

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES

For the year ended June 30, 2019

Prepared by:

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Lyle Pierce, Mayor
Members of the City Council
City of Albany, 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 Albany, KY as of and for the year ended 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 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 Albany, KY, 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's proportionate share of the net pension and OPEB liability, and the schedule of contributions as listed in the table of contents, 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. Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albany, KY's basic financial statements. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020, on our consideration of the City of Albany, KY'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 solely 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 effectiveness of the City of Albany, KY's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Albany, KY's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky

June 30, 2020

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents-unrestricted	\$ 36,538	\$ 329	\$ 36,867
Cash and cash equivalents-restricted	14,311		14,311
Certificates of deposit	183,325	118,627	301,952
Receivables, net	2,855	439,375	442,230
Taxes receivable	15,144		15,144
Inventory		101,416	101,416
Unbilled receivable		158,573	158,573
Internal Balances	329,671	(329,671)	-
Other receivables	5,948	-	5,948
Prepaid and other assets	1,933		1,933
Other current assets		1,174	1,174
Total current assets	589,725	489,823	1,079,548
Non-current assets			
Cash and cash equivalents-restricted	14,515	462,485	477,000
Capital assets:			
Land and construction-in-progress	156,601	986,220	1,142,821
Other capital assets, net of depreciation	991,459	24,937,751	25,929,210
Total non-current assets	1,162,575	26,386,456	27,549,031
Total assets	1,752,300	26,876,279	28,628,579
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to OPEB	76,767	118,148	194,915
Deferred outflows related to pensions	310,207	476,242	786,449
Total deferred outflows of resources	386,974	594,390	981,364
LIABILITIES			
Current liabilities			
Accounts payable	6,704	146,223	152,927
Accrued wages and payroll taxes	35,669	94,267	129,936
Vacation Payable	16,556		16,556
Customer metered deposits		131,761	131,761
Other accrued liabilities		8,812	8,812
Accrued Interest		46,885	46,885
Current portion of long-term debt	4,625	238,046	242,671
Total current liabilities	63,554	665,994	729,548
Non-current liabilities			
Net pension liability	1,171,457	1,754,021	2,925,478
Net OPEB liability	338,582	514,341	852,923
Long-term debt		3,923,085	3,923,085
Total long-term liabilities	1,510,039	6,191,447	7,701,486
Total liabilities	1,573,593	6,857,441	8,431,034
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to OPEB	73,413	103,861	177,274
Deferred inflows related to pensions	96,708	146,472	243,180
Total deferred inflows of resources	170,121	250,333	420,454
NET POSITION			
Net investment in capital assets	1,143,435	21,762,840	22,906,275
Restricted for:			
Federal and state grants	2,584	176	2,760
Customer deposits		131,761	131,761
Debt service		440,611	440,611
Workman's compensation	14,515	21,698	36,213
Street and road projects	11,727		11,727
Unrestricted	366,734	19,768,649	20,135,383
Total net position	\$ 395,560	\$ 20,362,895	\$ 20,758,455

See accompanying notes to the financial statements.

**CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:					
Governmental activities:					
General government	\$ 398,993	\$	\$ (398,993)		\$ (398,993)
Police	605,591		(605,591)		(605,591)
Fire	140,440		(140,440)		(140,440)
Streets & sidewalks	359,817		(359,817)		(359,817)
Total governmental activities	<u>1,504,841</u>	<u>-</u>	<u>(1,504,841)</u>		<u>(1,504,841)</u>
Business-type activities:					
Water utility	<u>3,710,851</u>	<u>2,763,817</u>		<u>(947,034)</u>	<u>(947,034)</u>
Total business-type activities	<u>3,710,851</u>	<u>2,763,817</u>	<u>-</u>	<u>(947,034)</u>	<u>(947,034)</u>
Total primary government	\$ <u>5,215,692</u>	\$ <u>2,763,817</u>	\$ <u>(1,504,841)</u>	\$ <u>(947,034)</u>	\$ <u>(2,451,875)</u>

General revenues:

Property taxes	146,548		146,548
Tangible taxes	10,027		10,027
Motor vehicle taxes	13,559		13,559
Insurance taxes	358,992		358,992
Franchise taxes	215,374		215,374
Occupational taxes and business licenses	29,969		29,969
Fees and permits	174,577		174,577
Intergovernmental revenues	124,239	444,346	568,585
Investment income	2,448	9,891	12,339
Fines	9,730		9,730
Miscellaneous	10,221		10,221
Total general revenues and transfers	<u>1,095,684</u>	<u>454,237</u>	<u>1,549,921</u>
Change in net position		(409,157)	(492,797)
Net position - beginning		713,907	20,764,025
Prior period adjustment		90,810	91,667
Net position - beginning - restated		<u>804,717</u>	<u>20,855,692</u>
Net position - ending		<u>\$ 395,560</u>	<u>\$ 20,362,895</u>

See accompanying notes to the financial statements.

