

CITY OF HAZARD, KENTUCKY

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

CITY OF HAZARD

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

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APPENDIX A

Certification of Compliance

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INDEPENDENT AUDITOR'S REPORT

HONORABLE MAYOR AND CITY COMMISSIONERS

CITY OF HAZARD

HAZARD, KENTUCKY

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazard, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hazard, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note 20 to the financial statements, the City of Hazard adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which replaces GASB Statement No. 45, for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB supplemental reporting and budgetary comparison information on pages 4–8 and 67–70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazard, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and comparative water and sewer fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and comparative water and sewer fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and comparative water and sewer fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the City of Hazard, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hazard, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hazard, Kentucky's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

December 28, 2018

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

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments and fiduciary funds, for the City was \$4,495,973 of which \$3,448,351 is considered restricted. The ending cash balance, including investments and fiduciary funds, for the City was \$5,244,025 of which \$3,918,975 is considered restricted.
- General fund long-term debt principal increased \$241,443, consisting of a new loan of \$300,160 and payments of \$58,717. Proprietary fund debt principal had a net decrease of \$214,278 due to payments made on principal of \$431,743 and new debt of \$217,465.
- The City recorded \$191,011 in governmental fixed assets and \$686,323 in proprietary fund fixed assets during the fiscal year.
- The City purchased and made improvements to the Starland Building totaling \$203,164.
- The City adopted GASB 75 for the year ended June 30, 2018 recognizing the City's actuarially calculated net OPEB liability related to its participation in County Employee's Retirement System. The net OPEB liability at June 30, 2018 was \$3,376,978.
- Following are total customer users serviced directly by the City at beginning and end of year:

	Beginning of <u>Year</u>	End of <u>Year</u>
a. Water	8,751	8,721
b. Sewer	3,106	3,112
c. Gas	1,637	1,618

Beginning early 2016, solid waste services were contracted out by the City.

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2018OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

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

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include the Fire-Police Pension Fund, Disbursement Fund, Payroll Fund, and Jacklot Hollow Development Trust Fund. Proprietary funds include the Garbage Fund, Gas Fund, Water Fund, Sewer Fund, Public Improvement Fund, The Hazard Pavilion, Starland Building and the Hazard Forum. All other activities are reported under governmental funds.

Notes to the Financial Statements

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

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2018**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$32,737,378.

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

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

Net position for the Year Ended June 30, 2018

Following are a comparison of net position for the prior two years ended:

	<u>Year Ended</u>	
	<u>2018</u>	<u>2017</u>
Current Assets	\$ 4,156,225	\$ 3,533,092
Noncurrent Assets	50,963,662	51,558,183
Deferred Outflows of Resources	<u>3,479,162</u>	<u>1,706,985</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>58,599,049</u>	<u>56,798,260</u>
Current Liabilities	2,148,445	1,692,222
Noncurrent Liabilities	22,023,065	18,011,753
Deferred Inflows of Resources	<u>1,690,161</u>	<u>406,297</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>25,861,671</u>	<u>20,110,272</u>
Net Position		
Net Investment in Capital Assets	40,166,062	41,508,076
Restricted	2,242,762	880,104
Unrestricted	<u>(9,671,446)</u>	<u>(5,700,192)</u>
<u>Total Net Position</u>	<u>32,737,378</u>	<u>36,687,988</u>
<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 58,599,049</u>	<u>\$ 56,798,260</u>

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2018

- Deferred outflows of resources and deferred inflows of resources increased \$1,772,177 and \$1,283,864, respectively. Noncurrent liabilities increased by \$4,011,312. These increases were primarily due to recognition of net OPEB liability of \$3,376,978 and an increase in the net pension liability of \$945,580.
- Noncurrent assets decreased due to recognition of depreciation expense on fixed assets.

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

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Local revenue sources	\$ 6,174,321	\$ 6,318,710	\$ 144,389
Intergovernmental revenues	<u>320,679</u>	<u>303,966</u>	<u>(16,713)</u>
 <u>Total Revenues</u>	 <u>6,495,000</u>	 <u>6,622,676</u>	 <u>127,676</u>
 Expenditures:			
General government	1,231,134	1,304,706	(73,572)
Police	2,222,773	1,782,865	439,908
Fire	1,203,522	1,151,316	52,206
Public works	1,516,542	1,120,920	395,622
Other expenditures	62,145	67,208	(5,063)
Capital outlay	-	177,939	(177,939)
Debt service	<u>-</u>	<u>79,562</u>	<u>(79,562)</u>
 <u>Total Expenditures</u>	 <u>6,236,116</u>	 <u>5,684,516</u>	 <u>551,600</u>
 <u>Excess of Revenues over Expenditures</u>	 <u>\$ 258,884</u>	 <u>\$ 938,160</u>	 <u>\$ 679,276</u>

- Capital outlay includes police equipment of \$34,477, purchase of Janigan Place property of \$55,871 and fire equipment of \$61,607.
- Debt service is not a budgeted expenditure.

CITY OF HAZARDMANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)For the Year Ended June 30, 2018

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

	<u>Fiscal Year Ended</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Taxes and other local revenues	\$ 6,547,206	\$ 6,788,233
Intergovernmental revenues	513,712	349,955
Charges for services	<u>8,695,127</u>	<u>8,040,840</u>
<u>Total revenues</u>	<u>15,756,045</u>	<u>15,179,028</u>
Expenses:		
General government	1,490,632	1,377,892
Police	2,150,705	2,566,484
Fire	1,405,585	1,366,252
Public works	1,271,003	1,688,032
Highway and streets	104,898	96,632
Other expenditures	131,442	88,556
Utility services	9,787,874	8,944,076
Other proprietary expenses	<u>875,548</u>	<u>810,210</u>
<u>Total expenses</u>	<u>17,217,687</u>	<u>16,938,134</u>
<u>Change in net position</u>	<u>\$ (1,461,642)</u>	<u>\$ (1,759,106)</u>

- Occupational and franchise taxes collected decreased by \$226,933 and \$136,858, respectively.

BUDGETARY IMPLICATIONS

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

Results of the current fiscal year and recent historical trends for the City were taken into account when preparing the 2018-19 budget. No significant revenue or expense line items are foreseeable. Revenues for proprietary funds are monitored for significant expenditures/obligations that may have an effect on rates charged to customers of the City. The City has assessed underlying economics risk factors that are prevalent for the geographic area and considered these risk factors when preparing budgets.

Questions regarding this report should be directed to the Mayor, City Manager or Chief Finance Officer at (606) 436-3171.

CITY OF HAZARDSTATEMENT OF NET POSITIONJune 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	\$ 142,930	\$ 1,182,120	\$ 1,325,050
Receivables, net of allowances:			
Taxes	57,113	-	57,113
Fees and services	-	1,795,754	1,795,754
Due from other funds	311,719	372,190	683,909
Other	10,508	44,306	54,814
Inventories	<u>44,132</u>	<u>195,453</u>	<u>239,585</u>
<u>Total current assets</u>	<u>566,402</u>	<u>3,589,823</u>	<u>4,156,225</u>
-Restricted Assets -			
Cash	710,683	1,507,079	2,217,762
Investment, at cost	<u>-</u>	<u>25,000</u>	<u>25,000</u>
<u>Total restricted assets</u>	<u>710,683</u>	<u>1,532,079</u>	<u>2,242,762</u>
- Noncurrent Assets -			
Capital assets	8,807,050	86,463,079	95,270,129
Less: accumulated depreciation	<u>(6,205,636)</u>	<u>(40,343,593)</u>	<u>(46,549,229)</u>
<u>Total noncurrent assets</u>	<u>2,601,414</u>	<u>46,119,486</u>	<u>48,720,900</u>
Deferred Outflows of Resources:			
Deferred outflows - pension/OPEB resources	<u>2,125,854</u>	<u>1,353,308</u>	<u>3,479,162</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 6,004,353</u>	<u>\$ 52,594,696</u>	<u>\$ 58,599,049</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION (CONTINUED)

June 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
- Current Liabilities -			
Accounts payable	\$ 193,566	\$ 490,364	\$ 683,930
Other current liabilities	129,648	549,847	679,495
Current portion of bond/lease obligations	<u>362,903</u>	<u>422,117</u>	<u>785,020</u>
<u>Total current liabilities</u>	<u>686,117</u>	<u>1,462,328</u>	<u>2,148,445</u>
- Noncurrent Liabilities -			
Noncurrent portion of bond/lease obligations	186,926	7,959,086	8,146,012
Net pension/OPEB liability	8,149,724	5,042,658	13,192,382
Other	<u>-</u>	<u>29,433</u>	<u>29,433</u>
<u>Total noncurrent liabilities</u>	<u>8,336,650</u>	<u>13,031,177</u>	<u>21,367,827</u>
- Other Liabilities -			
Deposits	<u>-</u>	<u>655,238</u>	<u>655,238</u>
<u>Total other liabilities</u>	<u>-</u>	<u>655,238</u>	<u>655,238</u>
<u>Total liabilities</u>	<u>9,022,767</u>	<u>15,148,743</u>	<u>24,171,510</u>
Deferred Inflows of Resources:			
Deferred inflows - pension/OPEB related	<u>974,568</u>	<u>715,593</u>	<u>1,690,161</u>
Net Position:			
Net investment in capital assets	2,051,585	38,114,477	40,166,062
Restricted	710,683	1,532,079	2,242,762
Unrestricted (deficit)			
Pension/OPEB resources	(6,998,438)	(4,404,943)	(11,403,381)
Unrestricted - other	<u>243,188</u>	<u>1,488,747</u>	<u>1,731,935</u>
<u>Total net position</u>	<u>(3,992,982)</u>	<u>36,730,360</u>	<u>32,737,378</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,004,353</u>	<u>\$ 52,594,696</u>	<u>\$ 58,599,049</u>

See notes to financial statements.

