

CITY OF BEATTYVILLE, KENTUCKY

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

CITY OF BEATTYVILLE

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

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CITY OF BEATTYVILLE

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Beattyville
Beattyville, 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 Beattyville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Beattyville, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note O to the financial statements, the City of Beattyville adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which replaces GASB Statement No. 45, for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension and OPEB supplemental reporting on pages 4–8 and 51–54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Beattyville, Kentucky'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 October 17, 2018, on our consideration of the City of Beattyville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Beattyville, Kentucky'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 Beattyville, Kentucky's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 17, 2018

CITY OF BEATTYVILLEMANAGEMENT'S DISCUSSION AND ANALYSISFor the Year Ended June 30, 2018

As management of the City of Beattyville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments, for the City was \$528,964 of which \$391,713 is considered restricted. The ending cash balance, including investments, for the City was \$548,516 of which \$359,133 is considered restricted.
- The City adopted GASB 75 for the year ended June 30, 2018 recognizing the City's net postemployment benefits other than pensions (OPEB) liability related to its participation in County Employee's Retirement System. The net OPEB liability reported at June 30, 2018 was \$813,731.
- Net operating income for the City's enterprise funds prior to depreciation costs was \$424,201.
- The City's fixed assets reflect additions of \$757,838. Of that total, governmental fixed assets reflect a \$755,032 increase and proprietary fixed assets reflect an increase of \$2,806. Improvements to sidewalks and the Streetscape Project account for \$627,598 of the total additions.
- The City made payments of \$261,454 towards its long-term debt, not including transactions related to the City's line of credit used in conjunction with the Streetscape Project. Those transactions netted an increase in debt of \$71,448.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

CITY OF BEATTYVILLEMANAGEMENT'S DISCUSSION AND ANALYSISFor the Year Ended June 30, 2018

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

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

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds. Proprietary funds include the Garbage Fund, Water Fund and Sewer Fund. All other activities are reported under governmental funds, including the General Fund, Road Aid Fund, PEP, Inc., Housing Reimbursement Fund, Cemetery Property Fund and various capital project funds.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, assets exceeded liabilities by \$7,450,745. At June 30, 2017 this amount was \$7,579,676.

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

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

CITY OF BEATTYVILLEMANAGEMENT'S DISCUSSION AND ANALYSISFor the Year Ended June 30, 2018**Net position for the year ended June 30, 2018**

A comparison of Statement of Net Position at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 555,434	\$ 448,061
Restricted Assets	359,133	391,713
Noncurrent Assets	14,383,281	14,476,800
Deferred Outflows of Resources	<u>926,494</u>	<u>315,438</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>16,224,342</u>	<u>15,632,012</u>
Current Liabilities	680,237	560,050
Noncurrent Liabilities	7,730,258	7,394,313
Deferred Inflows of Resources	<u>363,102</u>	<u>97,973</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>8,773,597</u>	<u>8,052,336</u>
- Net Position -		
Investment in Capital Assets (net of debt)	9,460,160	9,363,673
Restricted	493,644	481,841
Unrestricted	<u>(2,503,059)</u>	<u>(2,265,838)</u>
<u>Total Net Position</u>	<u>7,450,745</u>	<u>7,579,676</u>
<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 16,224,342</u>	<u>\$ 15,632,012</u>

- Deferred outflows of resources and deferred inflows of resources reflect increases of \$611,056 and \$265,129, respectively, in part due to recognition of GASB 75. Noncurrent Liabilities increased due to increases in net pension liability of \$366,779 and net OPEB liability of \$813,731.
- Noncurrent Assets decreased due to recognition of current year depreciation on capital assets and recognition of disposal of capital assets.
- Current Assets increased in part due to increases in proprietary fund accounts receivable from \$184,717 to \$243,038.
- Current Liabilities increased due to an increase in the current portion of long term debt from \$238,163 to \$312,306 in resulting from the increase for the Streetscape Project line of credit.

CITY OF BEATTYVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2018

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

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Local revenue sources	\$ 802,470	\$ 796,509	\$ (5,961)
Intergovernmental revenues	<u>349,800</u>	<u>158,390</u>	<u>(191,410)</u>
<u>Total Revenues</u>	<u>1,152,270</u>	<u>954,899</u>	<u>(197,371)</u>
Expenditures:			
General government	143,910	189,015	(45,105)
Police	415,600	409,358	6,242
Fire	326,050	29,016	297,034
Highway and streets	203,232	194,536	8,696
Capital outlay	-	143,192	(143,192)
Debt service	<u>-</u>	<u>688,469</u>	<u>(688,469)</u>
<u>Total Expenditures</u>	<u>1,088,792</u>	<u>1,653,586</u>	<u>(564,794)</u>
Excess of Revenues over (under) <u>Expenditures</u>	<u>\$ 63,478</u>	<u>\$ (698,687)</u>	<u>\$ (762,165)</u>

- Debt service is not a budgeted item.
- The budget for Intergovernmental revenues includes planned renovations to the fire department. The renovations did not begin until after the reporting period.

The following table presents a comparison of government wide revenue and expense for the fiscal years ended June 30, 2018 and 2017:

	<u>For the Year Ended</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Intergovernmental revenues	\$ 833,775	\$ 241,909
Local revenue sources	<u>2,882,862</u>	<u>2,607,767</u>
<u>Total Revenues</u>	<u>3,716,637</u>	<u>2,849,676</u>
Expenditures:		
General government	273,341	187,809
Police	590,635	478,067
Fire	35,102	37,977
Highway and streets	280,684	203,724
Community services	278,184	224,799
Utility services	<u>2,387,622</u>	<u>2,359,346</u>
<u>Total Expenditures</u>	<u>3,845,568</u>	<u>3,491,722</u>
<u>Change in Net Position</u>	<u>\$ (128,931)</u>	<u>\$ (642,046)</u>

CITY OF BEATTYVILLEMANAGEMENT'S DISCUSSION AND ANALYSISFor the Year Ended June 30, 2018

- Intergovernmental revenues include \$451,704 related to the Streetscape Project.
- Increases in Local revenue sources include an increase of \$54,812 in taxes, which is in part due to the reopening of the Lee Adjustment Center.
- Increases in expenditures include additions related to recognition of GASB 68 and GASB 75 totaling \$198,149 and \$56,018, respectively.

BUDGETARY IMPLICATIONS

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

Results of the current fiscal year and recent historical trends for the City were taken into account when preparing the 2018-19 budget. No significant revenue or expense line items are foreseeable. The City's tax rates and tax base have not changed significantly.

The City has assessed underlying economic risk factors that are prevalent for the geographic area and considered these risk factors when preparing budgets.

Questions regarding this report should be directed to the Mayor or Finance Office at (606) 464-5007.

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF BEATTYVILLE
STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
- Current assets -			
Cash - unrestricted	\$ 163,383	\$ 24,939	\$ 188,322
Investments	1,061	-	1,061
Receivables:			
Property tax (net allowance for uncollectibles)	7,096	-	7,096
Operations (net allowance for uncollectibles)	-	243,038	243,038
Interest	-	35	35
Due from other funds	80	19,848	19,928
Intergovernmental	1,024	45,700	46,724
Inventory	-	49,230	49,230
<u>Total current assets</u>	<u>172,644</u>	<u>382,790</u>	<u>555,434</u>
- Restricted assets -			
Cash	<u>3,461</u>	<u>355,672</u>	<u>359,133</u>
- Noncurrent assets -			
Land, easements and right of ways	405,473	325,809	731,282
Property, plant and fixtures	5,252,477	21,567,127	26,819,604
Less: Accumulated depreciation	<u>(2,653,769)</u>	<u>(10,513,836)</u>	<u>(13,167,605)</u>
<u>Total noncurrent assets</u>	<u>3,004,181</u>	<u>11,379,100</u>	<u>14,383,281</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows - pension resources	390,188	312,406	702,594
Deferred outflows - OPEB	<u>135,786</u>	<u>88,114</u>	<u>223,900</u>
<u>Total deferred outflows of resources</u>	<u>525,974</u>	<u>400,520</u>	<u>926,494</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 3,706,260</u>	<u>\$ 12,518,082</u>	<u>\$ 16,224,342</u>

See notes to financial statements.

