary Fund				(225,953)	
Sanitation expenditures included as Proprietary Fund				214,856	
Sanitation residual equity transfer				11,097	
Fund balance, end of year (GAAP basis)				<u>\$ 470,815</u>	

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

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND - MUNICIPAL ROAD AID**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Municipal road aid	\$ 47,500	\$ 31,123	\$ 78,623	\$ 31,123	\$ (47,500)
Other revenues	-	-	-	26	26
<b>Total revenues</b>	<u>47,500</u>	<u>31,123</u>	<u>78,623</u>	<u>31,149</u>	<u>(47,474)</u>
<b>Expenditures</b>					
Highways and streets	47,500	31,123	78,623	-	78,623
<b>Total expenditures</b>	<u>47,500</u>	<u>31,123</u>	<u>78,623</u>	<u>-</u>	<u>78,623</u>
Deficiency of revenues under expenditures	-	-	-	31,149	31,149
<b>Other financing sources (uses)</b>					
Transfers	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	31,149	31,149
Fund balance, beginning of year	-	-	-	29,514	29,514
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,663</u>	<u>\$ 60,663</u>

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

CITY OF OLIVE HILL, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Olive Hill (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety (police and fire), public works (street and sanitation), recreation, and utilities (water, sewer, electric, and gas). The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon these criteria, the City has no component units to be reported in these financial statements.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one special revenue fund: Municipal Road Aid.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for gas, water, wastewater (sewer), electric, and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

#### **D. Budget and Budgetary Accounting**

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data. The budget was amended during the year ended June 30, 2017 subsequent to original adoption.

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the sanitation department is budgeted in the General Fund; however, GAAP requires that it be presented as a proprietary fund. In addition, financed insurance premiums are netted in the budget, since it is a non-cash item when financed.

#### **E. Deposits and Investments**

Investments are stated at amortized cost, which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

**F. Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market.

**G. Capital Assets and Depreciation**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	40 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-20 years
Buildings and improvements	15-50 years
Street paving	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

**H. Encumbrances**

The City does not use a system of encumbrances in their accounting and reporting methods.

**I. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

**J. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

**K. Compensated Absences**

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

## **L. Fund Balances**

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

When restricted, committed, assigned and unassigned resources are available for use, it is the City's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

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## **M. Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Proprietary Funds consider all highly liquid investments, such as certificates of deposit (including restricted assets) to be cash equivalents.

## **N. Allowance for Doubtful Accounts**

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

## **O. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

## **P. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Activities will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

## **Q. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense information about the

pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **R. New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the City beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. The adoption of this standard did not have a material effect on the City's financial statements.

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.

- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 will be effective for the City beginning with its year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (“GASB 86”), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. GASB 86 will be effective for the City beginning with its year ending June 30, 2018.

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

## (2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy

requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2017, the City had \$1,421,827 in financial institutions, of which \$750,183 was insured, and \$671,644 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2017 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Business-type activities:				
First National Bank of Grayson:				
Certificate of deposit	\$ 100,000	\$ 100,000	0.20%	8/21/2017
Certificate of deposit	46,185	46,185	0.25	11/16/2017
Certificate of deposit	17,382	17,382	0.20	9/26/2017
	<u>\$ 163,567</u>	<u>\$ 163,567</u>		
Commercial Bank of Grayson:				
Certificate of deposit	204,000	204,000	0.20	6/19/2018
	<u>\$ 367,567</u>	<u>\$ 367,567</u>		

### (3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City.

Real property, tangible and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2017 assessed value for real property was \$35,016,500. Assessed value of tangible property was \$4,817,058. The tax rate adopted was \$0.231 per \$100 valuation.

**(4) RESTRICTED ASSETS**

Reserve for Depreciation

The “Depreciation Fund” is being maintained as required by the 1980 Series bond. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$204,000 at June 30, 2017.

**(5) CAPITAL ASSETS**

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

	June 30, 2016	Increases	Decreases	June 30, 2017
<b><u>Governmental Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 521,337	\$ -	\$ -	\$ 521,337
<b>Capital Assets, Depreciated:</b>				
Buildings	1,142,383	-	-	1,142,383
Street paving and improvement	212,513	-	-	212,513
Vehicles	881,309	72,852	-	954,161
Machinery and equipment	566,538	27,026	-	593,564
Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	-	-	181,342
Totals	3,540,005	99,878	-	3,639,883
Less: Accumulated Depreciation	1,762,632	102,892	-	1,865,524
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 1,777,373</b>	<b>\$ (3,014)</b>	<b>\$ -</b>	<b>\$ 1,774,359</b>
<b><u>Business-type Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 10,278	\$ -	\$ -	\$ 10,278
<b>Capital Assets, Depreciated:</b>				
Buildings	147,931	-	-	147,931
Vehicles	707,734	51,129	-	758,863
Furniture and equipment	456,905	-	-	456,905
Operating plant and distribution system	20,024,502	-	-	20,024,502
Improvements	80,903	-	-	80,903
Construction in progress	-	-	-	-
Totals	21,428,253	51,129	-	21,479,382
Less: Accumulated Depreciation	9,789,081	485,351	-	10,274,432
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ 11,639,172</b>	<b>\$ (434,222)</b>	<b>\$ -</b>	<b>\$ 11,204,950</b>