11.

CITY OF HAZARD

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>
FUNCTIONS/PROGRAMS:			
- Governmental Activities -			
General government	\$ 1,490,632	\$ -	\$ 95,980
Police	2,150,705	-	301,102
Fire	1,405,585	-	19,412
Public works	1,271,003	-	97,218
Highways and streets	104,898	-	-
Other expenses	<u>131,442</u>	<u>-</u>	<u>-</u>
<u>Total governmental activities</u>	<u>6,554,265</u>	<u>-</u>	<u>513,712</u>
- Business-type Activities -			
Water utilities	4,858,973	3,868,868	-
Sewer utilities	1,770,457	1,516,065	-
Gas utilities	2,093,898	2,145,734	-
Garbage services	1,064,546	903,449	-
Public Improvement Corporation	74,539	-	-
Hazard Pavilion	452,052	87,148	-
Starland Building	10,483	48,000	-
The Hazard Forum	<u>338,474</u>	<u>125,863</u>	<u>-</u>
<u>Total business-type activities</u>	<u>10,663,422</u>	<u>8,695,127</u>	<u>-</u>
<u>Total primary government</u>	<u>\$ 17,217,687</u>	<u>\$ 8,695,127</u>	<u>\$ 513,712</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF ACTIVITIES (CONTINUED)

For the Year Ended June 30, 2018

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	\$ (1,394,652)	\$ -	\$ (1,394,652)
	(1,849,603)	-	(1,849,603)
	(1,386,173)	-	(1,386,173)
	(1,173,785)	-	(1,173,785)
	(104,898)	-	(104,898)
	(131,442)	-	(131,442)
	<u>(6,040,553)</u>	<u>-</u>	<u>(6,040,553)</u>
	-	(990,105)	(990,105)
	-	(254,392)	(254,392)
	-	51,836	51,836
	-	(161,097)	(161,097)
	-	(74,539)	(74,539)
	-	(364,904)	(364,904)
	-	37,517	37,517
	-	(212,611)	(212,611)
	<u>-</u>	<u>(1,968,295)</u>	<u>(1,968,295)</u>
	<u>(6,040,553)</u>	<u>(1,968,295)</u>	<u>(8,008,848)</u>
General revenues:			
Taxes	2,285,114	-	2,285,114
Licenses and permits	3,755,342	-	3,755,342
Transfer in (out)	(682,153)	682,153	-
Interest income	3,132	5,045	8,177
Miscellaneous income/(loss)	177,024	321,549	498,573
<u>Total general revenues</u>	<u>5,538,459</u>	<u>1,008,747</u>	<u>6,547,206</u>
Change in net position	(502,094)	(959,548)	(1,461,642)
Net position, beginning, restated	(3,490,888)	37,545,550	34,054,662
Contributed capital	-	144,358	144,358
Net position, ending	<u>\$ (3,992,982)</u>	<u>\$ 36,730,360</u>	<u>\$ 32,737,378</u>

See notes to financial statements.

CITY OF HAZARDBALANCE SHEET – GOVERNMENTAL FUNDSJune 30, 2018

	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>ASSETS</u>			
Cash	\$ 142,930	\$ -	\$ 142,930
Receivables, net of allowance for uncollectibles			
Taxes	57,113	-	57,113
Receivables - other	-	10,508	10,508
Due from other funds	273,947	37,772	311,719
Inventory of supplies, at cost	44,132	-	44,132
Restricted cash	<u>99,377</u>	<u>611,306</u>	<u>710,683</u>
<u>Total assets</u>	<u>617,499</u>	<u>659,586</u>	<u>1,277,085</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES:</u>			
Accounts payable	193,340	226	193,566
Accrued wages	40,738	-	40,738
Accrued vacation payable	21,082	-	21,082
Due to other taxing units	18,816	-	18,816
Due to other funds	<u>36,973</u>	<u>12,039</u>	<u>49,012</u>
<u>Total liabilities</u>	<u>310,949</u>	<u>12,265</u>	<u>323,214</u>
<u>FUND EQUITY:</u>			
<u>Fund balance:</u>			
Nonspendable - inventories	44,132	-	44,132
<u>Unreserved:</u>			
Unassigned	138,062	-	138,062
Restricted	<u>124,356</u>	<u>647,321</u>	<u>771,677</u>
<u>Total fund equity</u>	<u>306,550</u>	<u>647,321</u>	<u>953,871</u>
<u>Total liabilities and fund equity</u>	<u>\$ 617,499</u>	<u>\$ 659,586</u>	<u>\$ 1,277,085</u>

See notes to financial statements.

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

Total fund balance per fund financial statements		\$ 953,871
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	\$ 8,807,050	
Less accumulated depreciation	<u>\$ (6,205,636)</u>	
		2,601,414
Deferred outflows on pension/OPEB resources are reported in government wide financial statements, but not in fund financial statements.		
		2,125,854
Net pension/OPEB obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.		
		(8,149,724)
Deferred inflows of resources related to pension/OPEB are not reported in the fund financial statements.		
		(974,568)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund		
Governmental bonds and notes payable		<u>(549,829)</u>
Net position for governmental activities		<u>\$ (3,992,982)</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDSFor the Year Ended June 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Taxes	\$ 2,285,114	\$ -	\$ 2,285,114
Licenses and permits	3,755,342	-	3,755,342
Charges for services	-	-	-
Fines and forfeits	113,673	-	113,673
Intergovernmental revenues	303,966	382,555	686,521
Miscellaneous	<u>164,581</u>	<u>15,713</u>	<u>180,294</u>
<u>Total revenues</u>	<u>6,622,676</u>	<u>398,268</u>	<u>7,020,944</u>
<u>EXPENDITURES:</u>			
<u>Current:</u>			
General government	1,304,706	-	1,304,706
Police	1,782,865	-	1,782,865
Fire	1,151,316	-	1,151,316
Public works	1,120,920	-	1,120,920
Highways and streets	-	100,825	100,825
Other expenditures	67,208	64,234	131,442
Capital outlay	177,939	81,767	259,706
Debt service	<u>79,562</u>	<u>-</u>	<u>79,562</u>
<u>Total expenditures</u>	<u>5,684,516</u>	<u>246,826</u>	<u>5,931,342</u>
<u>Excess of revenues over (under) expenditures</u>	<u>938,160</u>	<u>151,442</u>	<u>1,089,602</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfers in	594,907	131,610	726,517
Operating transfers (out)	(1,683,237)	(120,381)	(1,803,618)
Proceeds from notes	300,160	-	300,160
Other income	<u>177,024</u>	<u>-</u>	<u>177,024</u>
<u>Total other financing sources (uses)</u>	<u>(611,146)</u>	<u>11,229</u>	<u>(599,917)</u>
<u>Excess of revenues and other sources over (under) expenditures and other uses</u>	<u>327,014</u>	<u>162,671</u>	<u>489,685</u>
<u>FUND BALANCE, JULY 1</u>	<u>(20,464)</u>	<u>484,650</u>	<u>464,186</u>
<u>FUND BALANCE, JUNE 30</u>	<u>\$ 306,550</u>	<u>\$ 647,321</u>	<u>\$ 953,871</u>

See notes to financial statements.

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

Net change in total fund balances per fund financial statements	\$	489,685
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Amounts reported for governmental activities in the statement of activities differences:

Governmental funds report capital outlays as expenditures.

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

Capital outlay	\$	191,011	
Depreciation		<u>(203,497)</u>	(12,486)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. The repayment of the principal of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which repayments exceeded proceeds.