CITY OF BEATTYVILLE

STATEMENT OF NET POSITION (CONTINUED)

June 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>LIABILITIES</u>			
- Current liabilities -			
Accounts payable	\$ 29,744	\$ 103,787	\$ 133,531
Accrued liabilities	30,392	52,650	83,042
Customer deposits	-	131,430	131,430
Due to other funds	19,928	-	19,928
Notes payable - current portion	135,494	12,812	148,306
Revenue bonds payable - current portion	-	164,000	164,000
<u>Total current liabilities</u>	<u>215,558</u>	<u>464,679</u>	<u>680,237</u>
- Noncurrent liabilities -			
Notes payable	402,609	25,706	428,315
Revenue bonds payable	-	4,182,500	4,182,500
Net pension liability	1,126,670	1,179,042	2,305,712
Net OPEB liability	408,785	404,946	813,731
<u>Total noncurrent liabilities</u>	<u>1,938,064</u>	<u>5,792,194</u>	<u>7,730,258</u>
<u>Total liabilities</u>	<u>2,153,622</u>	<u>6,256,873</u>	<u>8,410,495</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows - pension related	109,293	207,206	316,499
Deferred inflows - OPEB	25,402	21,201	46,603
<u>Total deferred inflows of resources</u>	<u>134,695</u>	<u>228,407</u>	<u>363,102</u>
<u>NET POSITION</u>			
Net investment in capital assets	2,466,078	6,994,082	9,460,160
Unrestricted (deficit)			
Pension resources	(845,775)	(1,073,842)	(1,919,617)
OPEB	(298,401)	(338,033)	(636,434)
Unrestricted - other	(41,931)	94,923	52,992
Restricted	137,972	355,672	493,644
<u>Total net position</u>	<u>1,417,943</u>	<u>6,032,802</u>	<u>7,450,745</u>
<u>Total liabilities, deferred inflows of resources</u> <u>and net position</u>	<u>\$ 3,706,260</u>	<u>\$ 12,518,082</u>	<u>\$ 16,224,342</u>

See notes to financial statements.

CITY OF BEATTYVILLESTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
General government	\$ 273,341	\$ -	\$ -	\$ -
Police	590,635	-	(2,646)	(52,278)
Fire	35,102	-	-	-
Highway and streets	280,684	-	(26,365)	(522,462)
Community services	278,184	(21,213)	(230,024)	-
<u>Total governmental activities</u>	<u>1,457,946</u>	<u>(21,213)</u>	<u>(259,035)</u>	<u>(574,740)</u>
- Business-type Activities -				
Water utilities	1,662,975	(1,378,644)	-	-
Sewer utilities	510,647	(482,973)	-	-
Garbage utilities	214,000	(213,985)	-	-
<u>Total business-type activities</u>	<u>2,387,622</u>	<u>(2,075,602)</u>	<u>-</u>	<u>-</u>
<u>Total primary government</u>	<u>\$ 3,845,568</u>	<u>\$ (2,096,815)</u>	<u>\$ (259,035)</u>	<u>\$ (574,740)</u>

See notes to financial statements.

CITY OF BEATTYVILLESTATEMENT OF ACTIVITIES (CONTINUED)For the Year Ended June 30, 2018

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	\$ (273,341)	\$ -	\$ (273,341)
	(535,711)	-	(535,711)
	(35,102)	-	(35,102)
	268,143	-	268,143
	<u>(26,947)</u>	<u>-</u>	<u>(26,947)</u>
	<u>(602,958)</u>	<u>-</u>	<u>(602,958)</u>
	-	(284,331)	(284,331)
	-	(27,674)	(27,674)
	<u>-</u>	<u>(15)</u>	<u>(15)</u>
	<u>-</u>	<u>(312,020)</u>	<u>(312,020)</u>
	<u>(602,958)</u>	<u>(312,020)</u>	<u>(914,978)</u>
General revenues:			
Taxes	291,340	-	291,340
Licenses and permits	466,485	-	466,485
Interest income	5	529	534
Miscellaneous	116,577	-	116,577
Gain/(loss) on disposal of assets	(66,839)	(22,050)	(88,889)
Transfer in/(out)	<u>107,228</u>	<u>(107,228)</u>	<u>-</u>
<u>Total general revenues</u>	<u>914,796</u>	<u>(128,749)</u>	<u>786,047</u>
Change in net position	311,838	(440,769)	(128,931)
Net position - beginning of year, restated	1,106,105	6,473,571	7,579,676
Net position - end of year	<u>\$ 1,417,943</u>	<u>\$ 6,032,802</u>	<u>\$ 7,450,745</u>

See notes to financial statements.

CITY OF BEATTYVILLE

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

	<u>General</u>	<u>Streetscape Project</u>	<u>Housing Reimbursement Fund</u>	<u>Other Govt Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash	\$ 21,440	\$ -	\$ 3,071	\$ 138,872	\$ 163,383
Investments	1,061	-	-	-	1,061
Receivables (net allowance for uncollectibles)					
Taxes	7,096	-	-	-	7,096
Intergovernmental	1,024	-	-	-	1,024
Due from other funds	-	-	-	80	80
<u>Restricted Assets:</u>					
Cash	<u>3,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,461</u>
<u>Total assets</u>	<u>34,082</u>	<u>-</u>	<u>3,071</u>	<u>138,952</u>	<u>176,105</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities:</u>					
Accounts payable	25,306	-	-	4,438	29,744
Accrued liabilities	26,638	-	3,754	-	30,392
Due to other funds	<u>19,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,928</u>
<u>Total liabilities</u>	<u>71,872</u>	<u>-</u>	<u>3,754</u>	<u>4,438</u>	<u>80,064</u>
<u>Fund Balance:</u>					
Unassigned	(41,248)	-	(683)	-	(41,931)
Restricted	<u>3,458</u>	<u>-</u>	<u>-</u>	<u>134,514</u>	<u>137,972</u>
<u>Total fund balance</u>	<u>(37,790)</u>	<u>-</u>	<u>(683)</u>	<u>134,514</u>	<u>96,041</u>
<u>Total liabilities and fund balance</u>	<u>\$ 34,082</u>	<u>\$ -</u>	<u>\$ 3,071</u>	<u>\$ 138,952</u>	<u>\$ 176,105</u>

See notes to financial statements.

CITY OF BEATTYVILLERECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONJune 30, 2018

Total fund balance per fund financial statements		\$ 96,041
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	\$	5,657,950
Less accumulated depreciation	\$	<u>(2,653,769)</u>
		3,004,181
Deferred outflows on OPEB and pension resources are reported in government wide financial statements, but not in fund financial statements.		525,974
Net pension and OPEB obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.		(1,535,455)
Deferred inflows of resources related to OPEB and pension are not reported in the fund financial statements.		(134,695)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund		
Governmental bonds and notes payable		<u>(538,103)</u>
Net position for governmental activities		<u>\$ 1,417,943</u>

See notes to financial statements.

CITY OF BEATTYVILLE

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	<u>General</u>	<u>Streetscape Project</u>	<u>Housing Reimbursement Fund</u>	<u>Other Govt Funds</u>	<u>Total</u>
<u>REVENUES:</u>					
Taxes	\$ 291,340	\$ -	\$ -	\$ -	\$ 291,340
Licenses and permits	466,485	-	-	-	466,485
Intergovernmental revenues	158,390	451,704	215,300	40,015	865,409
Other revenues	38,684	-	-	22,287	60,971
	<u>954,899</u>	<u>451,704</u>	<u>215,300</u>	<u>62,302</u>	<u>1,684,205</u>
<u>EXPENDITURES:</u>					
<u>Current:</u>					
General government	189,015	-	-	432	189,447
Police	409,358	-	-	-	409,358
Fire	29,016	-	-	-	29,016
Highways and streets	194,536	-	-	9,815	204,351
Capital outlay	143,192	556,841	-	-	700,033
Debt service	688,469	-	-	-	688,469
Other expenditures	-	-	214,557	15,395	229,952
	<u>1,653,586</u>	<u>556,841</u>	<u>214,557</u>	<u>25,642</u>	<u>2,450,626</u>
Excess of revenues over (under) expenditures	<u>(698,687)</u>	<u>(105,137)</u>	<u>743</u>	<u>36,660</u>	<u>(766,421)</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Loan proceeds	666,106	-	-	-	666,106
Operating transfers in	783,034	109,637	94,383	28,607	1,015,661
Operating transfers (out)	(787,249)	(4,500)	(95,753)	(20,931)	(908,433)
Interest income	5	-	-	-	5
	<u>661,896</u>	<u>105,137</u>	<u>(1,370)</u>	<u>7,676</u>	<u>773,339</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(36,791)</u>	<u>-</u>	<u>(627)</u>	<u>44,336</u>	<u>6,918</u>
<u>FUND BALANCE - JULY 1</u>	<u>(999)</u>	<u>-</u>	<u>(56)</u>	<u>90,178</u>	<u>89,123</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ (37,790)</u>	<u>\$ -</u>	<u>\$ (683)</u>	<u>\$ 134,514</u>	<u>\$ 96,041</u>

See notes to financial statements.