**CITY OF ALBANY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current cash and cash equivalents-unrestricted	\$ 36,538	\$ -	\$ 36,538
Current cash and cash equivalents-restricted	2,584	11,727	14,311
Certificates of deposit	183,325		183,325
Taxes receivable	1,081		1,081
Due from other funds	329,671		329,671
Other receivable - grants	2,855		2,855
Other receivable	5,949		5,949
Prepaid expenses	1,933		1,933
Noncurrent cash and cash equivalents-restricted	14,515		14,515
Total assets	578,451	11,727	590,178
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	6,704	-	6,704
Accrued wages and payroll taxes	35,669		35,669
Total liabilities	42,373	-	42,373
 Fund Balances:			
Nonspendable	1,933	-	1,933
Restricted	14,515	11,727	26,242
Unassigned	519,630		519,630
Total fund balances	536,078	11,727	547,805
Total liabilities and fund balances	\$ 578,451	\$ 11,727	\$ 590,178

See accompanying notes to the financial statements.

**CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Fund Balances - Total Governmental Funds	\$	547,805
Amounts reported for governmental activities in the statement of net position are different because:		
Property taxes billed but not received are recorded as receivables in the governmental activities but are not recorded in the funds		14,063
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		1,148,059
Certain liabilities are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position:		
Net OPEB liability		(338,582)
Net pension liability		(1,171,457)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable for future periods and, therefore, are not reported in the fund financial statements:		
Deferred outflows related to OPEB		76,767
Deferred inflows related to OPEB		(73,413)
Deferred outflows related to pensions		310,207
Deferred inflows related to pensions		(96,708)
Vacation Accruals		(16,556)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(4,625)
Net Position of Governmental Activities	\$	<u><u>395,560</u></u>

See accompanying notes to the financial statements.

**CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes:			
Property taxes	\$ 132,485	\$ -	\$ 132,485
Tangible tax	10,027		10,027
Motor vehicle tax	13,559		13,559
Insurance taxes	358,992		358,992
Franchise taxes	215,374		215,374
Occupational taxes and business licenses	29,969		29,969
Intergovernmental revenues	77,183	47,056	124,239
Fees & permits	174,577		174,577
Fines	9,730		9,730
Investment income	2,448		2,448
Miscellaneous revenues	10,223		10,223
	<u>1,034,567</u>	<u>47,056</u>	<u>1,081,623</u>
Total revenues			
Expenditures:			
General government:			
General and administration	221,838	-	221,838
Police department	567,126		567,126
Fire department	108,619		108,619
Street department	252,690	62,121	314,811
Debt service	10,500		10,500
	<u>1,160,773</u>	<u>62,121</u>	<u>1,222,894</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	(126,206)	(15,065)	(141,271)
Net change in fund balances	(126,206)	(15,065)	(141,271)
Fund balances - beginning	556,349	26,792	583,141
Prior period adjustment	105,935	-	105,935
Fund balances - beginning (restated)	<u>662,284</u>	<u>26,792</u>	<u>689,076</u>
Fund balances - ending	<u>\$ 536,078</u>	<u>\$ 11,727</u>	<u>\$ 547,805</u>

See accompanying notes to the financial statements.

CITY OF ALBANY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances -Total Governmental Funds	\$	(141,271)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures		
However, on the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense:		
Capital asset purchases capitalized		15,000
Depreciation expense		(135,608)
Property taxes are recorded as revenue when they are received in the fund financial statements but are recorded as revenue when billed in the statement of activities.		
		14,063
Governmental funds report pension and OPEB contributions as expenditures. However in the statement of activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension expense:		
Pension contributions less costs of benefits earned net employee contributions		(155,285)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:		
Loans payable		10,500
Vacation accrual		(16,556)
Change in Net Position of Governmental Activities	\$	(409,157)

See accompanying notes to the financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	Albany Municipal Water Works
ASSETS	
Current assets	
Cash & cash equivalents-unrestricted	\$ 329
Certificate of deposit	118,627
Accounts receivable, net	439,375
Inventory	101,416
Unbilled receivable	158,573
Other current assets	1,174
Total current assets	819,494
Non-current assets	
Cash and cash equivalents-restricted	462,485
Land and construction-in-progress	986,220
Capital assets, net of accumulated depreciation	24,937,751
Total non-current assets	26,386,456
Total assets	27,205,950
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to OPEB	118,148
Deferred outflows related to pensions	476,242
Total deferred outflows of resources	594,390
LIABILITIES	
Current liabilities	
Accounts payable	146,223
Accrued payroll expenses	94,267
Revenue bonds payable	227,083
Notes payable	10,963
Interfund payable	329,671
Customer deposits	131,761
Accrued interest	46,885
Other accrued liabilities	8,812
Total current liabilities	995,665
Non-current Liabilities	
Revenue bonds payable	3,684,167
Notes payable	238,918
Net pension liability	1,754,021
Net OPEB liability	514,341
Total non-current liabilities	6,191,447
Total liabilities	7,187,112
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB	103,861
Deferred inflows related to pensions	146,472
Total deferred inflows of resources	250,333
NET POSITION	
Net investment in capital assets	24,937,751
Unrestricted (deficit)	(4,574,856)
Total net position	\$ 20,362,895

See accompanying notes to the financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	<u>Albany Municipal Water Works</u>
Operating revenues:	
Charges for services	\$ <u>2,763,817</u>
Total operating revenues	<u>2,763,817</u>
Operating expenses:	
Cost of services	253,677
Administration	587,496
Salaries, wages and related benefits	1,329,685
Bad debt	54,151
Miscellaneous	38,753
Lab and chemicals	265,065
Depreciation	<u>1,070,989</u>
Total operating expenses	<u>3,599,816</u>
Operating income (loss)	<u>(835,999)</u>
Non-operating revenues (expenses):	
Interest expense	(111,035)
Interest income	9,891
Intergovernmental revenue	<u>444,346</u>
Total non-operating revenues (expenses)	<u>343,202</u>
Change in net position	(492,797)
Net position, beginning of year	20,764,025
Prior period adjustment	<u>91,667</u>
Net position restated, beginning of year	<u>20,855,692</u>
Net position, end of year	<u><u>\$ 20,362,895</u></u>

See accompanying notes to the financial statements.

**CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	<u>Albany Municipal Water Works</u>
Cash flows from operating activities:	
Payments received from customers	\$ 2,744,088
Payments for salaries and benefits	(1,099,678)
Payments to suppliers for goods and services	<u>(1,152,233)</u>
Net cash provided (used) by operating activities	<u>492,177</u>
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(231,776)
Interest payments on long-term debt	(111,035)
Loan proceeds	53,000
Purchases and construction of capital assets	(697,075)
Proceeds from capital grants	<u>444,346</u>
Net cash provided (used) by capital and related financing activities	<u>(542,540)</u>
Cash flows from investing activities:	
Interest income	<u>9,891</u>
Net cash provided (used) by investing activities	9,891
Net increase (decrease) in cash and cash equivalents	(40,472)
Cash and cash equivalents at beginning of period	<u>621,913</u>
Cash and cash equivalents at end of period	<u><u>581,441</u></u>
Classified as:	
Cash and cash equivalents-unrestricted	329
Certificate of deposit	118,627
Cash and cash equivalents-restricted	<u>462,485</u>
Cash and cash equivalents at end of period	<u><u>581,441</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	(835,999)
Depreciation	1,070,989
Changes in:	
(Increase) decrease in assets	
Accounts receivable, net	140,018
Inventory	(3,854)
Prepaid insurance	9,497
Unbilled receivable	(158,573)
Other current assets	(1,174)
Deferred outflows of resources - OPEB	50,563
Deferred outflows of resources - pensior	145,913
Increase (decrease) in liabilities	
Deferred inflows of resources - OPEB	115,594
Deferred inflows of resources - pensior	(59,037)
Accounts payable	73,786
Net OPEB liability	(75,409)
Net pension liability	36,906
Due to other funds	(41,188)
Other accrued liabilities	8,812
Accrued interest	(144)
Accrued payroll expenses	<u>15,477</u>
Net cash provided (used) by operating activities	<u><u>\$ 492,177</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City provides various services including police and fire protection, street maintenance and repair, water, sewer and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process and by the City Mayor through administrative and managerial requirements and procedures and all are included as part of the reporting entity.

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

B. BASIS OF PRESENTATION

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The more significant of the City's accounting policies are described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

1. GOVERNMENT-WIDE STATEMENTS

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

2. FUND FINANCIAL STATEMENTS

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

The City has the following funds:

Governmental Funds

- a. General Fund - the principal operating fund of the City and always classified as a major fund. It is used to account for all financial resources used for general types of operations except those required to be accounted for in another fund.
- b. Special Revenue Funds – special revenue accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

Proprietary Funds (Enterprise Funds)

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. The City applies all GASB pronouncements to proprietary funds. The City's Enterprise Fund is a water and sewer system.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The government-wide statements of net position and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

The statements of net position, statements of activities, and financial statements of the Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting exchange, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Real and personal property taxes are recognized in the period for which levied, provided the City has an enforceable legal claim to the resources. Grants, shared revenues, and contributions are recognized when all eligibility requirements have been met.

The fund financial statements of the General and Special Revenue funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. ENCUMBRANCES

The City does not employ encumbrance accounting; where in purchase orders, contracts, and other commitments for the expenditures of cash are recorded in order to preserve that portion of the applicable appropriation.

E. BUDGETS AND THE BUDGETARY PROCESS

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

F. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents represent amounts held in trust at financial institutions and a brokerage division of a financial institution and are set aside for debt payments, reserve, capital improvements and future projects as required by the bond ordinance, other loan agreements and grants.

G. CASH AND CASH EQUIVALENTS

For the Statement of Cash Flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits and short-term investments with original maturities of three months or less from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

H. CERTIFICATES OF DEPOSIT

Non-brokered certificates of deposit with a financial institution are reported at amortized cost, which approximates fair value.

I. RECEIVABLES

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

J. INTERFUND RECEIVABLE AND PAYABLE

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

K. INVENTORIES

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

L. PREPAID EXPENSES

Payments made that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

M. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (such as roads, bridges, sidewalks, sewers, lighting systems, drainage systems, and similar items) are reported in the government-wide and proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life of one year or greater.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

The initial capitalization of infrastructure assets reported by governmental activities was based on replacement cost deflated to the acquisition year. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs. Donated capital assets are recorded at their estimated fair value at the date of contribution. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets construction. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	15 years
Machinery and Equipment	5 to 10 years
Water and Sewer System Utility Plants	25 to 40 years
Infrastructure	15 to 40 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially changes capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

N. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in 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. However, claims and judgments and the noncurrent portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payment made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

O. EQUITY CLASSIFICATIONS

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets, net of related debt - Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consist of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