Principal payments		58,717	
Note proceeds	\$	<u>(300,160)</u>	(241,443)

However, in the statement of activities, the cost of pension/OPEB benefits earned net of employee contributions are reported as pension/OPEB expense.

<u>(737,850)</u>

Change in net position of governmental activities	\$	<u><u>(502,094)</u></u>
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See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDSJune 30, 2018

	<u>Water</u>	<u>Sewer</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 120,607	\$ 7,761
Receivables, net of allowances:		
Fees and services	1,005,479	370,003
Due from other funds	118,113	217,906
Other	-	14,863
Inventories of supplies, at cost	<u>104,305</u>	<u>13,038</u>
<u>Total current assets</u>	<u>1,348,504</u>	<u>623,571</u>
-Restricted Assets -		
Cash	751,198	755,881
Investments, at cost	<u>-</u>	<u>-</u>
<u>Total restricted assets</u>	<u>751,198</u>	<u>755,881</u>
- Noncurrent Assets -		
Capital assets	51,435,248	14,208,913
Less: accumulated depreciation	<u>(19,636,488)</u>	<u>(8,431,685)</u>
<u>Total noncurrent assets</u>	<u>31,798,760</u>	<u>5,777,228</u>
Deferred Outflows of Resources:		
Deferred outflows - pension resources/OPEB	<u>653,730</u>	<u>180,039</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 34,552,192</u>	<u>\$ 7,336,719</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2018

<u>Gas</u>	<u>Garbage</u>	<u>Other</u>	<u>Totals</u>
\$ 671,651	\$ 288,492	\$ 93,609	\$ 1,182,120
288,500	131,772	-	1,795,754
28,655	2,429	5,087	372,190
-	29,443	-	44,306
<u>72,989</u>	<u>1,083</u>	<u>4,038</u>	<u>195,453</u>
<u>1,061,795</u>	<u>453,219</u>	<u>102,734</u>	<u>3,589,823</u>
-	-	-	1,507,079
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>1,532,079</u>
6,199,286	1,613,375	13,006,257	86,463,079
<u>(4,623,992)</u>	<u>(1,562,751)</u>	<u>(6,088,677)</u>	<u>(40,343,593)</u>
<u>1,575,294</u>	<u>50,624</u>	<u>6,917,580</u>	<u>46,119,486</u>
<u>190,943</u>	<u>148,209</u>	<u>180,387</u>	<u>1,353,308</u>
<u>\$ 2,853,032</u>	<u>\$ 652,052</u>	<u>\$ 7,200,701</u>	<u>\$ 52,594,696</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2018

	<u>Water</u>	<u>Sewer</u>
Liabilities:		
- Current Liabilities -		
Accounts payable	\$ 175,604	\$ 41,883
Accrued interest payable	-	-
Accrued wages	36,098	5,191
Accrued vacation payable	6,175	3,524
Due to other funds	202,959	16,375
Current portion of long-term debt	<u>132,595</u>	<u>62,560</u>
<u>Total current liabilities</u>	<u>553,431</u>	<u>129,533</u>
- Noncurrent Liabilities -		
Notes payable	22,798	1,293,812
Due to other taxing units	21,634	-
Revenue bonds payable	5,356,800	-
Net pension/OPEB liability	<u>2,413,115</u>	<u>575,692</u>
<u>Total noncurrent liabilities</u>	<u>7,814,347</u>	<u>1,869,504</u>
- Other Liabilities -		
Deposits	<u>565,204</u>	<u>-</u>
<u>Total liabilities</u>	<u>8,932,982</u>	<u>1,999,037</u>
Deferred Inflows of Resources:		
Deferred inflows - pension/OPEB related	<u>331,889</u>	<u>101,818</u>
Net Position:		
Net investment in capital assets	26,286,567	4,420,856
Restricted	751,198	755,881
Unrestricted (deficit)		
Pension/OPEB resources	(2,091,274)	(497,471)
Unrestricted - other	<u>340,830</u>	<u>556,598</u>
<u>Total net position</u>	<u>25,287,321</u>	<u>5,235,864</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>\$ 34,552,192</u>	<u>\$ 7,336,719</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)June 30, 2018

<u>Gas</u>	<u>Garbage</u>	<u>Other</u>	<u>Totals</u>
\$ 121,217	\$ 145,095	\$ 6,565	\$ 490,364
16,066	-	1,159	17,225
9,028	-	4,594	54,911
5,799	-	1,744	17,242
221,800	19,287	48	460,469
<u>78,734</u>	<u>-</u>	<u>148,228</u>	<u>422,117</u>
<u>452,644</u>	<u>164,382</u>	<u>162,338</u>	<u>1,462,328</u>
297,460	-	988,216	2,602,286
7,799	-	-	29,433
-	-	-	5,356,800
<u>673,282</u>	<u>683,158</u>	<u>697,411</u>	<u>5,042,658</u>
<u>978,541</u>	<u>683,158</u>	<u>1,685,627</u>	<u>13,031,177</u>
<u>88,034</u>	<u>-</u>	<u>2,000</u>	<u>655,238</u>
<u>1,519,219</u>	<u>847,540</u>	<u>1,849,965</u>	<u>15,148,743</u>
<u>96,663</u>	<u>90,817</u>	<u>94,406</u>	<u>715,593</u>
1,575,294	50,624	5,781,136	38,114,477
25,000	-	-	1,532,079
(579,002)	(625,766)	(611,430)	(4,404,943)
<u>215,858</u>	<u>288,837</u>	<u>86,624</u>	<u>1,488,747</u>
<u>1,237,150</u>	<u>(286,305)</u>	<u>5,256,330</u>	<u>36,730,360</u>
<u>\$ 2,853,032</u>	<u>\$ 652,052</u>	<u>\$ 7,200,701</u>	<u>\$ 52,594,696</u>

See notes to financial statements.

21.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues:		
Charges for services	\$ 3,839,359	\$ 1,516,065
Other	<u>29,509</u>	<u>-</u>
<u>Total operating revenues</u>	<u>3,868,868</u>	<u>1,516,065</u>
Operating expenses:		
Salaries and wages	1,551,322	518,151
Contract services	1,220,371	548,857
Materials and supplies	845,411	177,977
Depreciation	1,052,105	486,410
Other operating expenses	<u>3,812</u>	<u>2,132</u>
<u>Total operating expenses</u>	<u>4,673,021</u>	<u>1,733,527</u>
<u>Operating income (loss)</u>	<u>(804,153)</u>	<u>(217,462)</u>
Non-operating revenues (expenses):		
Interest income	1,171	1,959
Interest expense	(185,952)	(36,930)
Other income/(loss)	<u>-</u>	<u>-</u>
<u>Total non-operating revenues (expenses)</u>	<u>(184,781)</u>	<u>(34,971)</u>
<u>Net income (loss) before operating transfer</u>	<u>(988,934)</u>	<u>(252,433)</u>
<u>Operating transfers in (out)</u>	<u>(52,836)</u>	<u>252,472</u>
<u>Net income (loss)</u>	<u>(1,041,770)</u>	<u>39</u>
<u>Net Position - Beginning, restated</u>	<u>26,184,733</u>	<u>5,235,825</u>
<u>Contributed capital</u>	<u>144,358</u>	<u>-</u>
<u>Net Position - Ending</u>	<u>\$ 25,287,321</u>	<u>\$ 5,235,864</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDS (CONTINUED)For the Year Ended June 30, 2018