CITY OF BEATTYVILLERECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2018

Net change in total fund balances per fund financial statements	\$	6,918
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Amounts reported for governmental activities in the statement of activities differences:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as

Capital outlay	\$	688,193	
Depreciation		<u>(208,108)</u>	
			480,085

The issuance of long term debt provides current financial resources to governmental funds and does not have any effect on net assets.

(666,106)

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 and OPEB expense.

Pension expenditures	\$	(149,309)	
OPEB expenditures		<u>(35,607)</u>	(184,916)

Repayment of long term debt is considered an expenditure in the governmental funds, but their repayment reduces long-term liabilities in the statement of net position

675,857

Change in net position of governmental activities	\$	<u>311,838</u>
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CITY OF BEATTYVILLESTATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2018

<u>ASSETS</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>CURRENT ASSETS:</u>				
Cash	\$ 24,939	\$ -	\$ -	\$ 24,939
Accounts receivable				
Operations (net allowance for uncollectibles)	161,789	62,076	19,173	243,038
Other	-	-	45,700	45,700
Interest	35	-	-	35
Due from other funds	19,848	-	-	19,848
Inventory	49,230	-	-	49,230
<u>Total current assets</u>	<u>255,841</u>	<u>62,076</u>	<u>64,873</u>	<u>382,790</u>
<u>RESTRICTED ASSETS:</u>				
Cash	342,800	1,574	11,298	355,672
<u>UTILITY PLANT:</u>				
Land, easements and right-of-ways	317,809	8,000	-	325,809
Plant, equipment and improvements	16,593,734	4,443,066	530,327	21,567,127
<u>Total</u>	<u>16,911,543</u>	<u>4,451,066</u>	<u>530,327</u>	<u>21,892,936</u>
<u>LESS: Accumulated depreciation</u>	<u>8,341,588</u>	<u>1,881,584</u>	<u>290,664</u>	<u>10,513,836</u>
<u>Utility plant - net</u>	<u>8,569,955</u>	<u>2,569,482</u>	<u>239,663</u>	<u>11,379,100</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows - pension resources	231,180	37,489	43,737	312,406
Deferred outflows - OPEB	65,227	10,574	12,313	88,114
<u>Total deferred outflows of resources</u>	<u>296,407</u>	<u>48,063</u>	<u>56,050</u>	<u>400,520</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 9,465,003</u>	<u>\$ 2,681,195</u>	<u>\$ 371,884</u>	<u>\$ 12,518,082</u>

See notes to financial statements.

CITY OF BEATTYVILLE

STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)

June 30, 2018

LIABILITIES	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>CURRENT LIABILITIES:</u>				
<u>Payable from Current Assets:</u>				
Accounts payable	\$ 57,973	\$ 35,511	\$ 10,303	\$ 103,787
Accrued liabilities	<u>42,278</u>	<u>4,594</u>	<u>5,778</u>	<u>52,650</u>
Total current liabilities				
<u>payable from current assets</u>	<u>100,251</u>	<u>40,105</u>	<u>16,081</u>	<u>156,437</u>
 <u>CURRENT LIABILITIES:</u>				
<u>Payable from Restricted Assets:</u>				
Revenue bonds payable	130,500	33,500	-	164,000
Customer deposits	131,430	-	-	131,430
Note payable	<u>5,494</u>	<u>-</u>	<u>7,318</u>	<u>12,812</u>
Total current liabilities				
<u>payable from restricted assets</u>	<u>267,424</u>	<u>33,500</u>	<u>7,318</u>	<u>308,242</u>
 <u>LONG TERM LIABILITIES:</u>				
Note payable, less current portion	25,706	-	-	25,706
Revenue bonds payable, less current portion	2,999,500	1,183,000	-	4,182,500
Net pension liability	872,491	141,485	165,066	1,179,042
Net OPEB liability	<u>299,660</u>	<u>48,594</u>	<u>56,692</u>	<u>404,946</u>
Total long term liabilities	<u>4,197,357</u>	<u>1,373,079</u>	<u>221,758</u>	<u>5,792,194</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows - pension related	153,332	24,865	29,009	207,206
Deferred inflows - OPEB	<u>15,689</u>	<u>2,544</u>	<u>2,968</u>	<u>21,201</u>
Total deferred inflows of resources	<u>169,021</u>	<u>27,409</u>	<u>31,977</u>	<u>228,407</u>
 <u>NET POSITION</u>				
Net investment in capital assets	5,408,755	1,352,982	232,345	6,994,082
Unrestricted (deficit)				
Pension resources	(794,643)	(128,861)	(150,338)	(1,073,842)
OPEB	(250,122)	(40,564)	(47,347)	(338,033)
Unrestricted - other	24,160	21,971	48,792	94,923
Restricted	<u>342,800</u>	<u>1,574</u>	<u>11,298</u>	<u>355,672</u>
Total net position	<u>4,730,950</u>	<u>1,207,102</u>	<u>94,750</u>	<u>6,032,802</u>
 Total liabilities, deferred inflows of resources				
<u>and net position</u>	<u>\$ 9,465,003</u>	<u>\$ 2,681,195</u>	<u>\$ 371,884</u>	<u>\$ 12,518,082</u>

See notes to financial statements.

CITY OF BEATTYVILLE

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS

For the Year Ended June 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>REVENUES:</u>				
Charges for service	\$ 1,346,154	\$ 455,979	\$ 193,291	\$ 1,995,424
Other revenue	<u>32,490</u>	<u>26,994</u>	<u>20,694</u>	<u>80,178</u>
<u>Total</u>	<u>1,378,644</u>	<u>482,973</u>	<u>213,985</u>	<u>2,075,602</u>
<u>OPERATING EXPENSES BEFORE DEPRECIATION:</u>				
Personal services	557,743	97,705	103,942	759,390
Supplies and materials	232,845	91,381	31,486	355,712
Contractual services	291,015	163,634	47,141	501,790
Miscellaneous	<u>17,145</u>	<u>11,091</u>	<u>6,273</u>	<u>34,509</u>
<u>Total</u>	<u>1,098,748</u>	<u>363,811</u>	<u>188,842</u>	<u>1,651,401</u>
OPERATING INCOME BEFORE DEPRECIATION	279,896	119,162	25,143	424,201
<u>LESS - DEPRECIATION</u>	<u>420,891</u>	<u>108,311</u>	<u>25,158</u>	<u>554,360</u>
<u>Net operating income (loss)</u>	<u>(140,995)</u>	<u>10,851</u>	<u>(15)</u>	<u>(130,159)</u>
<u>NON-OPERATING INCOME (EXPENSES):</u>				
Interest income	529	-	-	529
Interest expense	(143,336)	(38,525)	-	(181,861)
Gain/(Loss) on disposal of capital assets	(22,050)	-	-	(22,050)
Transfer in (out)	<u>14,196</u>	<u>(88,111)</u>	<u>(33,313)</u>	<u>(107,228)</u>
<u>Total non-operating income (expenses)</u>	<u>(150,661)</u>	<u>(126,636)</u>	<u>(33,313)</u>	<u>(310,610)</u>
<u>Net income (loss)</u>	<u>(291,656)</u>	<u>(115,785)</u>	<u>(33,328)</u>	<u>(440,769)</u>
<u>NET POSITION - JULY 1, RESTATED</u>	5,022,606	1,322,887	128,078	6,473,571
<u>NET POSITION - JUNE 30</u>	<u>\$ 4,730,950</u>	<u>\$ 1,207,102</u>	<u>\$ 94,750</u>	<u>\$ 6,032,802</u>

See notes to financial statements.