It is the City's policy to first apply restricted net position followed by unrestricted net position when an expenditure is incurred for which both restricted and unrestricted net position are available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is divided into five categories as defined by GASB 54 as follows:

Non-spendable	Permanently non-spendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the City Council.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The City has not adopted a GASB 54 spending policy and by default follows the default GASB 54 policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

P. PROPERTY TAX REVENUE

Property taxes for fiscal year 2019 were levied in November 2018, respectively, on the assessed property located in the City of Albany as of the preceding January 1. The rate for real estate was 18 cents per one hundred dollars of assessed value. The rate for auto and boats was 20 cents and other tangible property was 20 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

Q. OCCUPATIONAL LICENSE TAX

The City imposes a tax of 1.5 percent of wages on persons who work within the City of Albany in any business, profession, trade or occupation. Such amounts are to be withheld from the employee's wages remitted quarterly with a completed payroll tax return detailing total wages and tax withholdings.

R. REVENUES-EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected with the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from a nonexchange transaction must also be available before it can be recognized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end; municipal income taxes, franchise taxes, charges for services, state-levied locally shared taxes, interest, grants, fees, and rentals.

S. OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are primarily charges for services. Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the City, those revenues come in the form of grants (federal and state), contributions, royalty and sponsor income and earnings from investments.

T. EXPENDITURES/EXPENSES

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: current, debt service, and capital outlay.

U. ESTIMATES

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

V. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a 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 the appropriate period. The City reports two types of deferred outflows – contributions to the CERS's pension and OPEB plans after the measurement period.

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 appropriate period. The City reports two types of deferred inflows related to the net difference projected and actual earnings on pension and OPEB plan investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

W. NET PENSION LIABILITY

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

X. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the County Retirement System of Kentucky (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. 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, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Y. NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 83, *Certain Asset retirement Obligations*, effective for the City's fiscal year ending June 30, 2019. The adoption of GASB Statement 83 did not have an impact on the city's financial position or results of operations.

GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the City's fiscal year ending June 30, 2019. The adoption of GASB Statement 88 did not have an impact on the City's financial position or results of operations.

The City will adopt the following new accounting pronouncements in future years:

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the City's fiscal year ending June 30, 2020.

GASB issued Statement No. 87, *Leases*, effective for the City's fiscal year ending June 30, 2021.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the City's fiscal year ending June 30, 2021.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the City's fiscal year ending June 30, 2020.

The impact of these pronouncements on the City's financial statement has not been determined.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U. S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

Custodial credit risk is the risk that in the event of a depository institution failure, the City’s deposits may not be returned. The City follows the requirements of KRS 41.140(4) which states the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation (FDIC) insurance, equals or exceeds the amount of public funds on deposit at all times. At year end, the City’s bank balances were collateralized by securities held by the pledging bank’s trust department in the City’s name and FDIC insurance. The City’s money market funds are backed obligations of the U.S. Treasury.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. The City has addressed this risk by maintaining its deposits at financial institutions that are insured by the FDIC and by requiring additional collateral to cover deposits in excess of that amount.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>
Kentucky League of Cities	\$ 14,515	\$ 21,698
Federal & State Grants	2,584	176
Street & Road Projects	11,727	-
Debt Service	-	440,611
	<hr/>	<hr/>
Total Restricted cash and cash equivalents	<u>\$ 28,826</u>	<u>\$ 462,485</u>

NOTE 4 - TAXES RECEIVABLE

Taxes receivable are comprised of the following at June 30, 2019:

<u>Receivable Type</u>	<u>Statement of Net Position Governmental Activities</u>	<u>Balance Sheet Governmental Funds General Fund</u>
Property & Motor Vehicle Taxes	\$ 15,144	\$ 1,081
	<u>\$ 15,144</u>	<u>\$ 1,081</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, consisted of the following:

	<u>Beginning Balance 7/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2019</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 83,086	\$ -	\$ -	\$ 83,086
Construction in process	73,515	-	-	73,515
Total capital assets, not being depreciated:	<u>156,601</u>	<u>-</u>	<u>-</u>	<u>156,601</u>
Capital assets, being depreciated:				
Buildings	945,265	-	-	945,265
Trucks and equipment	1,158,135	15,000	-	1,173,135
Furniture and fixtures	53,511	-	-	53,511
Street repair	500,738	-	-	500,738
Landscaping	12,643	-	-	12,643
Total capital assets, being depreciated:	<u>2,670,292</u>	<u>15,000</u>	<u>-</u>	<u>2,685,292</u>
Less accumulated depreciation for:				
Buildings	309,164	25,107	-	334,271
Trucks and equipment	826,621	77,493	-	904,114
Furniture and fixtures	53,427	83	-	53,510
Street repair	356,370	32,925	-	389,295
Landscaping	12,643	-	-	12,643
Total accumulated depreciation	<u>1,558,225</u>	<u>135,608</u>	<u>-</u>	<u>1,693,833</u>
Capital assets, being depreciated, net	<u>1,112,067</u>			<u>991,459</u>
Governmental activities capital assets, net	<u>\$1,268,668</u>			<u>\$1,148,060</u>

Depreciation expense was allocated to governmental functions as follows:

	<u>2019</u>
General	\$ 5,314
Police	38,465
Fire	46,821
Street	<u>45,008</u>
Total	<u>\$135,608</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