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

Governmental activities:	
General government	\$ 20,718
Police	10,640
Fire	16,412

Public works	31,684
Senior center	12,817
Park	10,621
	<u>\$ 102,892</u>
Business-type activities:	
Utilities	\$ 485,351
	<u>\$ 485,351</u>

(6) DEBT

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
<b><u>Governmental Activities</u></b>				
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 56,175	\$ -	\$ 8,815	\$ 47,360
Non-interest bearing Note payable on Land due March 1, 2018	25,200	-	14,400	10,800
4.0% Capital lease - Due December 19, 2018 Pierce Fire truck	30,640	-	9,879	20,761
2.99% Capital lease - Due November 4, 2020 2016 Kenworth Garbage Truck	113,693	-	24,945	88,748
2.45% Note payable - Due November 21, 2020 Two 2017 police cars	-	48,367	4,954	43,413
Total Governmental Activities	<u>\$ 225,708</u>	<u>\$ 48,367</u>	<u>\$ 62,993</u>	<u>\$ 211,082</u>
	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
<b><u>Business-type Activities</u></b>				
Notes payable	\$ 1,132,696	\$ 151,129	\$ 239,515	\$ 1,044,310
Bonds payable	309,000	-	98,000	211,000
Total Business-type Activities	<u>\$ 1,441,696</u>	<u>\$ 151,129</u>	<u>\$ 337,515</u>	<u>\$ 1,255,310</u>

**Governmental Activities**

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2017 (including interest payments) are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 64,719	\$ 5,418	\$ 70,137
2019	55,541	3,828	59,369
2020	46,274	2,190	48,464
2021	23,322	1,042	24,364
2022	7,031	719	7,750
2023-2025	14,195	867	15,062
	<u>\$ 211,082</u>	<u>\$ 14,064</u>	<u>\$ 225,146</u>

**Business-Type Activities**

The Utility's notes payable at June 30, 2017 consisted of the following:

U.S. Bank, payable in monthly installments of \$825, including interest of 2.25%, final payment due October 2017, unsecured.	\$	3,259
U.S. Bank, payable in monthly installments of \$2,235, including interest of 2.75%, final payment due October 2019, collateralized by a 2015 Ford F550 bucket truck.		60,318
Kentucky Infrastructure Authority, payable in semi-annual Installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.		402,502
The Commercial Bank of Grayson, payable in monthly installments of \$987, including interest of 2.95%, split 40% electric, and 60% water, final payment due March 2018, collateralized by a 2013 Excavator.		8,755
Republic Bank & Trust Company, payable in semi-annual installments of principal with interest of 3.38%, final payment due December 2025, collateralized by service revenues.		377,928
US Bank, payable in monthly installments of \$2,370, Including interest of 2.85%, final payment due November 2020, collateralized by gas meters purchased.		94,792
US Bank, payable in monthly installments of \$1,120, Including interest of 2.45%, final payment due December 2019, collateralized by 2016 Ram 4500 purchased.		39,859
US Bank, payable in monthly installments of \$8,442, Including interest of 2.25%, final payment due July 2017, unsecured.		8,428
FIVCO Area Development, payable in monthly installments estimated at \$1,012, including interest at 4.00%, final payment due October 15, 2021, unsecured.		<u>48,469</u>
Total Utility Fund Notes Payable	\$	<u>1,044,310</u>

The annual requirements to amortize all Proprietary Fund notes payable, excluding revenue bonds payable outstanding as of June 30, 2017, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 153,894	\$ 22,657	\$ 176,551
2019	135,285	18,796	154,081
2020	118,906	15,194	134,100
2021	89,531	12,217	101,748
2022	66,281	10,128	76,409
2023-2027	292,577	25,117	317,694
2028-2032	115,635	6,814	122,449
2033-2035	72,201	1,269	73,470
Totals	<u>\$ 1,044,310</u>	<u>\$ 112,192</u>	<u>\$ 1,156,502</u>