CITY OF BEATTYVILLE

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2018

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Receipts from customers and users	\$ 1,334,399	\$ 460,149	\$ 213,763	\$ 2,008,311
Payments to suppliers	(529,923)	(260,617)	(82,191)	(872,731)
Payments to employees	(548,628)	(67,196)	(66,688)	(682,512)
<u>Net cash provided/(used) by operating activities</u>	<u>255,848</u>	<u>132,336</u>	<u>64,884</u>	<u>453,068</u>
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Operating transfers (out) in	<u>14,196</u>	<u>(88,111)</u>	<u>(33,313)</u>	<u>(107,228)</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Acquisition of capital assets	(2,806)	-	-	(2,806)
Principal paid on notes and bonds	(125,494)	(26,000)	(28,761)	(180,255)
Proceeds from notes and bonds	-	-	-	-
Interest paid on bonds and note	(143,336)	(38,525)	-	(181,861)
<u>Net cash provided/(used) for capital and related financing activities</u>	<u>(271,636)</u>	<u>(64,525)</u>	<u>(28,761)</u>	<u>(364,922)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest on investments	<u>529</u>	<u>-</u>	<u>-</u>	<u>529</u>
<u>Net cash provided/(used) by investing activities</u>	<u>529</u>	<u>-</u>	<u>-</u>	<u>529</u>
 <u>NET INCREASE (DECREASE) IN CASH</u>	 <u>(1,063)</u>	 <u>(20,300)</u>	 <u>2,810</u>	 <u>(18,553)</u>
 <u>CASH AND RESTRICTED CASH, JULY 1</u>	 <u>368,802</u>	 <u>21,874</u>	 <u>8,488</u>	 <u>399,164</u>
 <u>CASH AND RESTRICTED CASH, JUNE 30</u>	 <u>367,739</u>	 <u>1,574</u>	 <u>11,298</u>	 <u>380,611</u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating profit/(loss)	(140,995)	10,851	(15)	(130,159)
Adjustments to reconcile operating net cash provided by operating activities				
Depreciation	420,891	108,311	25,158	554,360
Restatement of net position	(236,626)	(37,794)	(43,202)	(317,622)
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(34,796)	(22,824)	(701)	(58,321)
(Increase) decrease in other receivables	-	-	479	479
(Increase) decrease in due from other funds	(7,939)	-	-	(7,939)
(Increase) decrease in inventory	873	-	-	873
Increase (decrease) in accounts payable	10,209	5,488	2,703	18,400
Increase (decrease) in accrued liabilities	4,900	1,708	1,026	7,634
Increase (decrease) in customer deposits	(1,510)	-	-	(1,510)
(Increase) decrease in deferred outflows	(161,854)	(31,342)	(36,000)	(229,196)
Increase (decrease) in deferred inflows	117,575	21,162	25,315	164,052
Increase (decrease) in net OPEB liability	299,660	48,594	56,692	404,946
Increase (decrease) in net pension liability	(14,540)	28,182	33,429	47,071
<u>Net cash provided by operations</u>	<u>\$ 255,848</u>	<u>\$ 132,336</u>	<u>\$ 64,884</u>	<u>\$ 453,068</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTSJune 30, 2018Note A – General Statement and Summary of Significant Accounting PoliciesGeneral Statement

The City of Beattyville, Kentucky (The “City”) was incorporated in 1870, under the provisions of the State of Kentucky. The City operates under Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), streets, sanitation, planning and zoning, and general administrative and utility services.

Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

1. The Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of managements, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City’s reporting entity.

Excluded from the reporting entity:

Beattyville Housing Development Corporation

This Organization is excluded as they have their own management staff and governing board. However, the City established the Housing Reimbursement Fund to account for its payments of payroll and related fringe benefits for employees of Beattyville Housing Development Corporation and for which it is fully reimbursed.

Included in the reporting entity as a blended component unit:

People Encouraging People, Inc. (PEP, Inc.)

Grant applications are in the City’s name. Accounting prepared by City personnel.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20182. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

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

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

Fund Financial Statements

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

The City reports the following major funds:

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

The *Water, Sewer and Garbage Funds* are used to account for those operations that are financed and operated in a manner similar to private business or where management has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *Housing Reimbursement Fund* accounts for the City's payment of payroll and related fringe benefits for employees of the Beattyville Housing Development Corporation. Beattyville Housing Development Corporation reimburses the City for these expenditures.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20182. Government-Wide and Fund Financial Statements (continued)

Additionally, the government reports the following fund types:

The *Municipal Road Fund* accounts for State road funds restricted to improving the City's highway infrastructure.

People Encouraging People, Inc. is a restricted special revenue fund used for juvenile and adult drug prevention programs and community service projects.

The *Cemetery Property Fund* accounts for restricted activity related to the sale of cemetery lots.

The *Streetscape Project Fund* accounts for ongoing City infrastructure expenditures enhancing Main Street and the surrounding area.

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20183. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

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

4. Assets, Liabilities, and Net Position or Equity

a. Cash and Investments

Cash and investments are separately held and reflected in their respective funds as "cash and cash equivalents" and "investments" some of which are restricted assets.

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

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

b. Inventories and Prepays

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

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

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20184. Assets, Liabilities, and Net Position or Equity (continued)

c. Capital Assets, Depreciation, and Amortization

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

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

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

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

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

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

e. Fund Equity

The City implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

CITY OF BEATTYVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

4. Assets, Liabilities, and Net Position or Equity (continued)

Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose.

The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2018:

Fund balances	Housing				
	General	Streetscape	Reimbursement	Non-major	Total
	<u>Fund</u>	<u>Project</u>	<u>Fund</u>	<u>Funds</u>	
Unassigned	\$ (41,248)	\$ -	\$ (683)	\$ -	\$ (41,931)
Restricted	<u>3,458</u>	<u>-</u>	<u>-</u>	<u>134,514</u>	<u>137,972</u>
Total fund balances	<u>\$ (37,790)</u>	<u>\$ -</u>	<u>\$ (683)</u>	<u>\$ 134,514</u>	<u>\$ 96,041</u>

f. Net Position

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

5. Sources of Revenue and Other General Information

a. Revenues

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

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20185. Sources of Revenue and Other General Information (continued)1. Federal and State Grant Revenue

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

2. State Financial Assistance

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

3. Local Contributed Cash

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

4. In-Kind – Contributed Services

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

5. Other Revenues

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

b. Leases

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

6. Budgets and Budgetary Accounting

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

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20186. Budgets and Budgetary Accounting (continued)

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

7. Leave Policies

The vacation leave and sick leave policy for city employees is as follows:

First year no vacation, second year one-week vacation, third year two week vacation.

The sick leave policy allows for the accumulation of 1 day each month or 12 days per year with a maximum of 360 hours. No accrual is made for sick leave payable.

8. Encumbrances

Encumbrances represent commitments related to unperformed contracts for good or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental fund types.

Encumbrances are reported as a component of assigned, restricted or committed fund balance since they do not constitute expenditures or liabilities.

9. Property Tax Calendar

Property taxes for fiscal year 2018 were levied in September 2017, on the assessed valuation of property in Lee County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes, are as follows:

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 20189. Property Tax Calendar (continued)

<u>Description</u>	<u>Per KRS 134.020</u>
1. Due date for payment of taxes, 1% discount	30 days from the date mailed
2. Face value amount payment date	31-60 days from the date mailed
3. Delinquent date, 20% penalty, 6% interest per annum	Beyond 61 days from the date mailed

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

10. Accounting for Pensions and Other Post-Employment Benefits (OPEB)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions* – an *amendment* of GASB Statement 27 and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, improves information provided by state and local governmental employers about financial support for pensions and OPEB that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions/OPEB with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. These Statements was effective for fiscal years beginning after June 15, 2014 for pension reporting and fiscal year beginning after June 15, 2017 for OPEB, each have been implemented by the City of Beattyville.