	Beginning Balance 7/1/2018	Increases	Decreases	Ending Balance 6/30/2019
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 440,883	\$ -	\$ -	\$ 440,883
Construction In Process	-	545,337	-	545,337
Total Capital Assets, Not Being Depreciated:	<u>440,883</u>	<u>545,337</u>	<u>-</u>	<u>986,220</u>
Capital Assets, Being Depreciated:				
Buildings	106,670	-	-	106,670
Office Equipment	96,268	4,727	-	100,995
Sewer Trucks And Equipment	107,655	-	-	107,655
Sewer Utility Plant	14,086,942	-	-	14,086,942
Water House And Building	87,907	-	-	87,907
Water Trucks And Equipment	460,347	72,251	-	532,598
Water Utility Plant And Transmission Lines	<u>27,340,374</u>	<u>74,816</u>	<u>-</u>	<u>27,415,190</u>
Total Capital Assets, Being Depreciated:	<u>42,286,163</u>	<u>151,794</u>	<u>-</u>	<u>42,437,957</u>
Buildings	38,667	2,667	-	41,334
Office Equipment	54,559	18,151	-	72,710
Sewer Trucks And Equipment	86,245	3,664	-	89,909
Sewer Utility Plant	3,283,884	352,444	-	3,636,328
Water House And Building	64,665	2,784	-	67,449
Water Trucks And Equipment	407,325	14,600	-	421,925
Water Utility Plant And Transmission Lines	<u>12,493,872</u>	<u>676,679</u>	<u>-</u>	<u>13,170,551</u>
Total Accumulated Depreciation	<u>16,429,217</u>	<u>1,070,989</u>	<u>-</u>	<u>17,500,206</u>
Capital Assets, Being Depreciated, Net	<u>25,856,946</u>			<u>24,937,751</u>
Business-Type Activities Capital Assets, Net	<u>\$26,297,829</u>			<u>\$25,923,971</u>

Depreciation expense was allocated to business-type functions as follows:

	<u>2019</u>
Water	\$ 714,881
Sewer	<u>356,108</u>
Total	<u>\$1,070,989</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 6 - DEBT

Governmental Activities

On June 26, 2018, the City borrowed \$15,125, with an interest rate of 5.000% from a local bank to purchase a fire truck for the fire department. The note is to be paid in full by September 26, 2019. The note is secured by the truck.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>		<u>Balance 7/1/2018</u>		<u>Additions</u>		<u>Retirements</u>		<u>Balance 6/30/2019</u>
Fire Truck	9/26/2019	5.000%	\$ 15,125	\$	15,125	\$	-	\$	10,500	\$	4,625

Changes in long-term debt are as follows:

<u>Note No.</u>	<u>Balance 7/1/2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2019</u>	<u>Current</u>	<u>Long-Term</u>
Fire Truck	\$ 15,125	\$ -	\$ 10,500	\$ 4,625	\$ 4,625	\$ -
Net OPEB Liability	393,167	-	54,585	338,582	-	338,582
Net Pension Liability	1,144,743	26,714	-	1,171,457	-	1,171,457
	<u>\$ 1,553,035</u>	<u>\$ 26,714</u>	<u>\$ 65,085</u>	<u>\$ 1,514,664</u>	<u>\$ 4,625</u>	<u>\$ 1,510,039</u>

Business Type Activities

Series 2012 Revenue Bonds

Revenue bonds were dated November 28, 2012 in the amount of \$5,595,000 and were used to refinance prior USDA leases dated June 2, 1994, December 5, 1996, January 26, 2000, July 19, 2004, May 20, 2005, and December 7, 2007, all of which financed the cost of improvements to the City's water and sewer system. The bond payments are made monthly until they mature in January 1, 2038. The interest is a variable rate increasing annually per Bond Agreement from 2% to 3.25%. The Series 2012 Bonds pursuant to the General Bond Resolution are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the City's system.

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

Depreciation Fund – monthly transfers of a sum sufficient to meet the current expenses of operating and maintaining the system. The balance in this fund shall not exceed an amount required to cover anticipated expenditures for a three-month period pursuant to the annual budget.

Restricted Bond and Interest Sinking Account – monthly transfers of a sum equal to one-sixth (or larger as necessary) of the next succeeding interest installment and one-twelfth (or larger as necessary) of the next principal installment and is recorded as restricted cash.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Restricted Reserve Account – the debt service reserve account is set up to accumulate 1/48 of the maximum debt service requirements.

The City is in compliance with all covenants of the Bond Agreement.

The original amount of outstanding issues, the maturity dates, interest rates, and outstanding balances, at June 30, 2019 are summarized below:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>		<u>Balance 7/1/2018</u>		<u>Additions</u>		<u>Retirements</u>		<u>Balance 6/30/2019</u>
Series 2012E	2/1/2038	2% - 3.25%	\$5,595,000	\$	4,133,333	\$	-	\$	222,083	\$	3,911,250

The minimum obligations of the City for the debt in the previous schedule are noted below:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	227,083	106,594	333,677
2021	232,083	102,052	334,135
2022	230,833	97,410	328,244
2023	229,167	92,559	321,726
2024	237,083	87,403	324,486
2025-2029	1,116,250	348,610	1,464,860
2030-2034	950,833	196,683	1,147,516
2035-2038	687,917	53,043	740,960
	<u>\$ 3,911,250</u>	<u>\$ 1,084,355</u>	<u>\$ 4,995,605</u>

Kentucky Infrastructure Authority (KIA) Loans

On November 10, 2007, the City entered into loan number B07-02, with KIA. This note payable with an original amount of \$749,947, is interest free and requires payments be made bi-annually. The maturity date is December 1, 2042 and is collateralized by the service revenue of the water system.