<u>Gas Fund</u>	<u>Garbage Fund</u>	<u>Other</u>	<u>Totals</u>
\$ 2,141,478	\$ 892,079	\$ 261,011	\$ 8,649,992
<u>4,256</u>	<u>11,370</u>	<u>-</u>	<u>45,135</u>
<u>2,145,734</u>	<u>903,449</u>	<u>261,011</u>	<u>8,695,127</u>
474,220	7,539	366,037	2,917,269
1,485,985	1,045,437	151,102	4,451,752
48,462	3,165	28,516	1,103,531
64,778	8,405	296,278	1,907,976
<u>2,112</u>	<u>-</u>	<u>-</u>	<u>8,056</u>
<u>2,075,557</u>	<u>1,064,546</u>	<u>841,933</u>	<u>10,388,584</u>
<u>70,177</u>	<u>(161,097)</u>	<u>(580,922)</u>	<u>(1,693,457)</u>
1,101	705	109	5,045
(18,341)	-	(33,615)	(274,838)
<u>50,140</u>	<u>271,409</u>	<u>-</u>	<u>321,549</u>
<u>32,900</u>	<u>272,114</u>	<u>(33,506)</u>	<u>51,756</u>
103,077	111,017	(614,428)	(1,641,701)
<u>95,352</u>	<u>(42,282)</u>	<u>429,447</u>	<u>682,153</u>
198,429	68,735	(184,981)	(959,548)
<u>1,038,721</u>	<u>(355,040)</u>	<u>5,441,311</u>	<u>37,545,550</u>
-	-	-	144,358
<u>\$ 1,237,150</u>	<u>\$ (286,305)</u>	<u>\$ 5,256,330</u>	<u>\$ 36,730,360</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>
Cash flows from operating activities:		
Cash received from:		
Charges for services	\$ 3,679,965	\$ 1,221,084
Other operating revenue	29,509	-
Cash paid to/for:		
Employees	(1,290,937)	(435,345)
Supplies/contractual	(2,064,541)	(762,615)
Other operating expenses	(3,812)	(2,132)
<u>Net cash provided/(used) by operating activities</u>	<u>350,184</u>	<u>20,992</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(158,951)	(272,886)
Principal paid on notes and bonds	(141,120)	(61,681)
Proceeds from notes and bonds	-	27,830
Interest paid on notes and bonds	(185,952)	(36,930)
Nonoperating - income/(loss)	-	-
Contributed capital	144,358	-
<u>Net cash provided (used) for capital and related financing</u>	<u>(341,665)</u>	<u>(343,667)</u>
Cash flows from non-capital financing activities:		
Operating transfers - in (out)	(52,836)	252,472
<u>Net cash provided (used) for non-capital activities</u>	<u>(52,836)</u>	<u>252,472</u>
Cash flows from investing activities:		
Interest income	1,171	1,959
<u>Net cash provided (used) for investing activities</u>	<u>1,171</u>	<u>1,959</u>
Net increase (decrease) in cash	(43,146)	(68,244)
Cash, beginning of year	914,951	831,886
Cash, end of year	<u>871,805</u>	<u>763,642</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:		
Operating income (loss)	(804,153)	(217,462)
Adjustment to reconcile operating income to cash provided (used) by operating activities:		
Depreciation	1,052,105	486,410
Restatement of net position	(526,282)	(186,932)
Changes in current assets/liabilities:		
Accounts receivable	(206,315)	(80,227)
Due from other funds	(38,347)	(202,818)
Other receivables	105,624	(11,936)
Inventory	10,765	(530)
Accounts payable	(212,483)	(22,230)
Accrued interest payable	-	-
Accrued wages	21,832	269
Accrued vacation payable	100	(2,712)
Due to other funds	202,959	(13,021)
Due to other taxing units	(1,555)	-
Customer deposits	(20,356)	-
Deferred outflows - pension/OPEB resources	(354,178)	(125,801)
Deferred inflows - pension/OPEB related	256,586	91,137
Net pension/OPEB liability	863,882	306,845
<u>Net cash provided (used) by operating activities</u>	<u>\$ 350,184</u>	<u>\$ 20,992</u>

See notes to financial statements.

CITY OF HAZARD

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)

For the Year Ended June 30, 2018

<u>Gas Fund</u>	<u>Garbage Fund</u>	<u>Other</u>	<u>Totals</u>
\$ 2,104,617	\$ 984,762	\$ 266,924	\$ 8,257,352
4,256	11,370	-	45,135
(388,046)	(7,539)	(302,683)	(2,424,550)
(1,339,718)	(899,440)	(189,059)	(5,255,373)
(2,112)	-	-	(8,056)
<u>378,997</u>	<u>89,153</u>	<u>(224,818)</u>	<u>614,508</u>
(13,073)	(34,723)	(206,690)	(686,323)
(80,714)	-	(148,228)	(431,743)
-	-	189,635	217,465
(18,341)	-	(33,615)	(274,838)
50,140	271,409	-	321,549
-	-	-	144,358
<u>(61,988)</u>	<u>236,686</u>	<u>(198,898)</u>	<u>(709,532)</u>
<u>95,352</u>	<u>(42,282)</u>	<u>429,447</u>	<u>682,153</u>
<u>95,352</u>	<u>(42,282)</u>	<u>429,447</u>	<u>682,153</u>
<u>1,101</u>	<u>705</u>	<u>109</u>	<u>5,045</u>
<u>1,101</u>	<u>705</u>	<u>109</u>	<u>5,045</u>
413,462	284,262	5,840	592,174
<u>283,189</u>	<u>4,230</u>	<u>87,769</u>	<u>2,122,025</u>
<u>696,651</u>	<u>288,492</u>	<u>93,609</u>	<u>2,714,199</u>
70,177	(161,097)	(580,922)	(1,693,457)
64,778	8,405	296,278	1,907,976
(163,532)	-	(138,655)	(1,015,401)
(13,753)	96,796	-	(203,499)
(18,072)	25,331	3,913	(229,993)
-	(29,444)	-	64,244
6,568	-	-	16,803
69,759	129,875	(9,041)	(44,120)
(3,645)	-	(400)	(4,045)
5,279	-	791	28,171
4,872	-	(672)	1,588
122,047	19,287	-	331,272
1,445	-	-	(110)
(5,036)	-	2,000	(23,392)
(110,053)	-	(93,312)	(683,344)
79,729	-	67,601	495,053
<u>268,434</u>	<u>-</u>	<u>227,601</u>	<u>1,666,762</u>
<u>\$ 378,997</u>	<u>\$ 89,153</u>	<u>\$ (224,818)</u>	<u>\$ 614,508</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDSJune 30, 2018

	<u>Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
Assets:			
Restricted assets:			
Cash and cash equivalents	\$ 47,194	\$ 174,715	\$ 221,909
Investments	1,454,304	-	1,454,304
Other receivables	21,092	-	21,092
Due from other funds	<u>287</u>	<u>19,335</u>	<u>19,622</u>
<u>Total assets</u>	<u>1,522,877</u>	<u>194,050</u>	<u>1,716,927</u>
Liabilities:			
Due other funds	-	194,050	194,050
Net pension liability	<u>4,602,159</u>	<u>-</u>	<u>4,602,159</u>
<u>Total liabilities</u>	<u>4,602,159</u>	<u>194,050</u>	<u>4,796,209</u>
Net Position:			
Designated for retirement contributions	(3,144,780)	-	(3,144,780)
Designated for other purposes	<u>65,498</u>	<u>-</u>	<u>65,498</u>
<u>Total net position</u>	<u>(3,079,282)</u>	<u>-</u>	<u>(3,079,282)</u>
<u>Total liabilities and net position</u>	<u>\$ 1,522,877</u>	<u>\$ 194,050</u>	<u>\$ 1,716,927</u>

See notes to financial statements.

CITY OF HAZARDSTATEMENT OF CHANGES IN FIDUCIARY NET
POSITION – TRUST FUNDSFor the Year Ended June 30, 2018Additions:

Contributions:

Employer \$ 494,948

Investment Income:

Rental Income 22,811

Interest Income 12,278

Total investment income 35,089Total additions 530,037Deductions:

Benefits 494,269

Administrative expenses -

Materials and supplies -

Total deductions 494,269Operating transfers in (out) (100,000)Net increase/(decrease) in net position (64,232)

Net Position:

Beginning of Year (3,015,050)

End of Year \$ (3,079,282)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTSJune 30, 2018**1. – General Statement and Summary of Significant Accounting Policies****General Statement**

The City of Hazard, Kentucky (The “City”) was incorporated in 1884, under the provisions of the State of Kentucky. The City operates under City manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities.

A. The Reporting Entity

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

Excluded from the reporting entity:

Hazard Independent School District

The Hazard Independent School District selects management staff, sets tax rates, establishes budgets and controls all aspects of their daily activities.

Hazard Housing Authority

The Hazard Housing Authority is excluded as they have their own management staff and are under the supervision of HUD.

Hazard-Perry County Community Ministries, Inc.

Hazard-Perry County Community Ministries, Inc. is excluded as they are a separate entity and have their own management board.

Hazard-Perry County Airport Board

Hazard-Perry County Airport Board is excluded as they have their own management board.

Bobby Davis Museum and Park of Hazard and Perry County, Kentucky, Inc.

Bobby Davis Museum and Park of Hazard and Perry County, Kentucky, Inc. is excluded as they have their own management board.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**B. Government-Wide and Fund Financial Statements***Government-wide Financial Statements*

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

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

Fund Financial Statements

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

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

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

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**D. Fund Types and Major Funds***Governmental Funds*

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Other governmental funds include:

Special Revenue Funds - accounts for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include Mayor and Commissioners Special Recreation, Asset Forfeiture Fund, Municipal Road Aid, LGEA Coal and Mineral Severance, Police Report Fund, Daniel Boone Warrior Trail Fund and the Hazard Flood Inundation Mapping Project.