11. Use of Estimates

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

12. Recently Issued Accounting Pronouncements

The City has implemented the following new accounting pronouncements, where applicable:

- GASB Statement No. 75—Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for the City’s fiscal year ending June 30, 2018.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 201812. Recently Issued Accounting Pronouncements (continued)

- GASB Statement No. 81—Irrevocable Split-Interest Agreements, effective for the City’s fiscal year ending June 30, 2018.
- GASB Statement No. 85—Omnibus 2017, effective for the City’s fiscal year ending June 30, 2018.
- GASB Statement No. 86—Certain Debt Extinguishment Issues, effective for the Town’s fiscal year ending June 30, 2018.

The adoption of GASB Statement Numbers 81, 85 and 86 did not have an impact on the City’s financial position or results of operations. The adoption of GASB Statement No. 75 resulted in a restatement of net position in the Government-Wide Financial Statements of (\$580,416) as discussed in Note S.

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

- GASB Statement No. 83—Certain Asset Retirement Obligations, Effective for the City’s fiscal year ending June 30, 2019.
- GASB Statement No. 84—Fiduciary Activities, effective for the City’s fiscal year ending June 30, 2020.
- GASB Statement No., 87—Leases, effective for the City’s fiscal year ending June 30, 2021.

The impact of these pronouncements on the City’s financial statements has not been determined.

Note B – Cash and Investments

The carrying amount of the City’s deposits with financial institutions was \$548,516 and the bank balance was \$586,191. Investments at June 30, 2018 consisted of certificates of deposit in local financial institutions.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the City may not recover collateral securities. The City requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation coverage (FDIC). At June 30, 2018, \$483,373 was covered by FDIC and \$102,818 was secured by securities held in the financial institution’s name. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the City’s investments in a single issuer. All of the organization’s cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The City does not hold any foreign investments.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note C – Inventory Items

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

Note D – Payable from Restricted Assets

Certain assets of the City of Beattyville have been restricted for debt service, customer deposit, equipment, infrastructure and construction. The assets consist of cash and short-term investments restricted as follows:

Parks and recreation	\$ 2,476
Lee County solid waste billing fees	985
Pump placement reserve	6,904
Depreciation reserve	10,632
Depreciation reserve - cash	6,069
Garbage truck reserve	7,372
Sewer reserve	1,431
Solid waste revenue	3,925
Special project	888
Grinder pumps	144
FMHA Bond and interest reserves	143,805
Water works deposit	15,403
Rural Development depreciation reserve	159,099
<u>Total</u>	<u>\$ 359,133</u>

The depreciation reserve fund requires funding to the reserve account on the following loans at the following levels:

<u>Issue</u>	<u>Required Reserve</u>
1995 Revenue Bonds	\$ 45,600
1997 Revenue Bonds	28,200
2002 Revenue Bonds	30,600
2007 Revenue Bonds	55,080
2008 Revenue Bonds	24,840
2011 Revenue Bonds	12,180
2013 Revenue Bonds	7,440
2017 Revenue Bonds	1,380
	<u>\$ 205,320</u>

The required reserve amounts have been met.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note E – Cash per Cash Flow Statement

Cash per cash flow statement at June 30, 2018 is as follows:

Water disbursement fund	\$ 11,450
O & M account	12,864
Petty cash	625
Depreciation reserve - cash	6,069
Rural Development depreciation reserve	159,099
Pump replacement reserve	6,904
FMHA Bond and interest reserves	143,805
Sewer reserve	1,431
Water works deposit	15,403
Garbage truck reserve	7,372
Solid waste revenue	3,925
Special project	888
Grinder pumps	144
Depreciation reserve	10,632
<u>Totals</u>	<u>\$ 380,611</u>

Note F – Fund Financial Statements Excess Expenditures Over Revenue/Deficit Balances

Excess of expenditures over revenues before other financing sources
by fund for the year ended June 30, 2018:

General Fund	\$ 698,687
Water Fund	140,995
Garbage Fund	15
PEP, Inc.	671
Streetscape Project	105,137

The following fund had a deficit balance at June 30, 2018:

General Fund	\$ 37,790
Housing Reimbursement Fund	683

Note G – Allowance for Uncollectible Accounts

Allowance for uncollectible receivables in the Water Fund at June 30, 2018 was \$137,384, Sewer Fund was \$38,185, Garbage Fund was \$53,922 and the General Fund was \$5,130.

CITY OF BEATTYVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – Proprietary Funds Property, Plant and Equipment

The following is a summary of changes in the property, plant and equipment of the enterprise funds at June 30, 2018:

Note I	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>	—
<u>Capital assets not being depreciated:</u>					
Land, easement and right of way	\$ 346,309	\$ -	\$ (20,500)	\$ 325,809	
Total capital assets not being depreciated	346,309	-	(20,500)	325,809	
<u>Capital assets being depreciated:</u>					
Sewer lift station	64,529	-	-	64,529	
Equipment and other	1,079,465	2,806	(266,800)	815,471	
Vehicles	508,999	-	(109,588)	399,411	
Line extension projects	13,895,504	-	(24,271)	13,871,233	
Water plant	2,820,266	-	-	2,820,266	
Sewer plant	3,596,217	-	-	3,596,217	
Total capital assets being depreciated	21,964,980	2,806	(400,659)	21,567,127	
<u>Less accumulated depreciation for:</u>					
Sewer lift station	(63,604)	(309)	-	(63,913)	
Equipment and other	(831,366)	(22,485)	244,750	(609,101)	
Vehicles	(372,434)	(32,866)	109,588	(295,712)	
Line extension projects	(5,374,539)	(359,542)	24,271	(5,709,810)	
Water plant	(2,343,811)	(49,253)	-	(2,393,064)	
Sewer plant	(1,352,331)	(89,905)	-	(1,442,236)	
Total accumulated depreciation	(10,338,085)	(554,360)	378,609	(10,513,836)	
<u>Total capital assets being depreciated, net:</u>	<u>11,626,895</u>	<u>(551,554)</u>	<u>(22,050)</u>	<u>11,053,291</u>	
<u>Total proprietary fund fixed assets</u>	<u>\$ 11,973,204</u>	<u>\$ (551,554)</u>	<u>\$ (42,550)</u>	<u>\$ 11,379,100</u>	

Governmental Fixed Assets

The following is a summary of changes in governmental fixed assets:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 405,473	\$ -	\$ -	\$ 405,473
Total capital assets not being depreciated	\$ 405,473	\$ -	\$ -	\$ 405,473

CITY OF BEATTYVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note I – Governmental Fixed Assets (continued)

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
<u>Capital assets being depreciated:</u>				
Building and lot	\$ 837,477	\$ -	\$ (1,000)	\$ 836,477
Vehicles	789,935	122,748	(62,919)	849,764
Equipment	407,801	1,880	(155,149)	254,532
Office	33,542	2,806	-	36,348
Streets and infrastructure	<u>2,647,757</u>	<u>627,598</u>	<u>-</u>	<u>3,275,355</u>
Total capital assets being depreciated	4,716,512	755,032	(219,068)	5,252,476
<u>Less accumulated depreciation for:</u>				
Building and lot	(467,042)	(20,979)	1,000	(487,021)
Vehicles	(724,150)	(35,230)	59,719	(699,661)
Equipment	(284,443)	(18,135)	91,510	(211,068)
Office	(33,190)	(552)	-	(33,742)
Streets and infrastructure	<u>(1,089,064)</u>	<u>(133,212)</u>	<u>-</u>	<u>(1,222,276)</u>
Total accumulated depreciation	<u>(2,597,889)</u>	<u>(208,108)</u>	<u>152,229</u>	<u>(2,653,768)</u>
<u>Total capital assets being depreciated, net:</u>	<u>2,118,623</u>	<u>546,924</u>	<u>(66,839)</u>	<u>2,598,708</u>
<u>Total governmental fund fixed assets</u>	<u>\$ 2,524,096</u>	<u>\$ 546,924</u>	<u>\$ (66,839)</u>	<u>\$ 3,004,181</u>