On August 1, 2018, the City entered into loan number B18-002, with KIA. This note payable with an original amount of \$53,000, has an interest rate of 0.50%, and requires payments to be made bi-annually. This loan was to fund the Rowena Marina Water System Extension and is collateralized by the service revenue of the water system. The loan requires the city to maintain an account called the Maintenance and Replacement Reserve; the city shall deposit \$100 annually to be used for extraordinary maintenance expenses related to the project or for the unbudgeted costs of replacing work or obsolete portions of the Project, the account will be fully funded at \$2,000 or 5% of the final amount borrowed. At June 30, 2019 this account had a balance of \$2,000 and is therefore fully funded.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

The City is in compliance with all covenants of the KIA Assistance Agreements.

The original amount of outstanding issues, the maturity dates, interest rates, and outstanding balances, at June 30, 2019 are summarized below:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance 7/1/2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2019</u>
B07-02	12/1/2042	0.00%	\$ 749,947	\$ 206,574	\$ -	\$ 8,431	\$ 198,143
B18-002	12/1/2038	0.50%	\$ 53,000	-	53,000	1,262	51,738
				<u>\$ 206,574</u>	<u>\$ 53,000</u>	<u>\$ 9,693</u>	<u>\$ 249,881</u>

The minimum obligations of the City for the debt in the previous schedule are noted below:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	10,963	256	11,219
2021	10,976	243	11,219
2022	10,989	230	11,219
2023	11,002	217	11,219
2024	11,015	204	11,219
2025-2029	55,270	827	56,097
2030-2034	55,605	495	56,100
2035-2039	54,551	152	54,703
2040-2043	29,511	-	29,511
	<u>\$ 249,881</u>	<u>\$ 2,624</u>	<u>\$ 252,506</u>

Changes in long-term debt are as follows:

<u>Note No.</u>	<u>Balance 7/1/2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2019</u>	<u>Current</u>	<u>Long-Term</u>
Series 2012E	\$ 4,133,333	\$ -	\$ 222,083	\$ 3,911,250	\$ 227,083	\$ 3,684,167
B07-02	206,574	-	8,431	198,143	8,431	189,712
B18-002	-	53,000	1,262	51,738	2,532	49,206
Net OPEB Liability	589,750	-	75,409	514,341	-	514,341
Net Pension Liability	1,717,115	36,906	-	1,754,021	-	1,754,021
	<u>\$ 6,646,772</u>	<u>\$ 89,906</u>	<u>\$ 307,185</u>	<u>\$ 6,429,493</u>	<u>\$ 238,046</u>	<u>\$ 6,191,447</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – 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 period of July 1, 2018 through June 30, 2019, employers were required to contribute 21.48% of the member’s salary. During the year ending June 30, 2019, the City contributed \$227,206 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

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during its fiscal year end June 30, 2018. At June 30, 2019, the City's proportion was 0.048035%.

City's proportionate share of CERS net pension liability \$ 2,925,478

For the year ended June 30, 2019, the City recognized pension expense of \$151,087. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 95,421	\$ 42,823
Changes of assumptions	285,904	-
Net difference between projected and actual earnings on pension plan investments	136,037	171,115
Changes in proportion and differences between City contributions and proportionate share of contributions	52,696	29,242
City contributions subsequent to the measurement date	216,391	-
	\$ 786,449	\$ 243,180

The \$216,391 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, 2020.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

		<u>Year Ended June 30,</u>
2020	\$	262,775
2021		119,234
2022		(39,430)
2023		<u>(15,701)</u>
	\$	<u><u>326,878</u></u>

Actuarial Methods and Assumptions— The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

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	35.0%	5.85%
Combined Fixed Income	24.0%	6.69%
Global Bond	4.0%	3.00%
Real Return (Diversified Inflation Strategies)	10.0%	7.00%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Hedge Funds)	10.0%	5.00%
Private Equity	10.0%	6.50%
Cash Equivalent	<u>2.0%</u>	1.50%
	100.0%	

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
City's proportionate share of net pension liability	3,682,874	2,925,478	2,290,913

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, 2019, there are no payables to CERS.

NOTE 8 – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployments Benefits Other Than OPEB's, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

Other Pension Benefit Programs-Employees' Health Plan

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2019 was as follows:

Total medical benefit obligation	\$ 3,092,623
Net position available for benefits at actuarial value	<u>(2,371,430)</u>
Unfunded medical benefit obligation	<u>\$ 721,193</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

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

At June 30, 2019, the City reported a liability of \$852,923 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the City. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the City's proportion was .04803900 percent.