Capital Project Funds – accounts for financial resources to be used for the acquisition and construction of major capital facilities. Capital project funds include Fire Department Equipment Fund, FEMA Grant Fund and Fire Department Fund.

Proprietary Funds

The City reports the following major proprietary funds:

Water, Sewer, Gas, and Garbage – accounts for operations that are financed and operated in a manner similar to private business enterprises where the costs of providing services to the general public on a continuing basis are financed through user charges.

The City has four other proprietary funds, the Hazard Pavilion, Hazard Forum, Starland Building and the Public Improvement Corp Fund.

Other Fund Types

The City also reports the following fund types:

Trust Funds – reports fiduciary resources held in trust and the receipt, investments and distribution of retirement contributions and rental activities. Trust funds include Fire-Police Pension Fund and Jacklot Hollow Development Trust.

Agency Funds – accounts for funds that are generally custodial in nature and do not involve measurement or results of operations. Agency funds include the Disbursement and Payroll Funds.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**E. Assets, Liabilities, and Net Position or Equity****1. Cash and Investments**

Cash and investments are separately held and reflected in their respective funds as “cash and cash equivalents” and “investments” some of which are restricted assets. The City considers the above in its definitions for applicability of cash flow statement use.

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

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

2. Inventories and Prepaids

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

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

3. Capital Assets, Depreciation, and Amortization

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**E. Assets, Liabilities, and Net Position or Equity (continued)**

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

Water and sewer line extensions	30 – 50 years
Buildings	30 – 50 years
Furniture and office equipment	5 – 10 years
Water storage tanks	50 years
Vehicles and equipment	4 – 10 years
Sewer treatment plant	24 years

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

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

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

5. Fund Equity

The City implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**E. Assets, Liabilities, and Net Position or Equity (continued)**

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

Fund balances:

	General <u>Fund</u>	Non-major <u>Funds</u>	<u>Total</u>
Unassigned	\$ 138,062	\$ -	\$ 138,062
Nonspendable	44,132	-	44,132
Restricted	<u>124,356</u>	<u>647,321</u>	<u>771,677</u>
Total fund balances	<u>\$ 306,550</u>	<u>\$ 647,321</u>	<u>\$ 953,871</u>

6. Fund Equity

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

F. Sources of Revenue and Other General Information**1. Revenues**

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

a. Federal and State Grant Revenue

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**F. Sources of Revenue and Other General Information (continued)****b. State Financial Assistance**

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

c. Local Contributed Cash

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

d. In-Kind – Contributed Services

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

e. Other Revenues

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

2. Leases

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

3. Budgets and Budgetary Accounting

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**F. Sources of Revenue and Other General Information (continued)**

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

4. Leave PoliciesVacation

The vacation leave in 2018 is 3 calendar weeks per year.

Vacation leave must be taken within the year after it is accumulated.

Absences on account of sickness, injury or disability in excess of that authorized for such purposes may be charged to vacation leave credit.

Sick

All full-time employees shall be granted one working day sick leave credit with pay for each completed calendar month of service. Sick leave may be accumulated to a maximum of 60 working days.

At June 30, 2018, accrued compensated absences totaled \$41,580 based on the number of days earned for each employee.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**F. Sources of Revenue and Other General Information (continued)****5. Property Tax Calendar**

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

<u>Description</u>	<u>Per KRS 134.020</u>
1. Due date for payment of taxes, 2% discount	30 days from the date mailed
2. Face value amount payment date	31-60 days from the date mailed
3. Delinquent date 10% penalty, .5% interest per month	Beyond 61 days until collected

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

6. Use of Estimates

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

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

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**F. Sources of Revenue and Other General Information (continued)****8. Recently Issued Accounting Pronouncements**

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

- GASB Statement No. 75—Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for the City’s fiscal year ending June 30, 2018.
- GASB Statement No. 81—Irrevocable Split-Interest Agreements, effective for the City’s fiscal year ending June 30, 2018.
- GASB Statement No. 85—Omnibus 2017, effective for the City’s fiscal year ending June 30, 2018.
- GASB Statement No. 86—Certain Debt Extinguishment Issues, effective for the City’s fiscal year ending June 30, 2018.

The adoption of GASB Statement Numbers 81, 85 and 86 did not have an impact on the City’s financial position or results of operations. The adoption of GASB Statement No. 75 resulted in a restatement of net position in the Government-Wide Financial Statements of (\$2,633,325) as discussed in Note 20.

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

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

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

2. - Cash and Investments

The carrying amount of the City’s deposits with financial institutions and petty cash was \$5,244,025 and the bank balance was \$5,400,030.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**2. - Cash and Investments (continued)**

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the City may not recover collateral securities. The City requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At June 30, 2018, \$1,681,958 was insured by FDIC, \$3,400,441 was collateralized with securities held by the pledging financial institution's trust department in the City's name and \$317,631 of the City's deposits were not collateralized. At June 30, 2018, the City's deposits at Peoples Bank and Trust, First Trust Bank, Whitaker Bank and First Federal Savings and Loan were not fully covered by collateral agreements. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The City does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the City's investments in a single issuer. All of the organization's cash is held at local financial institutions. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The City does not hold any foreign investments.

Other Investments:

Investment in the Hazard Gas Company is accounted for under the equity method, at cost, increased or decreased by the Hazard Gas Company's share of earnings or losses, less transfers. The Hazard Gas Company is 100% owned by Public Improvement Corporation. As of June 30, 2018, the balance is \$190,651.

Investment in the Hazard Pavilion is accounted for under the equity method, at cost, increased or decreased by the Hazard Pavilion's share of earnings or losses, less transfers. The Hazard Pavilion is 100% owned by Public Improvement Corporation. As of June 30, 2018, the balance is \$(631,059).

For financial reporting purposes, the investment and related earnings from the subsidiaries are eliminated in the combining financial statements.

3. - Retirement Plans

The City of Hazard is a participating employer of the City of Hazard Policemen's and Firemen's Pension Fund of those employees hired before August 31, 1989 and after this date County Employee's Retirement System.

A summary of the City of Hazard Policemen's and Firemen's Pension fund is as follows:

Effective Date	March 2, 1953.
Plan Year (Fiscal Year)	The 12-month period ending June 30.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**3. - Retirement Plans (continued)**

Participants	Policemen and Firemen employed before 1989 by the City of Hazard, Kentucky.
Normal Eligibility	20 years of service.
Retirement Pension Benefit	50% of salary at a time of retirement.
Disability Eligibility	Total and permanent disability incurred by reason of service with the Police or Fire Department.
Pension Benefits	50% of salary at time of retirement.
Retiree Survivors Benefits	If a retiree dies, his monthly pension will continue to his surviving spouse for life. In addition, there are fixed dollar amounts which can be paid to surviving children and parents.
Death Before Retirement	If an active participant dies in the line of duty or with at least 15 years of service, the widows and orphans benefits outline above will be paid.
Vesting	The employee is always vested in the value of his own contributions. He is not, however, vested in any monthly pension prior to completing 20 years of service.
Employee Contributions	Equal to the amount the employee would contribute to the Social Security system in payroll taxes.
Employer Contributions	City of Hazard contributes to the general fund the balance needed to fund the Plan offset by Employee Contributions.

The City of Hazard plan (KRS 95.620 Revised Subsection 2) has no active employees (firemen and policemen) covered by the City of Hazard Policemen's and Firemen's Pension Fund. Funding for the plan was provided through payroll withholding of 7.65% and a City's contribution of the balance needed to fund the plan offset by employer's contributions.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**3. - Retirement Plans (continued)**

The City of Hazard has a total of 119 employees under the County Employee's Retirement System, (CERS) a cost sharing, multiple-employer, public employer retirement system. Funding for the plan is provided through a payroll withholding of 5%, except for new hires on or after September 1, 2008 with payroll withholdings of 6%, and a City's contribution of 19.18% of the employees total compensation subject to contribution. The City does not participate in the hazardous plan of CERS but provides a pass-through hazardous CERS contribution for one police officer who is funded through the federal UNITE program.

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

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

At June 30, 2018, the City reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017 for the City's proportionate share of net CERS pension liability and July 1, 2013 for the City's Firemen's and Policemen's Pension Fund. At June 30, 2017 the City's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2016 was .163860% for non-hazardous and .010020% for hazardous. The City's proportionate share was 100% for the Firemen's and Policemen's Pension Fund.