Note J – Long TermDebt/Demand Notes

The following is a summary of Notes Payable and Revenue Bonds transactions of the City of Beattyville for the year ended June 30, 2018:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
Revenue Bonds	\$ 4,492,500	\$ -	\$ (146,000)	\$ 4,346,500
Note Payable	<u>620,627</u>	<u>666,106</u>	<u>(710,112)</u>	<u>576,621</u>
	<u>\$ 5,113,127</u>	<u>\$ 666,106</u>	<u>\$ (856,112)</u>	<u>\$ 4,923,121</u>

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note J – Long Term Debt/Demand Notes (continued)

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	164,000	168,495	332,495
2020	172,500	161,125	333,625
2021	181,500	153,347	334,847
2022	189,000	145,176	334,176
2023	199,500	136,644	336,144
2024 - 28	688,500	583,367	1,271,867
2029 - 33	720,000	453,256	1,173,256
2034 - 38	713,000	302,014	1,015,014
2039 - 43	609,500	177,284	786,784
2044 - 48	509,000	68,196	577,196
2049 - 53	160,000	12,686	172,686
2054 -56	40,000	683	40,683
Total	\$ 4,346,500	\$ 2,362,273	\$ 6,708,773

Water and Sewer Fund revenue bonds of \$770,000 at 4.5% were issued in 1995 to aid in financing sewer infrastructure.

Water and Sewer Fund revenue bonds of \$500,000 at 4.5% interest were issued as of June 19, 1997. The bond proceeds were used to aid in financing the water plant renovation.

Water and Sewer Fund revenue bonds of \$551,000 at 4.5% interest rate issued as of March 25, 2002. The bond proceeds were used to aid in financing the Phase III Water Project.

Water and Sewer Fund general obligation refunding bonds of \$1,328,000 at 4.55% interest were issued September 23, 2003. The bond proceeds were used for the purpose of refunding the City's outstanding water and sewer revenue bonds, series 1977, series 1981A, series 1981B, series 1986, series 1998, series 1994A, series 1994B, series 1995A, series 1995B, series 1997 and series 2004 and provides a general obligation pledge to assess sufficient taxes to comply with the general obligations to pay bond payments.

Water and Sewer Fund revenue bonds of \$402,000 at 2.375% interest rate were issued in fiscal year 2011. The bond proceeds were used to aid in financing of the Hwy 11 Project.

During the year ended June 30, 2012 the City entered into an agreement with Kentucky Infrastructure Authority (KIA) related to the Downtown Waterline Extension Project. The City borrowed \$175,000 of which \$140,000 was forgiven. The remaining balance of \$35,000 is payable semi-annually at 1% interest.

Water and Sewer Fund revenue bonds of \$436,000 at 2.75% interest rate were issued in fiscal year 2014. The bond proceeds were used to aid in financing of the Southside Water Project.

Water and Sewer Fund revenue bonds of \$350,000 at 1.625% interest rate were issued in fiscal year 2017. The bond proceeds were used to aid in financing of a sewer pump station.

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note J – Long Term Debt/Demand Notes (continued)

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay the above revenue bonds. Proceeds from the bonds were used for rehabilitation or expansion of the City's water and sewer systems.

The City has a line of credit of \$200,000 with Peoples Exchange Bank. At June 30, 2018, the balance outstanding was \$71,448.

Individual changes in notes payable are as follows:

	<u>Rate</u>	<u>Due</u>	<u>Collateral</u>	<u>Balance</u> <u>7/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2018</u>	<u>Current</u>
<u>Proprietary Fund</u>								
Peoples Exchange Bank	3.25%	Monthly	Revenues	\$ 9,801	\$ -	\$ (3,824)	\$ 5,977	\$ 3,824
KIA - Downtown								
Waterline Extension	1.00%	Semi-Annual	Unsecured	26,893	-	(1,670)	25,223	1,670
TCF Equipment Finance	2.84%	Monthly	Equipment	36,079	-	(28,761)	7,318	7,318
1995 Revenue Bonds	4.50%	Semi-Annual	Revenues	530,000	-	(19,000)	511,000	20,000
1997 Revenue Bonds	4.50%	Semi-Annual	Revenues	361,500	-	(11,500)	350,000	12,000
2002 Revenue Bonds	4.50%	Semi-Annual	Revenues	452,000	-	(10,000)	442,000	11,000
2003 Revenue Bonds	4.55%	Semi-Annual	Revenues	592,000	-	(67,000)	525,000	75,000
2007 Revenue Bonds	4.25%	Semi-Annual	Revenues	987,000	-	(17,000)	970,000	18,000
2008 Revenue Bonds	4.375%	Semi-Annual	Revenues	441,000	-	(7,500)	433,500	7,500
2011 Revenue Bonds	2.375%	Semi-Annual	Revenues	362,500	-	(7,000)	355,500	7,500
2013 Revenue Bonds	2.750%	Semi-Annual	Revenues	416,500	-	(7,000)	409,500	7,000
2017 Revenue Bonds	1.625%	Semi-Annual	Revenues	350,000	-	-	350,000	6,000
Total Proprietary Fund				<u>4,565,273</u>	<u>-</u>	<u>(180,255)</u>	<u>4,385,018</u>	<u>176,812</u>
<u>Governmental Fund</u>								
KLC - Streetscape	1.50%	Monthly		116,844	-	(15,946)	100,898	16,555
KLC - Cemetery	1.50%	Monthly		177,990	-	(23,079)	154,911	13,579
TCF Equipment Finance	2.81%	Monthly		31,205	-	(12,476)	18,729	15,164
Peoples Exchange Bank	3.25%	Demand		191,840	-	(11,326)	180,514	11,326
Peoples Exchange Bank	3.50%	Line of Credit	Unsecured	10,950	-	(10,950)	-	-
Peoples Exchange Bank	3.75%	Line of Credit	Unsecured	-	666,106	(594,658)	71,448	71,448
Peoples Exchange Bank	3.25%	Monthly	Unsecured	19,025	-	(7,422)	11,603	7,422
Total Governmental Fund				<u>547,854</u>	<u>666,106</u>	<u>(675,857)</u>	<u>538,103</u>	<u>135,494</u>
Total All Funds				<u>5,113,127</u>	<u>666,106</u>	<u>(856,112)</u>	<u>4,923,121</u>	<u>312,306</u>

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note K – Contingent Liabilities

The City's management has stated, as of audit date, litigation pending against the City of Beattyville is estimated to be within the scope of its insurance coverage limitations.

Note L – Interfund – Assets/Liabilities

Due from/to other funds balances at June 30, 2018 were as follows:

<u>Fund</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Due to/from Water Fund	\$ -	\$ 19,848
Due to/from Cemetery Fund	-	80
Cemetery Fund		
Due to/from General Fund	80	-
Water Fund		
Due to/from General Fund	<u>19,848</u>	<u>-</u>
	<u>\$ 19,928</u>	<u>\$ 19,928</u>

Note M – Interfund – Transfers

Interfund transfers and receipts for the year ended June 30, 2018 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund		
Transfer to/from Water Fund	\$ 540,426	\$ 554,622
Transfer to/from Sewer Fund	88,111	-
Transfer to/from Garbage Fund	33,313	-
Transfer to/from Cemetery Property Fund	20,931	5,225
Transfer to/from PEP, Inc.	-	1,474
Transfer to/from Municipal Road Aid	-	21,908
Transfer to/from Housing Reimbursement Fund	95,753	94,383
Transfer to/from Streetscape Project	4,500	109,637
Municipal Road Aid		
Transfer to/from General Fund	21,908	-
PEP, Inc.		
Transfer to/from General Fund	1,474	-
Water Fund		
Transfer to/from General Fund	554,622	540,426
Sewer Fund		
Transfer to/from General Fund	-	88,111
Garbage Fund		
Transfer to/from General Fund	-	33,313
Housing Reimbursement Fund		
Transfer to/from General Fund	94,383	95,753
Streetscape Project		
Transfer to/from General Fund	109,637	4,500
Cemetery Property Fund		
Transfer to/from General Fund	<u>5,225</u>	<u>20,931</u>
	<u>\$ 1,570,283</u>	<u>\$ 1,570,283</u>

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

CITY OF BEATTYVILLENOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note N – Pension Plans

Plan Description: Substantially all full-time 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 and 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 (800) 928-4646 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 the plan is provided through payroll withholdings of 5.00% and 8.00% for non-hazardous and hazardous, respectively, except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and 9.00% for non-hazardous and hazardous, respectively and a City contribution of 19.18% and 31.55% of the employee's total compensation subject to contributions for non-hazardous and hazardous duty positions, respectively.

