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CITY OF BRANDENBURG, KENTUCKY

FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION

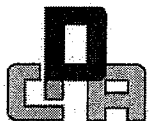
For the Year Ended June 30, 2018

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

CITY OF BRANDENBURG, KENTUCKY
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DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

Telephone (270) 756-5704
FAX (270) 756-5927

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council
City of Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying Balance Sheet – Governmental Funds as of June 30, 2018 and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the year then ended, and the related notes to these financial statements. We were engaged to audit the remaining accompanying financial statements of the governmental activities, the business-type activities, and the proprietary funds of the City of Brandenburg, Kentucky (City) as of and for the year ended June 30, 2018, and the related notes to these financial statements. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit of the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the related notes to those financial statements 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. Because of the matter described in the "Basis for Disclaimer of Opinions" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the remaining accompanying financial statements of the governmental activities, the business-type activities, and the proprietary funds of the City as of and for the year ended June 30, 2018, and the related notes to these financial statements.

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 City'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 City'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 opinion on the Balance Sheet – Governmental Funds as of June 30, 2018 and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the year then ended, and the related notes to these financial statements.

Basis for Disclaimer of Opinions

The City failed to record inventory balances for parts and supplies used in maintenance of the water and sewer systems. No inventory counts were taken, and we were not able to observe inventory at the end of the year. In addition, due to a lack of sufficient appropriate audit evidence regarding the opening balances of fixed assets, we were unable to satisfy ourselves as to the current balances and whether additional property and equipment should be subjected to depreciation expense during the current year. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary for the affected accounts.

Disclaimer of Opinions

Because of the significance of the matter described in the "Basis for Disclaimer of Opinions" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, the business-type activities, and the proprietary funds of the City of Brandenburg, Kentucky as of and for the year ended June 30, 2018, and the related notes to these financial statements. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above, the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, present fairly, in all material respects, the financial position of the Governmental Funds of the City of Brandenburg, Kentucky as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note L to the financial statements, in fiscal year 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. 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 budgetary comparison information on pages 32 and 33 and the pension and OPEB schedules and notes on pages 34 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the Management Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information shown on pages 39 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information shown on pages 39 through 42 is the responsibility of management and was derived from and relates 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 accompanying supplementary information shown on pages 39 through 42 is 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 August 20, 2019 on our consideration of City of Brandenburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Brandenburg, Kentucky's internal control over financial reporting and compliance.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

August 20, 2019

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 609,246	\$ 828,338	\$ 1,437,584
Receivables, net:			
Accounts - trade	35,146	132,571	167,717
Franchise fees	9,483	-	9,483
Taxes	74,400	-	74,400
Intergovernmental	17,396	66,013	83,409
Due from other funds	186,757	-	186,757
Total Current Assets	<u>932,428</u>	<u>1,026,922</u>	<u>1,959,350</u>
Noncurrent Assets			
Restricted cash	117,907	-	117,907
Capital assets:			
Land and construction in process	90,464	786,502	876,966
Other capital assets, net of depreciation	972,281	4,109,843	5,082,124
Total Noncurrent Assets	<u>1,180,652</u>	<u>4,896,345</u>	<u>6,076,997</u>
Total Assets	<u>2,113,080</u>	<u>5,923,267</u>	<u>8,036,347</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	214,769	174,127	388,896
Deferred amounts related to OPEB	75,280	60,884	136,164
Total Deferred Outflows of Resources	<u>290,049</u>	<u>235,011</u>	<u>525,060</u>
Liabilities			
Current Liabilities			
Accounts payable	53,491	113,061	166,552
Due to other funds	-	186,757	186,757
Accrued expenses	30,097	1,298	31,395
Accrued vacation and payroll	-	40,068	40,068
Current portion of loan payable	-	40,055	40,055
Total Current Liabilities	<u>83,588</u>	<u>381,239</u>	<u>464,827</u>
Noncurrent Liabilities			
Loan payable	-	519,609	519,609
Net pension liability	752,816	622,945	1,375,761
Net OPEB liability	258,558	213,953	472,511
Total Noncurrent Liabilities	<u>1,011,374</u>	<u>1,356,507</u>	<u>2,367,881</u>
Total Liabilities	<u>1,094,962</u>	<u>1,737,746</u>	<u>2,832,708</u>
Deferred Inflows of Resources			
Deferred amounts related to pensions	20,605	17,051	37,656
Deferred amounts related to OPEB	13,538	11,201	24,739
Total Deferred Inflows of Resources	<u>34,143</u>	<u>28,252</u>	<u>62,395</u>
Net Position			
Net investment in capital assets	1,062,745	4,336,681	5,399,426
Restricted for LGEA and streets	133,422	-	133,422
Restricted for capital and debt service	-	712,553	712,553
Unrestricted (deficit)	77,857	(656,954)	(579,097)
Total Net Position	<u>\$ 1,274,024</u>	<u>\$ 4,392,280</u>	<u>\$ 5,666,304</u>

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

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenues			Net (Expense)/Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Community	\$ 21,106	\$ -	\$ -	\$ (21,106)	\$ -	\$ (21,106)
General government	419,769	126,122	-	(293,647)	-	(293,647)
Parks and recreation	59,125	-	-	(59,125)	-	(59,125)
Public safety:						
Police	472,304	-	-	(472,304)	-	(472,304)
Fire	559	-	-	(559)	-	(559)
Sanitation	345,949	-	-	(3,164)	-	(3,164)
Streets and maintenance	87,469	-	-	(87,469)	-	(87,469)
Total Governmental Activities	1,406,281	126,122	-	(937,374)	-	(937,374)
Business-Type Activities						
Water	837,434	-	388,918	-	404,268	404,268
Sewer	616,376	-	-	-	(103,209)	(103,209)
Total Business-Type Activities	1,453,810	-	388,918	-	301,059	301,059
Total Primary Government	\$ 2,860,091	\$ 126,122	\$ 388,918	\$ (937,374)	\$ 301,059	\$ (636,315)
General Revenues						
Taxes				\$ 773,560	\$ -	\$ 773,560
Franchise fees				25,319	-	25,319
Licenses and permits				21,917	-	21,917
Interest income				1,817	912	2,729
Rental income				25,894	-	25,894
Miscellaneous				37,210	-	37,210
Total General Revenues				885,717	912	886,629
Changes in Net Position				(51,657)	301,971	250,314
Net Position - July 1, 2017 - as Originally Reported				1,518,217	4,238,364	5,756,581
Prior period adjustments				(192,536)	(148,055)	(340,591)
Net Position - July 1, 2017 - as Restated				1,325,681	4,090,309	5,415,990
Net Position - June 30, 2018				\$ 1,274,024	\$ 4,392,280	\$ 5,666,304