City's proportionate share of the net CERS non-hazardous pension liability	<u>\$ 9,591,230</u>
City's proportionate share of the net CERS hazardous pension liability	<u>\$ 224,175</u>
City's proportionate share of the net Firemen-Police pension liability	<u>\$ 4,602,159</u>

For the year ended June 30, 2018, the City's financial statements reported pension expense of \$688,220 for CERS non-hazardous, \$18,532 for CERS hazardous and \$494,269 for the Firemen-Police pension. For the year ended June 30, 2018 the City recognized deferred outflows of resources for non-hazardous and hazardous of \$2,664,183 and \$67,644, respectively, and deferred inflows of resources for non-hazardous and hazardous of \$1,464,282 and \$48,000, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

3. - **Retirement Plans (continued)**

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

<u>Year</u>	Non-hazardous <u>Total</u>	Hazardous <u>Total</u>
2018	559,448	3,697
2019	516,075	9,693
2020	247,533	8,700
2021	(123,157)	(2,446)
2022	-	-
Thereafter	-	-
	<u>\$ 1,199,899</u>	<u>\$ 19,644</u>

	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,896	\$ 243,466	\$ 8,222	\$ -
Changes of assumptions	1,769,842	-	44,718	-
Net difference between projected and actual earnings on pension plan investments	759,614	640,981	14,704	12,745
Changes in proportion and differences between City contributions and proportionate share of contributions	122,831	579,835	-	35,255
City contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 2,664,183</u>	<u>\$ 1,464,282</u>	<u>\$ 67,644</u>	<u>\$ 48,000</u>

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**3. - Retirement Plans (continued)**

- Valuation date, June 30, 2017
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
- Inflation – 3.25%
- Salary increases, 4.00% average
- Investment rate of return – 7.50%

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

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

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

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**3. - Retirement Plans (continued)**

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

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's proportionate share of net non-hazardous pension liability	\$ 12,096,614	\$ 9,591,230	\$ 7,495,495
City's proportionate share of net hazardous pension liability	\$ 281,860	\$ 224,175	\$ 176,536
City's proportionate share of the net Firemen-Police pension liability	\$ 5,780,924	\$ 4,602,159	\$ 3,629,355

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

The City's plan actuarial report for the City of Hazard Firemen's and Policemen's Pension Fund dated July 1, 2013, stated that at that time, the assets which are accrued are less than the actuarial present value of the benefits which are vested. The level of funding is not adequate to meet future obligations according to the valuation results in the actuarial report dated July 1, 2013 indicating the total contribution to the plan should be \$473,851. The City's share of this is \$473,851, based upon the expected rate of employee contributions. The actuarial present value of vested benefits is \$5,992,207, which is in excess of the value of plan assets of \$1,390,048. Under GASB 68, a net pension liability of \$4,602,159 was recorded in the Fire-Police Pension Fund.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**4. - OPEB Plans****General Information about the OPEB Plan**

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

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

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

Medical Insurance Plan

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

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

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

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

At June 30, 2018, the City of Hazard reported a liability of \$3,294,146 and \$82,832 for its proportionate share of the collective net CERS non-hazardous and hazardous OPEB liability, respectively. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the City's proportion was .163860% for non-hazardous and .010020% for hazardous. The previous year proportion was not available.

CITY OF HAZARDNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**4. - OPEB Plans (continued)**

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

City's proportionate share of the net
CERS non-hazardous OPEB liability \$ 3,294,146

City's proportionate share of the net
CERS hazardous OPEB liability \$ 82,832

For the year ended June 30, 2018, the City recognized OPEB expense of \$375,380 and \$12,610 for non-hazardous and hazardous, respectively. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 9,149	\$ -	\$ 193
Changes of assumptions	716,785	-	30,553	-
Net difference between projected and actual earnings on plan investments	-	155,680	-	5,197
Changes in proportion and differences between City contributions and proportionate share of contributions	-	7,644	-	17
City contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 716,785</u>	<u>\$ 172,473</u>	<u>\$ 30,553</u>	<u>\$ 5,407</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

CITY OF HAZARDNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**4. - OPEB Plans (continued)**

<u>Year</u>	Non-hazardous <u>Total</u>	Hazardous <u>Total</u>
2018	93,654	7,272
2019	93,654	7,272
2020	93,654	7,272
2021	93,654	3,329
2022	132,574	-
Thereafter	<u>37,121</u>	<u>-</u>
	<u>\$ 544,311</u>	<u>\$ 25,145</u>

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

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

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

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

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

CITY OF HAZARDNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**4. - OPEB Plans (continued)**

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

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

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

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

CITY OF HAZARDNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

	<u>June 30, 2018</u>		
4. - OPEB Plans (continued)	1% Decrease <u>(4.84%)</u>	Current Discount Rate <u>(5.84%)</u>	1% Increase <u>(6.84%)</u>
City's proportionate share of net non-hazardous OPEB liability	\$4,191,619	\$ 3,294,146	\$2,547,309
	1% Decrease <u>(4.96%)</u>	Current Discount Rate <u>(5.96%)</u>	1% Increase <u>(6.96%)</u>
City's proportionate share of net hazardous OPEB liability	\$ 111,007	\$ 82,832	\$ 59,781

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
City's proportionate share of net non-hazardous OPEB liability	\$2,526,780	\$ 3,294,146	\$4,291,678
	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
City's proportionate share of net hazardous OPEB liability	\$ 58,636	\$ 82,832	\$ 112,780

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

5. - Allowance for Uncollectible Accounts

Allowance for uncollectible accounts receivable in the various funds at June 30, 2018 is as follows:

General Fund	
Property taxes	\$ 117,312
Water Fund	
Water billing	113,015
Sewer Fund	
Sewer billing	30,500
Gas Fund	
Gas billing	36,698
Garbage Fund	
Garbage billing	189,846

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**6. - Proprietary Funds Fixed Assets**

The following is a summary of property, plant and equipment of the Proprietary Funds at June 30, 2018:

	Public		Hazard				Starland	The	
	Improvement	Water	Pavilion	Gas	Garbage	Sewer	Building	Hazard	Total
	Corp.							Forum	
Land	\$ 821,026	\$ 98,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 919,923
Construction in progress	-	51,522	-	-	-	-	-	-	51,522
Buildings	2,310,673	6,624,309	1,573,565	-	-	7,306,922	203,164	7,038,660	25,057,293
Improvements other than buildings	708,286	42,604,843	-	5,063,279	-	6,339,487	-	-	54,715,895
Equipment and machinery	-	1,332,390	105,783	577,655	596,050	478,867	-	22,304	3,113,049
Office equipment and fixtures	-	74,286	156,796	216,318	33,124	42,045	-	-	522,569
Vehicles	<u>66,000</u>	<u>649,001</u>	<u>-</u>	<u>342,034</u>	<u>984,201</u>	<u>41,592</u>	<u>-</u>	<u>-</u>	<u>2,082,828</u>
	3,905,985	51,435,248	1,836,144	6,199,286	1,613,375	14,208,913	203,164	7,060,964	86,463,079
Accumulated Depreciation	<u>(1,936,878)</u>	<u>(19,636,488)</u>	<u>(1,399,221)</u>	<u>(4,623,992)</u>	<u>(1,562,751)</u>	<u>(8,431,685)</u>	<u>(4,233)</u>	<u>(2,748,345)</u>	<u>(40,343,593)</u>
Total	<u>\$ 1,969,107</u>	<u>\$ 31,798,760</u>	<u>\$ 436,923</u>	<u>\$ 1,575,294</u>	<u>\$ 50,624</u>	<u>\$ 5,777,228</u>	<u>\$ 198,931</u>	<u>\$ 4,312,619</u>	<u>\$ 46,119,486</u>

Depreciation was allocated to each fund as follows:

Public Improvement Corp.	\$ 60,512
Water	1,052,105
Pavilion	54,785
Gas	64,778
Garbage	8,405
Sewer	486,410
Starland Building	4,233
Hazard Forum	176,748
Total Depreciation	<u>\$ 1,907,976</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**6. - Proprietary Funds Fixed Assets (continued)**