At June 30, 2018, the City reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used was based on an actuarial valuation as of June 30, 2017. At June 30, 2017 the City's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2016 was .025075% for non-hazardous and .037456% for hazardous.

City's proportionate share of the net	
CERS non-hazardous pension liability	<u>\$ 1,467,717</u>
City's proportionate share of the net	
CERS hazardous pension liability	<u>\$ 837,995</u>

For the year ended June 30, 2018, the City's government-wide financial statements CERS pension expense of \$72,503 for non-hazardous and \$47,933 for hazardous. For the year ended June 30, 2018 the City recognized deferred outflows of resources for non-hazardous and hazardous of \$388,895 and \$313,699, respectively, and deferred inflows of resources for non-hazardous and hazardous of \$257,938 and \$58,561, respectively. These amounts will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

CITY OF BEATTYVILLE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE N – Pension Plans (continued)

<u>Year</u>	<u>Nonhazardous</u>		<u>Hazardous</u>	
	<u>Total</u>		<u>Total</u>	
2018	48,367		102,477	
2019	69,018		117,654	
2020	32,418		44,149	
2021	(18,846)		(9,144)	
2022	-		-	
Thereafter	-		-	
	<u>\$ 130,957</u>		<u>\$ 255,136</u>	

	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,820	\$ 37,257	\$ 30,737	\$ -
Changes of assumptions	270,834	-	167,161	-
Net difference between projected and actual earnings on pension plan investments	116,241	98,087	54,966	47,643
Changes in proportion and differences between City contributions and proportionate share of contributions	-	122,594	60,835	10,918
City contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 388,895</u>	<u>\$ 257,938</u>	<u>\$ 313,699</u>	<u>\$ 58,561</u>

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed

CITY OF BEATTYVILLE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE N – Pension Plans (continued)

Actuarial Methods and Assumptions (continued)

- Remaining Amortization Period – 28 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 increases, 4.00% average
- Investment rate of return – 7.50%

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

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

Non-hazardous and Hazardous	Target	Long-term Expected Nominal Return
<u>Asset Class</u>	<u>Allocation</u>	<u>Return</u>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	<u>2.0%</u>	1.88%
	100.0%	

CITY OF BEATTYVILLE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE N – Pension Plans (continued)

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2017 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the City's proportionate share of net pension liability calculated using the discount rate of 6.25% as well as the City's share, if calculated using a rate 1% higher and 1% lower:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's proportionate share of net non-hazardous pension liability	\$ 1,851,108	\$ 1,467,717	\$ 1,147,013
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's proportionate share of net hazardous pension liability	\$ 1,053,627	\$ 837,995	\$ 659,915

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>.

There were no payables to the pension plan at June 30, 2018.

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note O – OPEB Plans**General Information about the OPEB Plan**

Plan description – Substantially all full-time employees of the City are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520.

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

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KRS Insurance Fund. The following information is about the KRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, KRS provides post-employment healthcare benefits to eligible members and dependents. The KRS Insurance benefit is a cost-sharing multiple employer defined benefit plan.

Benefits provided – Benefits under the plan will vary based on years of service and other factors as fully described in the plan documents.

Contributions – In order to fund the post-retirement healthcare benefit, participants hired on or after September 1, 2008 contribute 1% of total compensation subject to contribution for non-hazardous and hazardous duty positions. Also, the premiums collected from retirees as described in the plan documents and investment interest help meet the medical expenses of the plan.

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

At June 30, 2018, the City of Beattyville reported a liability of \$504,093 and \$309,638 for its proportionate share of the collective net CERS non-hazardous and hazardous OPEB liability, respectively. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective 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, 2018, the City's proportion was .025075% for non-hazardous and .037456% for hazardous, which was in equal to the proportions measured as of June 30, 2017 (.025075% and .037456% respectively).

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note O – OPEB Plans (continued)

The amount recognized by the City as its proportionate share of the OPEB liability was as follows:

City's proportionate share of the net CERS non-hazardous OPEB liability	<u>\$ 504,093</u>
--	-------------------

City's proportionate share of the net CERS hazardous OPEB liability	<u>\$ 309,638</u>
--	-------------------

For the year ended June 30, 2018, the City recognized OPEB expense of \$57,444 and \$47,140 for non-hazardous and hazardous, respectively. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,400	\$ -	\$ 722
Changes of assumptions	109,688	-	114,212	-
Net difference between projected and actual earnings on plan investments	-	23,823	-	19,427
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,169	-	62
City contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 109,688</u>	<u>\$ 26,392</u>	<u>\$ 114,212</u>	<u>\$ 20,211</u>

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:

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note O – OPEB Plans (continued)

	Non-hazardous	Hazardous
<u>Year</u>	<u>Total</u>	<u>Total</u>
2018	14,332	27,186
2019	14,332	27,186
2020	14,332	27,186
2021	14,332	12,446
2022	20,288	-
Thereafter	<u>5,681</u>	<u>-</u>
	<u>\$ 83,297</u>	<u>\$ 94,004</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%
Projected salary increases	4.00%, average
Inflation rate	3.25%
Real Wage Growth	4.00%
Wage Inflation	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84% non-hazardous, 5.96% hazardous

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB and set back one year for females. The RP-2000 Disabled Mortality Table set back four years for males is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note O – OPEB Plans (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

Non-hazardous and Hazardous <u>Asset Class</u>	Target <u>Allocation</u>	Long-term Expected Nominal <u>Return</u>
		US Equity
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	<u>2.0%</u>	1.88%
	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84% and 5.96% for non-hazardous and hazardous, respectively, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for non-hazardous and 4.96% hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note O – OPEB Plans (continued)

	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
City's proportionate share of net non-hazardous OPEB liability	\$ 641,431	\$ 504,093	\$ 389,807
	1% Decrease (4.96%)	Current Discount Rate (5.96%)	1% Increase (6.96%)
City's proportionate share of net hazardous OPEB liability	\$ 414,957	\$ 309,638	\$ 223,470

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

	1% <u>Decrease</u>	Current Healthcare <u>Cost Trend Rate</u>	1% <u>Increase</u>
City's proportionate share of net non-hazardous OPEB liability	\$ 386,665	\$ 504,093	\$ 656,742
	1% <u>Decrease</u>	Current Healthcare <u>Cost Trend Rate</u>	1% <u>Increase</u>
City's proportionate share of net hazardous OPEB liability	\$ 219,188	\$ 309,638	\$ 421,584

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

Note P – Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

CITY OF BEATTYVILLENOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note Q – Insurance and Related Activities

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated, which includes worker's compensation insurance.

Note R - Concentrations

The City's enterprise operations are concentrated in the Lee County area. The city's governmental operations are dependent on a sustaining tax base and assistance from local, state and federal authorities.