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

**CITY OF BRANDENBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 460,582	\$ 266,571	\$ 727,153
Receivables, net:			
Sanitation	35,146	-	35,146
Franchise fees	9,483	-	9,483
Taxes	74,400	-	74,400
Intergovernmental	1,978	15,418	17,396
Due from other funds	195,812	9,152	204,964
Total Assets	\$ 777,401	\$ 291,141	\$ 1,068,542
Liabilities			
Accounts payable	\$ 53,491	\$ -	\$ 53,491
Accrued expenses	30,097	-	30,097
Due to other funds	9,152	9,055	18,207
Total Liabilities	92,740	9,055	101,795
Fund Balance			
Restricted	-	133,422	133,422
Assigned	-	148,664	148,664
Unassigned	684,661	-	684,661
Total Fund Balance	684,661	282,086	966,747
Total Liabilities and Fund Balance	\$ 777,401	\$ 291,141	\$ 1,068,542

Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities

Total Governmental Fund Balance \$ 966,747

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 fund. 1,062,745

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and therefore are not reported in the governmental funds. 255,906

Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Net pension and OPEB liabilities (1,011,374)

Total Net Position of Governmental Activities **\$ 1,274,024**

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

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 465,293	\$ -	\$ 465,293
Insurance premium taxes	291,155	-	291,155
Other taxes	17,112	-	17,112
Licenses and permits	21,917	-	21,917
Rental income	25,894	-	25,894
Interest income	69	1,748	1,817
Miscellaneous	37,010	200	37,210
Franchise fees	25,319	-	25,319
Sanitation	342,785	-	342,785
Intergovernmental revenues	377	125,745	126,122
Total Revenues	<u>1,226,931</u>	<u>127,693</u>	<u>1,354,624</u>
Expenditures			
Current:			
Community	-	21,106	21,106
General government	390,153	1,439	391,592
Parks and recreation	44,265	-	44,265
Sanitation	345,949	-	345,949
Streets and maintenance	52,799	1,024	53,823
Public safety:			
Police	380,209	15,687	395,896
Fire	559	-	559
Capital outlay	47,639	142,832	190,471
Total Expenditures	<u>1,261,573</u>	<u>182,088</u>	<u>1,443,661</u>
Deficiency of Revenues Over Expenditures	<u>(34,642)</u>	<u>(54,395)</u>	<u>(89,037)</u>
Fund Balances - July 1, 2017	<u>719,303</u>	<u>336,481</u>	<u>1,055,784</u>
Fund Balances - June 30, 2018	<u>\$ 684,661</u>	<u>\$ 282,086</u>	<u>\$ 966,747</u>

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

CITY OF BRANDENBURG, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Changes in Fund Balances - Governmental Funds **\$ (89,037)**

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

The governmental fund reports capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

109,302

Governmental funds report pension contributions as expenditures when made. In the Statement of Net Position, pension contributions are reported as deferred outflows of resources because the reported net pension liability is measured one year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

Pension contributions	84,951	
Pension expense	<u>(146,430)</u>	(61,479)

Governmental funds report OPEB contributions as expenditures when made. In the Statement of Net Position, OPEB contributions are reported as deferred outflows of resources because the reported net OPEB liability is measured one year before the City's report date. OPEB expense, which is the change in the net OPEB liability adjusted for changes in deferred outflows and inflows of resources related to OPEB, is reported in the Statement of Activities.

OPEB contributions	33,349	
OPEB expense	<u>(43,792)</u>	<u>(10,443)</u>

Changes in Net Position of Governmental Activities **\$ (51,657)**

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

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise Funds				
	Water and Wastewater Fund	Revenue Fund	Sewer Line Extension Fund	Nonmajor Funds	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 57,529	\$ 266,465	\$ 36,024	\$ 468,320	\$ 828,338
Receivables, net:					
Accounts - trade	-	132,571	-	-	132,571
Other receivables	-	-	66,013	-	66,013
Total Current Assets	<u>57,529</u>	<u>399,036</u>	<u>102,037</u>	<u>468,320</u>	<u>1,026,922</u>
Noncurrent Assets					
Capital assets:					
Land and construction in process	85,100	-	701,402	-	786,502
Other capital assets, net of depreciation	4,109,843	-	-	-	4,109,843
Total Noncurrent Assets	<u>4,194,943</u>	<u>-</u>	<u>701,402</u>	<u>-</u>	<u>4,896,345</u>
Total Assets	<u>4,252,472</u>	<u>399,036</u>	<u>803,439</u>	<u>468,320</u>	<u>5,923,267</u>
Deferred Outflows of Resources					
Deferred amounts related to pensions	174,127	-	-	-	174,127
Deferred amounts related to OPEB	60,884	-	-	-	60,884
Total Deferred Outflows of Resources	<u>235,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,011</u>
Liabilities					
Current Liabilities					
Accounts payable	45,687	-	67,374	-	113,061
Due to other funds	139,806	-	41,923	5,028	186,757
Accrued expenses	1,298	-	-	-	1,298
Accrued vacation and payroll	40,068	-	-	-	40,068
Current portion of loan payable	40,055	-	-	-	40,055
Total Current Liabilities	<u>266,914</u>	<u>-</u>	<u>109,297</u>	<u>5,028</u>	<u>381,239</u>
Noncurrent Liabilities					
Loan payable	519,609	-	-	-	519,609
Net pension liability	622,945	-	-	-	622,945
Net OPEB liability	213,953	-	-	-	213,953
Total Noncurrent Liabilities	<u>1,356,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,356,507</u>
Total Liabilities	<u>1,623,421</u>	<u>-</u>	<u>109,297</u>	<u>5,028</u>	<u>1,737,746</u>
Deferred Inflows of Resources					
Deferred amounts related to pensions	17,051	-	-	-	17,051
Deferred amounts related to OPEB	11,201	-	-	-	11,201
Total Deferred Inflows of Resources	<u>28,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,252</u>
Net Position					
Net investment in capital assets	3,635,279	-	701,402	-	4,336,681
Restricted for capital and debt service	-	249,261	-	463,292	712,553
Unrestricted (deficit)	(799,469)	149,775	(7,260)	-	(656,954)
Total Net Position	<u>\$ 2,835,810</u>	<u>\$ 399,036</u>	<u>\$ 694,142</u>	<u>\$ 463,292</u>	<u>\$ 4,392,280</u>