Proprietary fund activity for the fiscal year ended June 30, 2018 was as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 908,673	\$ 11,250	\$ -	\$ 919,923
Construction in progress	<u>6,655,395</u>	<u>-</u>	<u>(6,603,873)</u>	<u>51,522</u>
Total capital assets not being depreciated	7,564,068	11,250	(6,603,873)	971,445
<u>Capital assets being depreciated:</u>				
Buildings	24,854,129	203,164	-	25,057,293
Improvements other than buildings	47,720,594	6,995,301	-	54,715,895
Equipment and machinery	3,017,752	95,297	-	3,113,049
Office equipment and fixtures	559,035	52,292	(88,758)	522,569
Vehicles	<u>2,061,178</u>	<u>21,650</u>	<u>-</u>	<u>2,082,828</u>
Total capital assets being depreciated	78,212,688	7,367,704	(88,758)	85,491,634
<u>Less accumulated depreciation for:</u>				
Buildings	(14,823,321)	(707,622)	-	(15,530,943)
Improvements other than buildings	(18,714,080)	(1,086,064)	-	(19,800,144)
Equipment and machinery	(2,362,502)	(79,054)	-	(2,441,556)
Office equipment and fixtures	(486,278)	(19,697)	-	(505,975)
Vehicles	<u>(2,049,436)</u>	<u>(15,539)</u>	<u>-</u>	<u>(2,064,975)</u>
Total accumulated depreciation	(38,435,617)	(1,907,976)	-	(40,343,593)
<u>Total capital assets being depreciated, net:</u>	<u>39,777,071</u>	<u>5,459,728</u>	<u>(88,758)</u>	<u>45,148,041</u>
<u>Total proprietary fund fixed assets</u>	<u>\$ 47,341,139</u>	<u>\$ 5,470,978</u>	<u>\$ (6,692,631)</u>	<u>\$ 46,119,486</u>

The following ongoing and completed infrastructure asset/projects were recognized and added to the schedule of fixed assets:

Sanitary Trunk and Odor Control Rehab	\$134,120
Perry Park Project	\$125,693
AML Waterline Projects	\$6,735,488

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

7. - Governmental Fixed Assets

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

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 969,330	\$ 55,871	\$ -	\$ 1,025,201
Total capital assets not being depreciated	969,330	55,871	-	1,025,201
<u>Capital assets being depreciated:</u>				
Buildings	2,500,812	68,966	(87,538)	2,482,240
Improvements other than buildings	1,203,783	8,000	-	1,211,783
Equipment and machinery	748,572	27,118	-	775,690
Office equipment and fixtures	338,786	31,056	-	369,842
Vehicles	2,942,294	-	-	2,942,294
Total capital assets being depreciated	7,734,247	135,140	(87,538)	7,781,849
<u>Less accumulated depreciation for:</u>				
Buildings	(1,981,911)	(44,500)	87,538	(1,938,873)
Improvements other than buildings	(512,056)	(21,010)	-	(533,066)
Equipment and machinery	(472,353)	(66,257)	-	(538,610)
Office equipment and fixtures	(331,014)	(5,365)	-	(336,379)
Vehicles	(2,792,343)	(66,365)	-	(2,858,708)
Total accumulated depreciation	(6,089,677)	(203,497)	87,538	(6,205,636)
<u>Total capital assets being depreciated, net:</u>	<u>1,644,570</u>	<u>(68,357)</u>	<u>-</u>	<u>1,576,213</u>
<u>Total governmental fund fixed assets</u>	<u>\$ 2,613,900</u>	<u>\$ (12,486)</u>	<u>\$ -</u>	<u>\$ 2,601,414</u>

Depreciation expense was allocated to each function as follows:

General government	\$ 51,209
Police	65,330
Fire	42,188
Public works	41,074
Highway and streets	<u>3,696</u>
<u>Total Depreciation</u>	<u>\$203,497</u>

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

8. - Proprietary Fund and Governmental Fund Changes in Long-term Debt

The following is a summary of notes and bond payable transactions for the year ended June 30, 2018 by fund:

Description	Collateral	Rate	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Current Portion
- General Fund -							
Peoples Bank and Trust	Revenues	5.25%	-	300,160	-	300,160	300,160
Kansas State Bank	Vehicles	4.35%	32,078	-	(14,862)	17,216	15,875
Kansas State Bank	Vehicles	4.40%	78,110	-	(23,424)	54,686	23,961
Peoples Bank and Trust	Real estate	2.75%	198,198	-	(20,431)	177,767	22,907
	<u>Sub-total</u>		<u>308,386</u>	<u>300,160</u>	<u>(58,717)</u>	<u>549,829</u>	<u>362,903</u>
- Water Fund -							
First Trust Bank	Equipment	7.00%	12,365	-	(12,365)	-	-
Cat Financial	Equipment	3.20%	57,748	-	(17,655)	40,093	17,295
Water Sytem Revenue Bonds							
Series 2000A	Revenue	4.50%	978,500	-	(25,000)	953,500	26,500
Series 2000B	Revenue	4.50%	589,500	-	(15,000)	574,500	16,000
Series 2009	Revenue	4.375%	1,434,000	-	(23,000)	1,411,000	24,000
Series 2014A	Revenue	2.125%	2,202,000	-	(41,500)	2,160,500	42,000
Series 2014B	Revenue	2.375%	379,200	-	(6,600)	372,600	6,800
	<u>Sub-total</u>		<u>5,653,313</u>	<u>-</u>	<u>(141,120)</u>	<u>5,512,193</u>	<u>132,595</u>
- Sewer Fund -							
Kentucky Infrastructure Loan	Revenue	1.75%	977,170	27,830	(42,370)	962,630	43,115
TCF Equipment Finance	Revenue	3.15%	36,053	-	(11,311)	24,742	11,445
Rural Utility Service	Revenue	4.50%	377,000	-	(8,000)	369,000	8,000
	<u>Sub-total</u>		<u>1,390,223</u>	<u>27,830</u>	<u>(61,681)</u>	<u>1,356,372</u>	<u>62,560</u>
- Public Improvement Corporation -							
Peoples Bank and Trust	Revenues	4.75%	638,907	-	(115,044)	523,863	115,045

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

8. - **Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

Description	Collateral	Rate	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Current Portion
- Forum Fund -							
Community Trust Bank	Real Estate/ Rent Revenues	Variable	456,130	-	(27,925)	428,205	27,924
- Starland Building -							
Whitaker Bank	Real Estate	3.95%	-	189,635	(5,259)	184,376	5,259
- Gas Fund -							
Peoples Bank and Trust	Revenues	4.75%	456,908	-	(80,714)	376,194	78,734
<u>Total</u>			<u>\$ 8,903,867</u>	<u>\$ 517,625</u>	<u>\$ (490,460)</u>	<u>\$ 8,931,032</u>	<u>\$ 785,020</u>

City of Hazard Water System Revenue Bonds, consisting of \$1,248,000 of Series A Bonds and \$752,000 of Series B Bonds were issued with a date of July 13, 2000. Initial interest payment at a rate of 4.5% became due July 1, 2002 and the initial principal payment became due January 1, 2003. The minimum obligations for the City at June 30, 2018 are as follows:

	Series 2000A			Series 2000B		
	Principal	Interest	Total	Principal	Interest	Total
2019	26,500	42,908	69,408	16,000	25,852	41,852
2020	27,500	41,716	69,216	16,500	25,132	41,632
2021	28,500	40,478	68,978	17,500	24,390	41,890
2022	30,000	39,196	69,196	18,000	23,602	41,602
2023	31,500	37,846	69,346	19,000	22,792	41,792
2024-2028	179,000	166,748	345,748	107,500	101,010	208,510
2029-2033	223,000	122,646	345,646	134,500	73,960	208,460
2034-2038	278,000	67,748	345,748	167,500	40,836	208,336
2039-2040	129,500	8,796	138,296	78,000	5,310	83,310
<u>Totals</u>	<u>\$ 953,500</u>	<u>\$ 568,082</u>	<u>\$ 1,521,582</u>	<u>\$ 574,500</u>	<u>\$ 342,884</u>	<u>\$ 917,384</u>

City of Hazard Sewer System Revenue Bonds, 2/3/2003, original amount of loan, \$450,000. Fixed interest rate of 4.5%. The minimum obligations of the City at June 30, 2018 are as follows:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**8. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	8,000	16,605	\$ 24,605
2020	9,000	16,245	25,245
2021	9,000	15,840	24,840
2022	9,000	15,435	24,435
2023	10,000	15,030	25,030
2024-2028	56,000	70,515	126,515
2029-2033	70,000	57,285	127,285
2034-2038	88,000	40,725	128,725
2039-2043	<u>110,000</u>	<u>20,025</u>	<u>130,025</u>
Total	<u>\$ 369,000</u>	<u>\$ 267,705</u>	<u>\$ 636,705</u>

In fiscal year 2017, the City of Hazard Sewer System received a loan from the Kentucky Infrastructure Authority in the amount of \$1,005,000 with a fixed interest rate of 1.75%. –The loan requires a reserve account in the amount of \$2,800 per year until a balance of \$28,000 is reached. The minimum obligations of the City at June 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	43,115	16,658	\$ 59,773
2020	43,873	15,901	59,774
2021	44,644	15,129	59,773
2022	45,428	14,344	59,772
2023	46,227	13,546	59,773
2024-2028	243,612	55,254	298,866
2029-2033	265,786	33,080	298,866
2034-2037	<u>229,945</u>	<u>9,145</u>	<u>239,090</u>
Total	<u>\$ 962,630</u>	<u>\$ 173,057</u>	<u>\$ 1,135,687</u>