The amount recognized by the City as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City's proportionate share of net OPEB liability	\$	852,923
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For the year ended June 30, 2019, the City recognized OPEB expense of \$82,980. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	\$	99,397
Changes of assumptions		170,341		1,971
Net difference between projected and actual earnings on pension plan investments		-		58,750
Changes in proportion and differences between City contributions and proportionate share of contributions		-		17,156
City contributions subsequent to the measurement date		<u>24,574</u>		<u>-</u>
	\$	<u>194,915</u>	\$	<u>177,274</u>

The \$24,574 (includes \$13,759 Implicit Subsidy) 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 collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

		<u>Year Ended June 30,</u>
2020	\$	(284)
2021		(284)
2022		(284)
2023		11,126
2024		(10,723)
Thereafter		<u>(6,484)</u>
	\$	<u><u>(6,933)</u></u>

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

*Changes of Benefit Terms-*None

Changes of Assumptions- There have been no changes in actuarial assumption since June 30, 2017.

*Actuarial Methods and Assumptions—*The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over period of 5 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Healthcare Trend Rates (Post 65) Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over period of 2 years.

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. Future contributions from plan members and employers will be made with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board.

The following table presents the net OPEB liability of the City, calculated using the discount rate of 5.85%, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
City's proportionate share of net OPEB liability	1,107,810	852,923	635,806

Sensitivity of the City’s proportionate share of net OPEB 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 5.85%, 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 (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
City's proportionate share of net OPEB liability	635,010	852,923	1,109,780

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERS financial report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 10 – LITIGATION

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of City management and the City Attorney that only one lawsuit will in all likelihood require payment which as of June 30, 2019 would be covered by insurance. Any other pending litigation, the City management has been advised the likely outcome will not be material to the basic financial statements.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 12 - CONTINGENCIES

The City receives financial assistance from various federal state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any unallowed disbursements resulting from such audits could become a liability of the City. In the opinion of City management, no material refunds will be required as a result of unallowed disbursements (if any), by the grantor agencies.

NOTE 13 – COMMITMENTS

The City has commitments to two construction projects, 127 Water Line Relocation and Rowena Water Line. Construction in progress for these two projects as of June 30, 2019 is \$545,337.

NOTE 14 – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

- 1) A prior period adjustment was made to the proprietary funds/business type activities for debt service as follows:

Net position, July 1, 2018	\$	20,764,025
Long-term debt		<u>91,667</u>
Net position, July 1, 2018, restated	\$	<u><u>20,855,692</u></u>

- 2) The prior period adjustment increased total governmental activities net position as follows:

Net position, July 1, 2018	\$	713,907
Accounts receivable fire membership		42,766
Vacation payable		22,234
Albany volunteer fire restricted cash		16,337
Albany volunteer fire unrestricted cash		24,598
Albany volunteer fire note payable		<u>(15,125)</u>
Total prior period adjustment		<u>90,810</u>
Net position, July 1, 2018, restated	\$	<u><u>804,717</u></u>

- 3) The prior period adjustment increased total general fund balance as follows:

Fund balance, July 1, 2018	\$	556,349
Accounts receivable fire membership		42,766
Vacation payable		22,234
Albany volunteer fire restricted cash		16,337
Albany volunteer fire unrestricted cash		<u>24,598</u>
Total prior period adjustment		<u>105,935</u>
Fund balance, July 1, 2018, restated	\$	<u><u>662,284</u></u>

All of the above prior period adjustments had no affect on the current year revenues and expenditures/expenses.

NOTE 16 – SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through June 30, 2020; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year end June 30, 2019, have not been evaluated by the City.

**CITY OF ALBANY, KENTUCKY
COMPARISON OF BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>			Net Excess (Deficiency)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes:				
Property taxes	\$ 135,000	\$ 135,000	\$ 132,485	\$ (2,515)
Tangible tax	-	-	10,027	10,027
Motor vehicle tax	10,000	10,000	13,559	3,559
Insurance taxes	585,000	585,000	358,992	(226,008)
Franchise taxes	165,000	165,000	215,374	50,374
Occupational taxes and business licenses	33,000	33,000	29,969	(3,031)
Intergovernmental revenues	36,000	36,000	77,183	41,183
Fees and permits	141,400	141,400	174,577	33,177
Fines	9,000	9,000	9,730	730
Investment income	-	-	2,448	2,448
Miscellaneous revenues	-	-	10,223	10,223
Total revenues	<u>1,114,400</u>	<u>1,114,400</u>	<u>1,034,567</u>	<u>(79,833)</u>
Expenditures:				
General government				
General and administration	258,251	258,251	221,838	36,413
Police department	597,277	597,277	567,126	30,151
Fire department	128,300	128,300	108,619	19,681
Street department	257,812	257,812	252,690	5,122
Debt service	-	-	10,500	10,500
Total expenditures	<u>1,241,640</u>	<u>1,241,640</u>	<u>1,160,773</u>	<u>91,367</u>
Excess (deficiency) of revenues over expenditures	(127,240)	(127,240)	(126,206)	1,034
Net change in fund balances	(127,240)	(127,240)	(126,206)	1,034
Fund balances - beginning	556,349	556,349	662,284	105,935
Fund balances - ending	<u>\$ 429,109</u>	<u>\$ 429,109</u>	<u>\$ 536,078</u>	<u>\$ 106,969</u>

See accompanying notes to the financial statements.