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

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Enterprise Funds				
	Water and Wastewater Fund	Revenue Fund	Sewer Line Extension Fund	Nonmajor Funds	Total
Operating Revenues					
Charges for services	\$ -	\$ 1,358,509	\$ -	\$ -	\$ 1,358,509
Connection fees	7,442	-	-	-	7,442
Total Operating Revenues	<u>7,442</u>	<u>1,358,509</u>	<u>-</u>	<u>-</u>	<u>1,365,951</u>
Operating Expenses					
Salaries and benefits	494,839	-	-	-	494,839
Maintenance and supplies	382,456	-	-	-	382,456
Professional fees	15,013	-	-	-	15,013
Office and advertising	4,201	-	-	-	4,201
Depreciation	315,431	-	-	-	315,431
Utility tax	15,212	-	-	-	15,212
Insurance	60,950	-	-	-	60,950
Utilities and telephone	99,885	-	-	-	99,885
Miscellaneous	30,146	25,000	-	-	55,146
Total Operating Expenses	<u>1,418,133</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>1,443,133</u>
Operating Income (Loss)	<u>(1,410,691)</u>	<u>1,333,509</u>	<u>-</u>	<u>-</u>	<u>(77,182)</u>
Non-Operating Revenues (Expenses)					
Interest income	76	250	135	451	912
Grant revenue	-	-	388,918	-	388,918
Interest expense	-	-	-	(10,677)	(10,677)
Total Non-Operating Revenues (Expenses)	<u>76</u>	<u>250</u>	<u>389,053</u>	<u>(10,226)</u>	<u>379,153</u>
Income (Loss) Before Transfers	<u>(1,410,615)</u>	<u>1,333,759</u>	<u>389,053</u>	<u>(10,226)</u>	<u>301,971</u>
Transfers in	985,979	-	155,000	180,000	1,320,979
Transfers out	-	(1,285,000)	-	(35,979)	(1,320,979)
Net Transfers	<u>985,979</u>	<u>(1,285,000)</u>	<u>155,000</u>	<u>144,021</u>	<u>-</u>
Changes in Net Position	<u>(424,636)</u>	<u>48,759</u>	<u>544,053</u>	<u>133,795</u>	<u>301,971</u>
Net Position - July 1, 2016 - as Originally Reported	3,408,501	350,277	150,089	329,497	4,238,364
Prior period adjustments	(148,055)	-	-	-	(148,055)
Net Position - July 1, 2017 - as Restated	<u>3,260,446</u>	<u>350,277</u>	<u>150,089</u>	<u>329,497</u>	<u>4,090,309</u>
Net Position - June 30, 2018	<u>\$ 2,835,810</u>	<u>\$ 399,036</u>	<u>\$ 694,142</u>	<u>\$ 463,292</u>	<u>\$ 4,392,280</u>

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

CITY OF BRANDENBURG, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Enterprise Funds				Total
	Water and Wastewater Fund	Revenue Fund	Sewer Line Extension Fund	Nonmajor Funds	
Cash Flows from Operating Activities:					
Cash received from customers and others	\$ 7,442	\$ 1,350,266	\$ -	\$ -	\$ 1,357,708
Cash payments to suppliers for goods and services	(570,394)	(25,000)	-	-	(595,394)
Cash payments to employees for services	(387,769)	-	-	-	(387,769)
Net Cash Provided (Used) by Operating Activities	(950,721)	1,325,266	-	-	374,545
Cash Flows from Capital and Related Financing Activities:					
Grant revenue	-	-	388,918	-	388,918
Acquisition and construction of capital assets	(12,615)	-	(651,685)	-	(664,300)
Principal paid on debt	(35,977)	-	-	-	(35,977)
Interest paid on debt	-	-	-	(10,677)	(10,677)
Net Cash Used by Capital and Related Financing Activities	(48,592)	-	(262,767)	(10,677)	(322,036)
Cash Flows from Noncapital Financing Activities:					
Transfers	985,979	(1,285,000)	155,000	144,021	-
Cash Flows from Investing Activities:					
Interest income	76	250	135	451	912
Net Increase (Decrease) in Cash and Cash Equivalents	(13,258)	40,516	(107,632)	133,795	53,421
Cash and Cash Equivalents - July 1, 2017	70,787	225,949	143,656	334,525	774,917
Cash and Cash Equivalents - June 30, 2018	\$ 57,529	\$ 266,465	\$ 36,024	\$ 468,320	\$ 828,338
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	\$ (1,410,691)	\$ 1,333,509	\$ -	\$ -	\$ (77,182)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	315,431	-	-	-	315,431
Change in assets, liabilities and deferrals:					
Receivables, net	-	(8,243)	-	-	(8,243)
Accounts payable	17,729	-	-	-	17,729
Accrued expenses	19,740	-	-	-	19,740
Net pension liability and deferred inflows and outflows	90,855	-	-	-	90,855
Net OPEB liability and deferred inflows and outflows	16,215	-	-	-	16,215
Total Adjustments	459,970	(8,243)	-	-	451,727
Net Cash Provided (Used) by Operating Activities	\$ (950,721)	\$ 1,325,266	\$ -	\$ -	\$ 374,545

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

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Brandenburg (City) is a Home Rule (previously fifth class) city located in Meade County, Kentucky. It operates under a councilmanic form of government providing the following types of services: police, fire, water, sewage, sanitation, and street maintenance. Primary revenue sources are property taxes, insurance premium taxes, license fees, and water, wastewater, and sanitation receipts.