The following is a summary of the long-term bond transactions of the City of Olive Hill's business-type activities for the year ended June 30, 2017:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2016	\$ 309,000
Bonds Issued	-
Bonds Retired	(98,000)
Bonds Payable - June 30, 2017	<u>\$ 211,000</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:	
\$1,900,000 Utilities Revenue Bonds, 1980 series, maturing through February 1, 2019, with interest at 5.0%	\$ 211,000
Total Utility Fund Bonds Payable	<u>\$ 211,000</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance, the Series 1980 Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2017 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2017, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 103,000	\$ 10,550	\$ 113,550
2019	108,000	5,400	113,400
Totals	<u>\$ 211,000</u>	<u>\$ 15,950</u>	<u>\$ 226,950</u>

**(7) CONTINGENCIES**

The City is a defendant in various legal actions arising from normal business operations. Two of the lawsuits relate to flood damages and the third alleges injury on property that the City owns. It is anticipated that any liability will be covered by insurance for these three lawsuits.

In addition, the City is a defendant in a class action lawsuit alleging violation of the Kentucky Constitution by applying increases to the electric utility rates without public notice. The City's insurer has filed an action to determine coverage of this claim. The ultimate outcome of this matter cannot be determined at this time.

The City intends to aggressively defend all of the lawsuits; however, an adverse decision in one or more of such matters could have a material adverse effect on the financial position of the City.

The City had no outstanding construction commitments at June 30, 2017,

**(8) RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**(9) PENSION PLAN**

County Employees Retirement System

*Plan description:* Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

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

*Contributions:* Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2017, employers were required to contribute 18.68% (13.95% - pension, 4.73% insurance) of the member's salary. During the year ending June 30, 2017, the City contributed \$128,370 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

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

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

*Funding policy:* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

*Contributions:* The City's total payroll for employees covered under CERS for the years ending June 30, 2017, 2016, and 2015 was \$920,215, \$914,622 and \$860,170, respectively. The City's contributions to CERS for the years ending June 30, 2017, 2016, and 2015 were \$43,526, \$42,438, and \$42,320, respectively, and equaled the actually required contributions for the year.

*Funded status:* The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,988,121
Net position available for benefits at actuarial value	<u>(2,079,811)</u>
Unfunded medical benefit obligation	<u>\$ 908,310</u>

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

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2016. At June 30 2016, the City's proportion was 0.03707%.

For the year ended June 30, 2017, the City recognized pension expense of \$140,946. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected actual experience	\$ 7,969	\$ -
Changes of assumptions	96,693	-
Net difference between projected and actual earnings on investments	171,593	-
Changes in proportion and differences between City contributions and proportionate share of contributions	45,013	9,551
City contributions subsequent to the measurement date	128,370	-
	<u>\$ 449,638</u>	<u>\$ 9,551</u>

The \$128,370 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>		
2018	\$	116,632
2019		82,676
2020		74,282
2021		38,127
	\$	<u>311,717</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

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

*Discount Rate:* The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current discount rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
City's proportionate share of the net pension liability	\$ 2,274,476	\$ 1,825,263	\$ 1,440,053

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

*Payables to the pension plan:* At June 30, 2017, there was \$20,823 in payables to CERS.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF OLIVE HILL, KENTUCKY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>
	2017 (2016)	2016 (2015)	2015 (2014)
City's proportion of the net pension liability	0.037070%	0.035392%	0.036007%
City's proportionate share of the net pension liability	\$ 1,825,263	\$ 1,521,681	\$ 1,168,000
City's covered-employee payroll	\$ 920,215	\$ 914,622	\$ 860,170
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	198.352%	166.373%	135.787%
Plan fiduciary net position as a percentage of the total pension liability	55.500%	59.970%	66.800%

**Note:** Schedule is intended to show information for the last 10 fiscal years.  
Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 128,370	\$ 113,596	\$ 109,672	\$ 113,506
Contributions in relation to the contractually required contribution	<u>128,370</u>	<u>113,596</u>	<u>109,672</u>	<u>113,506</u>
Contribution deficiency (excess)	-	-	-	-
City's covered-employee payroll	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	13.95%	12.42%	12.75%	13.74%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017**

**(1) CHANGES OF ASSUMPTIONS**

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

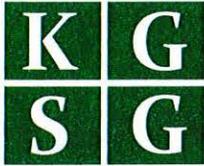
CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

**(3) CHANGES OF BENEFITS**

There were no changes of benefit terms for CERS.



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

The Honorable Mayor and  
City Council  
City of Olive Hill  
Olive Hill, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Kelley Galloway Smith Golsby, PSC*

Ashland, Kentucky  
January 12, 2018