CITY OF Albany
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:				
City's proportion of the net pension liability	4.80%	4.89%	4.41%	4.56%
City's proportionate share of the net pension liability	\$ 2,925,478	\$ 2,861,588	\$ 1,897,484	\$ 1,479,000
City's proportionate share of the net pension liability associated with the City	-	-	-	-
Total	<u>\$ 2,925,478</u>	<u>\$ 2,861,588</u>	<u>\$ 1,897,484</u>	<u>\$ 1,479,000</u>
City's covered-employee payroll	\$ 1,256,007	\$ 1,191,372	\$ 1,127,273	\$ 1,027,114
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	232.92%	240.19%	168.33%	144.00%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	53.50%	55.50%	59.97%

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

See the accompanying notes to the required supplementary information.

CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS-PENSION
For the Year Ended June 30, 2019

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 227,206	\$ 171,379	\$ 166,592	\$ 127,670
Contributions in relation to the contractually required contribution	<u>227,206</u>	<u>171,379</u>	<u>166,592</u>	<u>127,670</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 1,256,007	\$ 1,191,372	1,127,273	\$ 1,027,114
City's proportionate share of the required contributions as a percentage of it's covered-employee payroll	18.09%	14.39%	14.78%	12.43%

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

See the accompanying notes to the required supplementary information.

CITY OF ALBANY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
For the year ended June 30, 2019

(1) CHANGES OF ASSUMPTIONS

CERS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

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

CERS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2018 and ending June 30, 2019. 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:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
HEALTH INSURANCE PLAN		
City's proportion of the collective net OPEB liability (asset)	4.80%	4.89%
City's proportionate share of the collective net OPEB liability (asset)	\$ 852,923	\$ 982,917
State's proportionate share of the collective net OPEB liability (asset) associated with the City	<u>-</u>	<u>-</u>
Total	<u>\$ 852,923</u>	<u>\$ 982,917</u>
City's covered-employee payroll	\$ 1,256,007	\$ 1,191,372
City's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	67.91%	82.50%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	13.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
 Year Ended June 30, 2019

	2019	2018
HEALTH INSURANCE PLAN		
Contractually required contribution	\$ 10,815	\$ 57,126
Contributions in relation to the contractually		
	10,815	57,126
Contribution deficiency (excess)	-	-
City's covered-employee payroll	\$ 1,256,007	\$ 1,191,372
City's contributions as a percentage of it's covered-employee payroll	0.86%	4.79%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

CITY OF ALBANY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
 For the year ended June 30, 2019

CERS

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

None.

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

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years

**CITY OF ALBANY, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2019**

	Special Revenue Funds		
	Municipal Road Aid	Local Governmental Economic Assistance	Total Other Governmental Funds
ASSETS			
Cash and cash equivalents	\$ <u>8,290</u>	\$ <u>3,437</u>	\$ <u>11,727</u>
Total assets	<u>8,290</u>	<u>3,437</u>	<u>11,727</u>
FUND BALANCES			
Restricted	<u>8,290</u>	<u>3,437</u>	<u>11,727</u>
Total fund balances	<u>\$ 8,290</u>	<u>\$ 3,437</u>	<u>\$ 11,727</u>

See accompanying notes to the financial statements.

CITY OF ALBANY, KENTUCKY
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	Special Revenue Funds		
	Municipal Road Aid	Local Governmental Economic Assistance	Total Governmental Funds
Revenues:			
Intergovernmental revenues	\$ 40,279	\$ 6,777	\$ 47,056
Total revenues	40,279	6,777	47,056
Expenditures:			
Street department	57,124	4,997	62,121
Total expenditures	57,124	4,997	62,121
Excess (deficiency) of revenues over expenditures	(16,845)	1,780	(15,065)
Net change in fund balances	(16,845)	1,780	(15,065)
Fund balances - beginning	25,135	1,657	26,792
Fund balances - ending	\$ 8,290	\$ 3,437	\$ 11,727

See accompanying notes to the financial statements.

**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 Lyle Pierce, Mayor
Members of the City Council
City of Albany, Kentucky

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, 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 Albany, Kentucky's basic financial statements and have issued our report thereon dated June 30, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Albany in a separate letter dated June 30, 2020.

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.

White & Associates, PSC

Richmond, Kentucky
June 30, 2020

CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	Yes
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

2019-001

Condition: Accounts receivable included material amounts of service charges and unapplied credits.

Effect: Accounts receivable appears materially misstated.

Cause: Accounts receivable balances are not being reconciled monthly.

Criteria: The water utilities account balances should be accurately reported and the balance be supported by proper documentation; thus, collections can be properly estimated.

Recommendation: The City should have policies and procedures in place to ensure accounts receivable balances are accurately reported by reviewing and classifying receivables properly.

2019-002

Condition: The water utility is not tracking the customer deposit liability.

Effect: The customer deposit liability is materially misstated.

Cause: Customer deposit liabilities are not being reconciled.

Criteria: The water utilities customer deposit liability balance should be properly reported.

Recommendation: The City should have policies and procedures in place to maintain supporting documentation to support the customer deposit liability account.

CITY OF ALBANY, KY
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

2018-001 Financial Statement Preparation

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

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

Current Status: Finding was corrected in the fiscal year ended June 30, 2019.

2018-002 Water and Sewer Fees Collection

Condition: Lack of controls to ensure timely collections and monitoring of water and sewer fees delinquent accounts.

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

Current Status: Finding was not corrected in the fiscal year ended June 30, 2019, see finding 2019-001.