The accounting policies of the City of Brandenburg conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Reporting Entity

The City's financial statements include the operations of all organizations for which the City Council exercises oversight. Responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The governmental activities reported in the statements are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed mostly by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are therefore clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipient of the goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - Fund financial statements report detailed information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following funds:

Basis of Presentation (Concluded)

Governmental Funds

- **General Fund** - This 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. This is a major fund of the City.
- **Nonmajor Governmental Funds** - The City has various funds established to account for revenues received for designated purposes: Capital Projects, Christmas by the River, Citizens on Patrol, LGEAF, Municipal Road Aid, and Police Forfeiture Funds.

Proprietary Funds

- **Water and Wastewater Fund** - This fund accounts for the operation, maintenance, and development of the water and wastewater distribution lines. This is a major fund of the City.
- **Revenue Fund** - This fund collects all revenues from water, wastewater, and sanitation and transfers to operating funds. This is a major fund of the City.
- **Sewer Line Extension Fund** - This fund was established to accumulate funds for extending sewer services to new developments and underserved areas of the City. This is a major fund of the City.
- **Nonmajor Proprietary Funds** - The Bond and Interest Sinking Fund and the Depreciation Fund receive transfers from other enterprise funds to pay principal and interest on long-term debt and to fund capital improvements, respectively.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide and proprietary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and other taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers revenues reported in the governmental funds to be available if collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources in the governmental funds.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition.

For the government-wide and proprietary fund financial statements, all capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at acquisition value. The City has no stated capitalization threshold. Improvements are capitalized, but the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The City's infrastructure consists of curbs, sidewalks, and streets constructed or improved after July 1, 2003.

Depreciation is provided in the government-wide and proprietary fund financial statements in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The City capitalizes construction period interest as part of the cost of the assets in the proprietary funds. The service lives by type of asset are typically as follows:

Vehicles and equipment	5 - 7 years
Improvements	10 - 40 years
Infrastructure	10 - 25 years
Buildings	10 - 40 years
Plant	10 - 40 years

Estimates

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

Accounts Receivable

The City recognizes revenues as receivable when they are both measurable and available. An allowance has not been established for uncollectible accounts as the amount estimated is deemed immaterial.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position consists of those assets that do not meet the definition of restricted or net investment in capital assets.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions and Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) for each, and additions to/deductions from fiduciary net position for each have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred amounts related to pensions and OPEB in the Statement of Net Position in this category. Deferred amounts related to pensions and OPEB include pension and OPEB contributions made during the current fiscal year but applicable to a future measurement period of the net pension and OPEB liabilities, respectively.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City reports deferred amount related to pensions and OPEB in the Statement of Net Position in this category.

Fund Balance

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Balance (Concluded)

The City did not establish any fund balance commitments for the fiscal year. Assigned fund balance is established by the Mayor through adoption or amendment of the budget as intended for a specific purpose. Unrestricted and unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

Property Tax Calendar

The City's property taxes are levied before the first day of November on the assessed values as of January 1 for all real and personal property located in the city, including vehicles. Property taxes are due December 31 and become delinquent January 1 of the following year. The City's real property tax rate is \$.198 and its personal property tax rate is \$.387 per \$100 valuations. The City's vehicle tax rate is \$.328 per \$100 of assessed value.

NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

Normally, prior to June 30, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means for financing them. Deficit budgets are contrary to state law. Public hearings are conducted to obtain citizen comments on the proposed budget and the budget is legally adopted through passage of an appropriation ordinance by City Council. The City Council approves, by ordinance, total budget appropriations only. Budget amendments are made as needed throughout the year.

Actual expenditures and operating transfers may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

NOTE C - CASH AND INVESTMENTS

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2018, the reported amount of the City's cash and cash equivalents was \$1,555,491 and the bank balance was \$1,872,136. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year-end, all of the City's deposits were either insured or collateralized with securities held by the pledging financial institution on behalf of the City. The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

Restricted Cash

Cash accounts in the LGEAF Fund and Municipal Road Aid Fund are restricted for those purposes.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE D - LONG-TERM DEBT

Loan Payable

On November 9, 2015, the City of Brandenburg entered into a loan agreement with the Meade County Bank. The original amount of the loan was \$660,000 with an interest rate of 1.98%. Proceeds were used to construct a water tower. Payments are \$4,241 per month, including interest, through 2030. The loan balance at year-end was \$559,664.

Debt Service Requirements

The annual requirements to amortize the loan payable outstanding as of June 30, 2018, including interest payments are as follows:

Fiscal Year Ending June 30,	Note Payable	
	Principal	Interest
2019	\$ 40,055	\$10,842
2020	40,977	9,920
2021	41,795	9,102
2022	42,677	8,220
2023	43,503	7,394
2024 - 2028	230,847	23,637
2029 - 2031	119,810	3,192
Totals	<u>\$559,664</u>	<u>\$72,307</u>

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due In One Year
<u>Business-Type Activities</u>					
Loan payable	<u>\$595,641</u>	<u>\$ -</u>	<u>\$35,977</u>	<u>\$559,664</u>	<u>\$40,055</u>

NOTE E - DEFICIT FUND BALANCE/NET POSITION

No funds ended the year with a deficit fund balance/net position; however, the General, Water and Wastewater, Municipal Road Aid, and Police Forfeiture Funds had operations resulting in current year reductions of fund balance/net position. The governmental activities also experienced a reduction in net position.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F - FUND BALANCE

The fund balance for the General Fund was classified as follows:

Fund Balance	General Fund	Nonmajor Governmental Funds
Restricted:		
LGEA	\$ -	\$ 74,047
Streets and highways	-	59,375
Total Restricted	-	133,422
Assigned:		
Community activities	-	14,931
Future construction	-	125,457
Public safety	-	8,276
Total Assigned	-	148,664
Unassigned	684,661	-
Total Fund Balances	\$684,661	\$282,086

NOTE G - CONCENTRATIONS OF CREDIT RISK

The City extends credit to all citizens who live within the City limits and all of those who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

NOTE H - COMMITMENTS AND CONTINGENCIES

The City receives state grants for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of city management, such disallowances, if any, will not be significant.