Note S – Restatement of Fund Balance/Net Position

The City restated net position/fund balance as summarized below:

Adjustments to recognize net OPEB liability:		
Governmental funds		(\$262,794)
Water Fund		(236,626)
Sewer Fund		(37,794)
Garbage Fund		<u>(\$43,202)</u>
Total		(\$580,416)
Adjustment to correct for disposal of land for		
Water Fund		(\$20,500)

SUPPLEMENTARY INFORMATION

CITY OF BEATTYVILLE

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

For the Year Ended June 30, 2018

	General Fund		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>REVENUES:</u>			
Taxes	\$ 284,000	\$ 291,340	\$ 7,340
Licenses and permits	483,610	466,485	(17,125)
Intergovernmental revenues	349,800	158,390	(191,410)
Other	34,860	38,684	3,824
<u>Total revenues</u>	1,152,270	954,899	(197,371)
 <u>EXPENDITURES:</u>			
<u>Current:</u>			
General government	143,910	189,015	(45,105)
Police	415,600	409,358	6,242
Fire	326,050	29,016	297,034
Highways and streets	203,232	194,536	8,696
Capital outlay	-	143,192	(143,192)
Debt service	-	688,469	(688,469)
<u>Total expenditures</u>	1,088,792	1,653,586	(564,794)
Excess of revenue over (under) expenditures	63,478	(698,687)	(762,165)
 <u>OTHER FINANCING SOURCES (USES):</u>			
Loan proceeds	-	666,106	666,106
Operating transfers in (out)	-	(4,215)	(4,215)
Interest - net	50	5	(45)
<u>Total other financing sources (uses)</u>	50	661,896	661,846
Excess of revenues over (under) expenditures and other sources (uses)	63,528	(36,791)	(100,319)
<u>FUND BALANCE - JULY 1,</u>	-	(999)	-
<u>FUND BALANCE - JUNE 30</u>	\$ -	\$ (37,790)	\$ -

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

CITY OF BEATTYVILLE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2018

	Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES:</u>			
Intergovernmental revenues	\$ 30,000	\$ 255,315	\$ 225,315
Other	8,000	22,287	14,287
<u>Total revenues</u>	38,000	277,602	239,602
 <u>EXPENDITURES:</u>			
General administration	-	432	(432)
Highway and streets	30,000	9,815	20,185
Community services	1,200	229,952	(228,752)
Debt service	-	-	-
<u>Total expenditures</u>	31,200	240,199	(208,999)
Excess of revenue <u>over (under) expenditures</u>	6,800	37,403	30,603
 <u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in (out)	-	6,306	6,306
<u>Total other financing sources (uses)</u>	-	6,306	6,306
Excess of revenues over (under) <u>expenditures and other sources (uses)</u>	6,800	43,709	36,909
<u>FUND BALANCE - JULY 1</u>	-	90,122	-
<u>FUND BALANCE - JUNE 30</u>	\$ -	\$ 133,831	\$ -

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

CITY OF BEATTYVILLE

**SCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONS**

For the Year Ended June 30, 2018

	Employer's Proportionate Share of Net Pension Liability							
	2018		2017		2016		2015	
	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>
Employer's proportion of the net pension liability	0.02508%	0.03746%	0.02793%	0.03286%	0.02975%	0.03497%	0.03164%	0.03249%
Employer's proportionate share of the net pension liability	1,467,717	837,995	1,375,122	563,811	1,279,310	536,768	1,027,000	391,000
Employer's covered employee payroll	666,412	194,348	672,103	205,610	727,226	177,708	698,554	179,437
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	220.24%	431.18%	204.60%	274.21%	175.92%	302.05%	147.02%	217.90%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	49.80%	55.50%	53.95%	59.97%	57.52%	62.60%	59.80%

	Employer's Contributions							
	2018		2017		2016		2015	
	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-hazardous</u>	CERS <u>Hazardous</u>
Contractually required contribution	85,168	44,638	79,348	34,734	88,837	37,788	82,000	30,000
Contributions in relation to the contractually required contribution	85,168	44,638	77,437	33,087	88,513	37,077	82,000	30,000
Contribution deficiency (excess)	-	-	1,911	1,647	324	711	-	-
City's covered employee payroll	666,412	194,348	672,103	205,610	727,226	177,708	698,554	179,437
Contributions as a percentage of covered employee payroll	12.78%	22.97%	11.52%	16.09%	12.17%	20.86%	11.74%	16.72%

Change of benefit terms - None

Changes of assumptions - Change in 2017, Non-hazardous \$270,834, Hazardous \$167,161

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

CITY OF BEATTYVILLESCHEDULES OF EMPLOYER'S SHARE OF NET OPEB LIABILITYFor the Year Ended June 30, 2018**Employer's Proportionate Share of Net OPEB Liability**

	<u>2018</u>	
	<u>CERS</u> <u>Non-hazardous</u>	<u>CERS</u> <u>Hazardous</u>
Employer's proportion of the net OPEB liability	0.025075%	0.03746%
Employer's proportionate share of the net OPEB liability	504,093	309,638
Employer's covered employee payroll	666,412	194,348
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	75.64%	159.32%
Plan fiduciary net position as a percentage of the total pension liability	52.40%	59.00%

Employer's Contributions

	<u>2018</u>	
	<u>CERS</u> <u>Non-hazardous</u>	<u>CERS</u> <u>Hazardous</u>
Contractually required contribution	28,878	19,225
Contributions in relation to the contractually required contribution	28,878	19,225
Contribution deficiency (excess)	-	-
City's covered employee payroll	666,412	194,348
Contributions as a percentage of covered employee payroll	4.33%	9.89%

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

CITY OF BEATTYVILLECOMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2018

	<u>Municipal Road Aid</u>	<u>PEP, Inc.</u>	<u>Cemetery Property Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 84,622	\$ 49,255	\$ 4,995	\$ 138,872
Due from other funds	<u>-</u>	<u>-</u>	<u>80</u>	<u>80</u>
<u>Total assets</u>	<u>84,622</u>	<u>49,255</u>	<u>5,075</u>	<u>138,952</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts payable	<u>-</u>	<u>4,438</u>	<u>-</u>	<u>4,438</u>
<u>Total liabilities</u>	<u>-</u>	<u>4,438</u>	<u>-</u>	<u>4,438</u>
<u>Fund Balance</u>				
Restricted	<u>84,622</u>	<u>44,817</u>	<u>5,075</u>	<u>134,514</u>
<u>Total fund balance</u>	<u>84,622</u>	<u>44,817</u>	<u>5,075</u>	<u>134,514</u>
<u>Total liabilities and fund balances</u>	<u>\$ 84,622</u>	<u>\$ 49,255</u>	<u>\$ 5,075</u>	<u>\$ 138,952</u>

See independent auditor's report.

CITY OF BEATTYVILLECOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR SPECIAL REVENUE FUNDSFor the Year Ended June 30, 2018

	Municipal <u>Road Aid</u>	PEP, Inc. <u>PEP, Inc.</u>	Cemetery Property <u>Fund</u>	<u>Total</u>
<u>REVENUES:</u>				
Intergovernmental revenues	\$ 26,365	\$ 13,650	\$ -	\$ 40,015
Other revenue	<u>-</u>	<u>1,074</u>	<u>21,213</u>	<u>22,287</u>
<u>Total revenues</u>	<u>26,365</u>	<u>14,724</u>	<u>21,213</u>	<u>62,302</u>
<u>EXPENDITURES</u>				
General administration	-	-	432	432
Highways and streets	9,815	-	-	9,815
Community services	-	15,395	-	15,395
Other expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total expenditures</u>	<u>9,815</u>	<u>15,395</u>	<u>432</u>	<u>25,642</u>
<u>Excess (deficiency) of revenues over (under) expenditures</u>	<u>16,550</u>	<u>(671)</u>	<u>20,781</u>	<u>36,660</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Other transfers in	21,908	1,474	5,225	28,607
Other transfers (out)	<u>-</u>	<u>-</u>	<u>(20,931)</u>	<u>(20,931)</u>
<u>Total other financing sources (uses)</u>	<u>21,908</u>	<u>1,474</u>	<u>(15,706)</u>	<u>7,676</u>
<u>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</u>	<u>38,458</u>	<u>803</u>	<u>5,075</u>	<u>44,336</u>
<u>FUND BALANCE - JULY 1</u>	<u>46,164</u>	<u>44,014</u>	<u>-</u>	<u>90,178</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ 84,622</u>	<u>\$ 44,817</u>	<u>\$ 5,075</u>	<u>\$ 134,514</u>

See independent auditor's report.

Chris Gooch

Certified Public Accountant
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Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

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

Honorable Mayor and City Council
City of Beattyville
Beattyville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beattyville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Beattyville, Kentucky's basic financial statements, and have issued our report thereon dated October 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Beattyville, 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 Beattyville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Beattyville, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 17, 2018

APPENDIX A

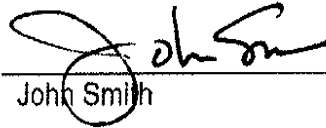
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

CITY OF BEATTYVILLE

For the year ended June 30, 2018

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



John Smith

Mayor