NOTE I - INTERFUND ACTIVITY

The following transfers were made during the fiscal year:

From	To	Amount	Purpose
Bond & Interest Fund	Water & Wastewater Fund	\$ 35,979	Debt service
Revenue Fund	Bond & Interest Fund	60,000	Debt service
Revenue Fund	Depreciation Fund	120,000	Fixed assets
Revenue Fund	Water & Wastewater Fund	950,000	Expenses
Revenue Fund	Sewer Line Extension Fund	155,000	Fixed assets
		<u>\$1,320,979</u>	

The following interfund balances existed at year-end:

Due From	Due To	Amount	Purpose
Depreciation Fund	General Fund	\$ 5,028	Short-term operating loan
General Fund	LGEA Fund	9,152	Short-term operating loan
MRA Fund	General Fund	9,055	Short-term operating loan
Sewer Line Extension Fund	General Fund	41,923	Short-term operating loan
Water & Wastewater Fund	General Fund	139,806	Short-term operating loan
		<u>\$204,964</u>	

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - CAPITAL ASSETS

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

	July 1, 2017	Additions	Deletions	June 30, 2018
<u>Governmental Activities</u>				
Not Depreciated:				
Land and construction in process	\$ 122,449	\$ -	\$ (31,985)	\$ 90,464
Depreciated:				
Buildings and improvements	886,589	-	-	886,589
Equipment	275,931	14,950	-	290,881
Vehicles	377,753	32,448	-	410,201
Infrastructure	967,936	175,059	-	1,142,995
Subtotal	2,508,209	222,457	-	2,730,666
Accumulated Depreciation	(1,677,215)	(81,170)	-	(1,758,385)
Net Capital Assets	\$ 953,443	\$141,287	\$ (31,985)	\$1,062,745
<u>Business-Type Activities</u>				
Not Depreciated:				
Land	\$ 85,100	\$ -	\$ -	\$ 85,100
Construction in process	48,356	653,046	-	701,402
Subtotal	133,456	653,046	-	786,502
Depreciated:				
Equipment	250,031	7,050	-	257,081
Vehicles	93,891	-	-	93,891
Water and sewer system	11,547,050	5,565	-	11,552,615
Subtotal	11,890,972	12,615	-	11,903,587
Accumulated Depreciation	(7,478,313)	(315,431)	-	(7,793,744)
Net Capital Assets	\$4,546,115	\$350,230	\$ -	\$4,896,345

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2017	Additions	Deletions	June 30, 2018
<u>Governmental Activities</u>				
Buildings and improvements	\$ 417,056	\$ 19,598	\$ -	\$ 436,654
Equipment	241,941	7,994	-	249,935
Vehicles	300,273	30,718	-	330,991
Infrastructure	717,945	22,860	-	740,805
Total	\$1,677,215	\$ 81,170	\$ -	\$1,758,385
<u>Business-Type Activities</u>				
Equipment	\$ 227,302	\$ 12,287	\$ -	\$ 239,589
Vehicles	50,227	11,021	-	61,248
Water and sewer system	7,200,784	292,123	-	7,492,907
Total	\$7,478,313	\$315,431	\$ -	\$7,793,744

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - CAPITAL ASSETS (CONCLUDED)

Depreciation expense was charged to functions in the Statement of Activities as follows:

Governmental Activities		Business-Type Activities	
General government	\$ 9,500	Water	\$134,196
Streets and maintenance	33,646	Sewer	181,235
Parks	14,860		<u>\$315,431</u>
Public safety	23,164		
	<u>\$81,170</u>		

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN

General Information About the Pension Plan: All full-time and eligible part-time employees of the City participate in the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth of Kentucky. Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) of KRS administers CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs.

The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances. Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. KRS and the Commonwealth have statutory authority to determine Plan benefits and employer contributions.

KRS issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

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

Pension Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of Non-hazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age and Service Requirement: Age 65 with at least one month of Non-hazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008, but before 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Non-hazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Members whose participation began on or after 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Non-hazardous duty service credit, or age 57 if age plus service equals at least 87.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5% of creditable compensation, and the member's employer contributes 4.00% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

OPEB Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS Non-hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Insurance Tier 1: Participation began before 7/1/2003:

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008:

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement.

Benefit: The System provides a monthly contribution subsidy of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008:

Benefit: Tier 3 insurance benefits are identical to Tier 2, except Tier 3 members are required to have at least 180 months of service in order to be eligible.

Contributions: The City was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

For the fiscal years ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% allocated to pension and 4.70% allocated to OPEB) and 18.68% (13.95% allocated to pension and 4.73% allocated to OPEB) as set by KRS, respectively, of each non-hazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investment earnings.

The City has met 100% of the contribution funding requirement for the year ended June 30, 2018. Total current year contributions recognized by the plan were \$112,525 (\$84,951 related to pension and \$27,574 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of \$2,965.

Members whose participation began before 9/1/2008:

Non-hazardous contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Members are entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Non-hazardous contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Each member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Members whose participation began on or after 1/1/2014:

Non-hazardous contribution equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Members are entitled to a full refund of contributions and interest on the member's portion of the hypothetical account, however, the 1% contributed to the insurance fund is non-refundable.

Pension Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total pension liability was 6.25%, which was reduced from the 7.50% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of Projected Benefit Payments:** The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

- (f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash equivalent	2.00%	1.88%
Total	100.00%	6.56%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the City's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25%, as well as what the City's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Net pension liability – non-hazardous	\$1,735,132	\$1,375,761	\$1,075,150

Employer's Portion of the Collective Net Pension Liability: The City's proportionate share of the net pension liability, as indicated in the prior table, is \$1,375,761, or approximately 0.023504%. The net pension liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense: The City was allocated pension expense of \$243,448 related to CERS for the year ended June 30, 2018.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense, they are labeled as deferred inflows. If they will increase pension expense, they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the measurement date include:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,706	\$34,923
Change of assumptions	253,865	-
Net differences between expected and actual investment earnings on plan investments	17,017	-
Changes in proportion and differences between City contributions and proportionate share of contributions	31,357	2,733
City contributions subsequent to the measurement date	84,951	-
Total	<u>\$388,896</u>	<u>\$37,656</u>

Deferred outflows of resources resulting from City contributions subsequent to the measurement date of \$84,951 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$115,287
2020	115,487
2021	52,263
2022	(16,748)
Total	<u>\$266,289</u>

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

Payable to the Pension Plan: At June 30, 2018, the City reported a payable of \$15,529 (included in payroll taxes and employee benefits payable in the Statement of Net Position) for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

OPEB Information

Total OPEB Liability: The total other postemployment benefits liability ("OPEB") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30 percent
Payroll growth rate	2.00 percent
Salary increases	3.05 percent, average
Investment rate of return	6.25 percent
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 13 years.
Post-65	Initial trend starting at 5.10 percent at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) **Discount Rate:** The discount rate used to measure the total OPEB liability was 5.84%, which was reduced from the 6.89% discount rate used in the prior year.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (c) **Long-Term Rate of Return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017.
- (e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- (f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

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

	1% Decrease 4.84%	Current Discount Rate 5.84%	1% Increase 6.84%
Net OPEB liability	\$601,244	\$472,511	\$365,385

The following presents the City's allocated portion of the net OPEB liability of the System, calculated using the healthcare cost trend rate, as well as what the City's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate for non-hazardous:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	\$362,440	\$472,511	\$615,596

Employer's Portion of the Collective OPEB Liability: The City's proportionate share of the net OPEB liability, as indicated in the prior table, is \$472,511, or approximately 0.023504%. The net OPEB liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total OPEB liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K - PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN (CONCLUDED)

OPEB Expense: The City was allocated OPEB expense of \$53,844 related to CERS for the year ended June 30, 2018.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows as of the measurement date include:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,312
Change of assumptions	102,815	-
Net differences between expected and actual investment earning on plan investments	-	22,331
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,096
City contributions subsequent to the measurement date	33,349	-
Total	<u>\$136,164</u>	<u>\$24,739</u>

Deferred outflows of resources resulting from City contributions subsequent to the measurement date of \$33,349, which include the implicit subsidy reported of \$5,775, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

Year Ending June 30,	Amount
2019	\$ 13,433
2020	13,433
2021	13,433
2022	13,433
2023	19,016
Thereafter	5,328
Total	<u>\$78,076</u>

OPEB Plan Fiduciary Net Position: Detailed information about the OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE L - NEW ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Pronouncements: During fiscal year 2018, the City adopted the following accounting pronouncements:

- GASB Statement No. 81 *Irrevocable Split-Interest Agreements*, issued March 2016.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017.

Adoption of these standards did not have a significant impact on the City's financial position or results of operations.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015 aims to improve financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers regarding financial support for OPEB that is provided by other entities.

Adoption of this statement had a significant impact on the City's financial position. As a result, the City restated the July 1, 2017 net position in the amount of (\$340,591) as outlined below:

	<u>Beginning Balance</u>	<u>As Restated</u>	<u>GASB 75 Adjustment</u>
Statement of Activities			
Net position, July 1, 2017	\$5,756,581	\$5,415,990	\$(340,591)

NOTE M - SUBSEQUENT EVENTS

City of Brandenburg, Kentucky's management has evaluated and considered the need to recognize or disclose subsequent events through August 20, 2019 which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2018, have not been evaluated by management.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BRANDENBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 440,000	\$ 462,000	\$ 465,293	\$ 3,293
Insurance premium taxes	271,000	260,000	291,155	31,155
Other taxes	15,400	10,000	17,112	7,112
Licenses and permits	35,500	31,000	21,917	(9,083)
Rental income	25,000	25,000	25,894	894
Interest income	9,000	9,000	69	(8,931)
Miscellaneous	2,000	1,700	37,010	35,310
Franchise fees	17,264	17,264	25,319	8,055
Sanitation	357,000	350,000	342,785	(7,215)
Intergovernmental revenues	23,750	23,750	377	(23,373)
Total Revenues	1,195,914	1,189,714	1,226,931	37,217
Expenditures				
Current:				
General government	437,157	466,500	390,153	76,347
Parks and recreation	50,000	50,000	44,265	5,735
Sanitation	367,000	380,000	345,949	34,051
Streets and maintenance	-	-	52,799	(52,799)
Public safety:				
Police	388,382	374,400	380,209	(5,809)
Fire	3,000	250	559	(309)
Capital outlay	34,900	34,900	47,639	(12,739)
Total Expenditures	1,280,439	1,306,050	1,261,573	44,477
Excess (Deficiency) of Revenues Over Expenditures	(84,525)	(116,336)	(34,642)	81,694
Other Financing Sources				
Proceeds from sale of fixed assets	4,500	1,000	-	(1,000)
Net Changes in Fund Balance	(80,025)	(115,336)	(34,642)	80,694
Fund Balance - July 1, 2017	631,109	522,174	719,303	197,129
Fund Balance - June 30, 2018	\$ 551,084	\$ 406,838	\$ 684,661	\$ 277,823

See accompanying notes to required supplementary information.

**CITY OF BRANDENBURG, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

Last 10 Fiscal Years*

	2018	2017	2016	2015
<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>				
<u>Non-Hazardous</u>				
City's proportion of the net pension liability	0.023504%	0.022488%	0.022583%	0.02282%
City's proportionate share of the net pension liability	\$ 1,375,761	\$ 1,107,205	\$ 970,951	\$ 740,000
City's covered payroll	\$ 572,265	\$ 514,404	\$ 528,816	\$ 523,526
City's proportionate share of the net pension liability as a percentage of its covered payroll	240.41%	215.24%	183.61%	141.35%
Plan fiduciary net position as a percentage of the total pension liability	53.325%	55.503%	59.968%	66.801%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

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

Last 10 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>				
Contractually required contribution	\$ 84,951	\$ 79,831	\$ 63,889	\$ 67,424
Contributions in relation to the contractually required contribution	<u>(84,951)</u>	<u>(79,831)</u>	<u>(63,889)</u>	<u>(67,424)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 586,677	\$ 572,265	\$ 514,404	\$ 528,816
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

CITY OF BRANDENBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY

Last 10 Fiscal Years*

	<u>2018</u>
City's proportion of the net OPEB liability	0.023504%
City's proportionate share of the net OPEB liability	\$ 472,511
City's covered payroll	\$ 572,265
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	52.394%

Note: The data provided in this schedule is based on the measurement date of the CERS net OPEB liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

**CITY OF BRANDENBURG, KENTUCKY
SCHEDULE OF CITY OPEB CONTRIBUTIONS**

Last 10 Fiscal Years*

	<u>2018</u>
Contractually required contribution	\$ 27,574
Contributions in relation to the contractually required contribution	<u>(27,574)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered payroll	\$ 586,677
Contributions as a percentage of covered payroll	4.70%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - BASIS OF PRESENTATION

The City prepares its financial statements using accounting principles generally accepted in the United States of America (GAAP), but the budget is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

The budget and all transactions are presented in the Budgetary Comparison Schedule - General Fund to provide a comparison of actual results with the budget. No adjustments have been made to convert the actual data presented on the GAAP basis to the cash basis of accounting because any differences were deemed to be immaterial.

NOTE B - BUDGET VIOLATIONS

During the 2018 fiscal year, the City incurred line item expenditures in excess of budget.

**CITY OF BRANDENBURG, KENTUCKY
NOTES TO PENSION AND OPEB SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A - PENSIONS

Changes in Assumptions and Benefit Terms:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in the CERS actuary report. The changes are noted below:

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

NOTE B - OPEB

Changes in Assumptions and Benefit Terms:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

1. The first step in the process of the
analysis is to identify the variables
that are relevant to the problem.

2. The second step is to collect data
on these variables.

3. The third step is to analyze the data
and draw conclusions.

4. The fourth step is to report the results of the analysis
in a clear and concise manner.

5. The fifth step is to evaluate the results of the analysis
and determine whether they are consistent with the
hypothesis.

6. The sixth step is to draw conclusions from the results of the analysis
and make recommendations for future research.

7. The seventh step is to write a report on the results of the analysis
and submit it to the appropriate authorities.

OTHER SUPPLEMENTARY INFORMATION

8. The eighth step is to provide a summary of the results of the analysis
and make recommendations for future research.

9. The ninth step is to provide a summary of the results of the analysis
and make recommendations for future research.

10. The tenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

11. The eleventh step is to provide a summary of the results of the analysis
and make recommendations for future research.

12. The twelfth step is to provide a summary of the results of the analysis
and make recommendations for future research.

13. The thirteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

14. The fourteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

15. The fifteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

16. The sixteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

17. The seventeenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

18. The eighteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

19. The nineteenth step is to provide a summary of the results of the analysis
and make recommendations for future research.

20. The twentieth step is to provide a summary of the results of the analysis
and make recommendations for future research.

CITY OF BRANDENBURG, KENTUCKY
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Capital Projects Fund	Christmas by the River Fund	Citizens on Patrol Fund	LGEAF Fund	Municipal Road Aid Fund	Police Forfeiture Fund	Totals
Assets							
Cash and cash equivalents	\$ 125,457	\$ 14,931	\$ 6,539	\$ 54,547	\$ 63,360	\$ 1,737	\$ 266,571
Receivables	-	-	-	10,348	5,070	-	15,418
Due from other funds	-	-	-	9,152	-	-	9,152
Total Assets	\$ 125,457	\$ 14,931	\$ 6,539	\$ 74,047	\$ 68,430	\$ 1,737	\$ 291,141
Liabilities and Fund Balances							
Liabilities							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 9,055	\$ -	\$ 9,055
Total Liabilities	-	-	-	-	9,055	-	9,055
Fund Balances							
Assigned to community activities	-	14,931	-	-	-	-	14,931
Assigned to future construction	125,457	-	-	-	-	-	125,457
Assigned to public safety	-	-	6,539	-	-	1,737	8,276
Restricted to LGEAF priority categories	-	-	-	74,047	-	-	74,047
Restricted to streets and highways	-	-	-	-	59,375	-	59,375
Total Fund Balances	125,457	14,931	6,539	74,047	59,375	1,737	282,086
Total Liabilities and Fund Balances	\$ 125,457	\$ 14,931	\$ 6,539	\$ 74,047	\$ 68,430	\$ 1,737	\$ 291,141

CITY OF BRANDENBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Capital Projects Fund	Christmas by the River Fund	Citizens on Patrol Fund	LGEAF Fund	Municipal Road Aid Fund	Police Forfeiture Fund	Totals
Revenues							
Interest income	\$ 1,618	\$ -	\$ -	\$ 40	\$ 90	\$ -	\$ 1,748
Intergovernmental	-	29,313	4,940	38,052	53,440	-	125,745
Miscellaneous	-	-	-	-	-	200	200
Total Revenues	1,618	29,313	4,940	38,092	53,530	200	127,693
Expenditures							
Current							
Community	-	21,106	-	-	-	-	21,106
General government	-	-	-	1,439	-	-	1,439
Public safety	-	-	2,601	12,185	-	901	15,687
Streets and highways	-	-	-	49	975	-	1,024
Capital outlay	-	-	-	5,565	137,267	-	142,832
Total Expenditures	-	21,106	2,601	19,238	138,242	901	182,088
Excess (Deficiency) of Revenues over Expenditures	1,618	8,207	2,339	18,854	(84,712)	(701)	(54,395)
Fund Balances - July 1, 2017	123,839	6,724	4,200	55,193	144,087	2,438	336,481
Fund Balances - June 30, 2018	\$ 125,457	\$ 14,931	\$ 6,539	\$ 74,047	\$ 59,375	\$ 1,737	\$ 282,086

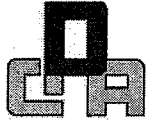
CITY OF BRANDENBURG, KENTUCKY
COMBINING STATEMENT OF NET POSITION -
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise Funds		
	Depreciation	Bond and	
	Fund	Interest	
		Sinking Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 219,059	\$ 249,261	\$ 468,320
Liabilities			
Current Liabilities			
Due to other funds	5,028	-	5,028
Net Position			
Restricted for debt service	-	249,261	249,261
Restricted for future construction	214,031	-	214,031
Total Net Position	\$ 214,031	\$ 249,261	\$ 463,292

CITY OF BRANDENBURG, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Enterprise Funds		
	Depreciation	Bond and	
	Fund	Interest	
		Sinking Fund	Totals
Non-Operating Revenues (Expenses)			
Interest income	\$ 160	\$ 291	\$ 451
Interest expense	-	(10,677)	(10,677)
Total Non-Operating Revenues (Expenses)	<u>160</u>	<u>(10,386)</u>	<u>(10,226)</u>
Income (Loss) Before Transfers	<u>160</u>	<u>(10,386)</u>	<u>(10,226)</u>
Transfers			
Transfers in	120,000	60,000	180,000
Transfers out	-	(35,979)	(35,979)
Total Transfers	<u>120,000</u>	<u>24,021</u>	<u>144,021</u>
Changes in Net Position	<u>120,160</u>	<u>13,635</u>	<u>133,795</u>
Net Position - July 1, 2017	<u>93,871</u>	<u>235,626</u>	<u>329,497</u>
Net Position - June 30, 2018	<u><u>\$ 214,031</u></u>	<u><u>\$ 249,261</u></u>	<u><u>\$ 463,292</u></u>

**INDEPENDENT AUDITOR'S REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

Telephone (270) 756-5704
FAX (270) 756-5927

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council
City of Brandenburg, 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 accompanying Balance Sheet – Governmental Funds as of June 30, 2018 and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the year then ended, and the related notes to these financial statements, and have issued our report thereon dated August 20, 2019. We were engaged to audit the remaining accompanying financial statements of the governmental activities, the business-type activities, and the proprietary funds of the City of Brandenburg, Kentucky (City) as of and for the year ended June 30, 2018, and the related notes to these financial statements. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 *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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 through 2018-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-005.

City of Brandenburg, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

August 20, 2019

**CITY OF BRANDENBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-001 (Repeat)

Condition:	As part of the audit, management requested us to prepare a draft of the City's financial statements, including the related notes. Material adjustments were required during the preparation of the financial statements.
Criteria:	Management is responsible for establishing internal controls over the preparation of GAAP-based financial statements.
Cause:	The design of internal controls did not prevent material adjustments.
Effect:	The potential exists for material misstatements to occur and not be prevented or detected by the City's internal control.
Recommendation:	Management and accounting personnel should review the policies and procedures for recording journal entries and enhance internal control over financial reporting.
Management Response:	<i>We concur with the recommendation.</i>

Finding: 2018-002 (Repeat)

Condition:	While a substantial amount of the City's public works' time is spent on street repairs and maintenance, all payroll is charged to the Water and Wastewater Fund. Likewise, although the office processes utility billing and collection, all of its time is recorded in the General Fund.
Criteria:	Proprietary funds, such as Water and Wastewater are intended to be self-sufficient, whereby revenues are sufficient to cover expenses. As such, it is imperative that only expenses incurred are charged to that fund. Likewise, governmental funds, such as the General Fund, should not incur expenditures supplementing a proprietary fund.
Cause:	The City has always allocated expenditures in this manner without knowledge of the correct requirement.
Effect:	The City's financial statements do not accurately reflect the results of operations of each fund.
Recommendation:	Detailed records should be maintained to record time and expenses allocable to each fund.
Management Response:	<i>We concur with the recommendation.</i>

**CITY OF BRANDENBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-003 (Repeat)

Condition:	The City does not maintain any records of water and sewer supplies or record their value in the accounting records.
Criteria:	Generally accepted accounting principles require that proprietary funds book material quantities and values of inventories.
Cause:	This requirement was never brought to the attention of City personnel, who considered any amounts on hand to be insignificant. Observation by the auditor, however, indicates that a substantial value may exist.
Effect:	Insufficient records result in misstated financial statements and may permit misappropriation of supplies.
Recommendation:	A physical inventory should be taken as soon as possible, with all items priced and their value recorded. Going forward, perpetual records should be maintained, and inventory counts should be taken at the end of the fiscal year and amounts adjusted in the general ledger accordingly.
Management Response:	<i>We concur with the recommendation. We are beginning the process of working with the Public Works director on developing an inventory system.</i>

Finding: 2018-004 (Repeat)

Condition:	Various errors were made in the preparation of payroll and related reports.
Criteria:	Payroll requires absolute accuracy, both in the payments to employees and in reporting to the taxing authorities.
Cause:	Over the years, deductions have been entered incorrectly as to their effect on gross wages and Social Security and Medicare earnings and withholdings. As a result, amounts entered on payroll reports were also incorrect.
Effect:	Some employees were underpaid, their earnings records were inaccurate, and insufficient payments were made to taxing authorities.
Recommendation:	All deductions should be reviewed to ensure their proper setup in the payroll system. The City should issue refunds of the underpayments to affected employees, and payroll reports should be amended. We also recommend that the City utilize the payroll function provided in their QuickBooks software, which assists in the filing of required payroll reports.
Management Response:	<i>We concur with the recommendation. We are seeking training on better utilization of our QuickBooks program to ensure proper withholdings for all employees.</i>

**CITY OF BRANDENBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2018-005 (Repeat)

Condition:	The City made purchases and entered contracts in excess of \$20,000 without competitive bidding.
Criteria:	With limited exceptions, KRS 424.260 requires that any purchases over \$20,000 be made only after advertising for bids.
Cause:	City administrators in charge of purchasing may not have understood the requirements of the bid law.
Effect:	The City was likely in violation of the provisions of Kentucky purchasing law.
Recommendation:	Administration should become thoroughly familiar with purchase regulations. Any exceptions, such as emergency purchases, single sources, professional services, etc. should be documented in the Council minutes. The minutes should also include a recap of bids received and their amount and the rationale for awarding the contract (low bidder, engineer recommendation, etc.).
Management Response:	<i>We concur with the recommendation. We will stay more informed on the processes and consider purchases which are made repeatedly throughout the fiscal year (ex. Chemicals, etc.).</i>
Auditor Response:	<i>Be aware of single purchases in excess of the bid limit, even where they span multiple fiscal years.</i>