City of Hazard Water System Revenue Bonds, consisting of \$1,569,000 of Series 2009 were issued with a date of January 27, 2010. Initial interest payment at a rate of 4.375% became due January 1, 2011 and the initial principal payment became due January 1, 2012. The minimum obligations for the City at June 30, 2018 are as follows:

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**8. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	24,000	61,732	\$ 85,732
2020	25,000	60,682	85,682
2021	26,000	59,588	85,588
2022	27,000	58,450	85,450
2023	28,000	57,269	85,269
2024-2028	160,000	266,832	426,832
2029-2033	198,000	228,640	426,640
2034-2038	245,000	181,347	426,347
2039-2043	304,000	122,808	426,808
2044-2048	<u>374,000</u>	<u>50,271</u>	<u>424,271</u>
Total	<u>\$ 1,411,000</u>	<u>\$ 1,147,619</u>	<u>\$ 2,558,619</u>

City of Hazard Water System Revenue Bonds, consisting of \$2,282,000 of Series A Bonds and \$392,000 of Series B Bonds were issued with a date of October 2, 2014. Initial interest payment at a rate of 2.125% and 2.375%, respectively, became due January 1, 2015 and the initial principal payment became due January 1, 2016. The minimum obligations for the City at June 30, 2018 are as follows:

	Series 2014A			Series 2014B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	42,000	45,464	87,464	6,800	8,767	15,567
2020	43,000	44,561	87,561	7,000	8,603	15,603
2021	44,000	43,636	87,636	7,100	8,436	15,536
2022	45,000	42,690	87,690	7,300	8,265	15,565
2023	46,000	41,723	87,723	7,500	8,089	15,589
2024-2028	245,000	193,369	438,369	40,500	37,645	78,145
2029-2033	271,500	165,966	437,466	45,700	32,534	78,234
2034-2038	302,000	135,517	437,517	51,700	26,760	78,460
2039-2043	335,500	101,683	437,183	58,500	20,225	78,725
2044-2048	372,500	64,090	436,590	66,200	12,826	79,026
2049-2053	<u>414,000</u>	<u>22,362</u>	<u>436,362</u>	<u>74,300</u>	<u>4,472</u>	<u>78,772</u>
<u>Totals</u>	<u>\$ 2,160,500</u>	<u>\$ 901,061</u>	<u>\$ 3,061,561</u>	<u>\$ 372,600</u>	<u>\$ 176,622</u>	<u>\$ 549,222</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

8. - Proprietary Fund and Governmental Fund Changes in Long-term Debt (continued)

Changes in Water System Revenue Bonds were as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Series 2000A	\$ 978,500	\$ -	\$ (25,000)	\$ 953,500
Series 2000B	589,500	-	(15,000)	574,500
Series 2009	1,434,000	-	(23,000)	1,411,000
Series 2014A	2,202,000	-	(41,500)	2,160,500
Series 2014B	<u>379,200</u>	<u>-</u>	<u>(6,600)</u>	<u>372,600</u>
<u>Total</u>	<u>\$ 5,583,200</u>	<u>\$ -</u>	<u>\$(111,100)</u>	<u>\$ 5,472,100</u>

Total interest expense for year ended June 30, 2018 was \$274,838 and \$20,845 for proprietary funds and governmental funds, respectively.

In July 2018, subsequent to the financial statements, the City entered into a revolving line of credit with Peoples Bank & Trust for \$500,000. The note matures July 2, 2019 and is collateralized with pledged occupational license taxes and ad valorem property taxes. The proceeds were used to pay the City's general operation expenses and satisfy a prior line of credit.

9. - Cash and Investments - Restricted Funds

Certain assets of the City of Hazard are restricted at June 30, 2018 for customers' deposits and debt service. These assets consist of cash and short-term investments restricted as follows:

Water Fund	\$ 751,198
Gas Fund	25,000
Sewer Fund	<u>755,881</u>
 Total	 <u>\$ 1,532,079</u>

10. - Cash Flow Statement

For purpose of the cash flow statement cash at June 30, 2018 is as follows:

<u>Proprietary Funds</u>	
Cash - unrestricted	\$ 1,182,120
<u>Restricted</u>	
Cash	1,507,079
Investment	<u>25,000</u>
	<u>\$ 2,714,199</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

11. - Contingent Liabilities

In the normal course of business, the City is a defendant in various lawsuits. Defense of the lawsuits is being handled by the City's attorneys and insurance carriers and losses, if any, are expected to be covered by insurance. Management is of the opinion that none of these lawsuits will have a material adverse effect on the City's financial position.

12. - Excess Expenditures over Revenues

The following funds have excess operating expenditures over operating revenues before operating transfers in (out) and other financing sources (uses):

Pavilion Fund	\$ (364,904)
Water Fund	(804,153)
Sewer Fund	(217,462)
Municipal Road Aid	(12,017)
FEMA Grant Fund	(19,743)
Forum Fund	(196,478)
Public Improvement Corporation	(63,307)
Fire-Police Pension Fund	(494,267)
Daniel Boone Warrior Trail Fund	(1,501)
Hazard Flood Inundation Mapping Project	(33,367)
Garbage Fund	(161,097)

13. - Deficit in Fund Balance or Retained Earnings

As of June 30, 2018 the following funds had a deficit in fund balance or retained earnings.

Garbage Fund	\$ (286,305)
Fire-Police Pension Fund	(3,144,780)
Pavilion Fund	(172,078)

14. - Interfund Assets/Liabilities

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

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Payroll Fund -		
Due to/from General Fund	\$ -	\$ 17,752
Due to/from Water Fund	-	18,426
Due to/from Gas Fund	-	2,742
Due to/from Garbage Fund	-	2,429
Due to/from Pavilion Fund	-	4,676
Due to/from Sewer Fund	-	6,481
<u>Total Payroll Fund</u>	<u>-</u>	<u>52,506</u>

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

14. - Interfund Assets/Liabilities (continued)

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Disbursement Fund -		
Due to/from General Fund	-	23,093
Due to/from Gas Fund	-	25,913
Due to/from Water Fund	-	83,312
Due to/from Fire-Police Pension Fund	-	287
Due to/from Forum Fund	-	411
Due to/from Garbage Fund	19,287	-
Due to/from Pavilion Fund	48	-
Due to/from Sewer Fund	-	8,466
Due to/from Road Aid Fund	-	<u>62</u>
<u>Total Disbursement Fund</u>	<u>19,335</u>	<u>141,544</u>
General Fund -		
Due to/from Disbursement Fund	23,093	-
Due to/from Road Aid Fund	-	36,973
Due to/from Gas Fund	221,800	-
Due to/from Fire Dept Equipment Fund	11,302	-
Due to/from Payroll Fund	<u>17,752</u>	-
<u>Total General Fund</u>	<u>273,947</u>	<u>36,973</u>
Gas Fund -		
Due to/from Payroll Fund	2,742	-
Due to/from Disbursement Fund	25,913	-
Due to/from General Fund	-	<u>221,800</u>
<u>Total Gas Fund</u>	<u>28,655</u>	<u>221,800</u>
Pavilion Fund -		
Due to/from Disbursement Fund	-	48
Due to/from Payroll Fund	<u>4,676</u>	-
<u>Total Pavilion Fund</u>	<u>4,676</u>	<u>48</u>
Sewer Fund -		
Due to/from Payroll Fund	8,466	-
Due to/from Disbursement Fund	6,481	-
Due to/from Water Fund	<u>202,959</u>	<u>16,375</u>
<u>Total Sewer Fund</u>	<u>217,906</u>	<u>16,375</u>

CITY OF HAZARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

14. - Interfund Assets/Liabilities (continued)

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Garbage Fund -		
Due to/from Disbursement Fund	-	19,287
Due to/from Payroll Fund	<u>2,429</u>	<u>-</u>
<u>Total Garbage Fund</u>	<u>2,429</u>	<u>19,287</u>
Water Fund -		
Due to/from Disbursement Fund	83,312	-
Due to/from Sewer Fund	16,375	202,959
Due to/from Payroll Fund	<u>18,426</u>	<u>-</u>
<u>Total Water Fund</u>	<u>118,113</u>	<u>202,959</u>
Forum Fund -		
Due to/from Disbursement Fund	<u>411</u>	<u>-</u>
<u>Total Forum Fund</u>	<u>411</u>	<u>-</u>
Fire Dept Equipment Fund -		
Due to/from General Fund	<u>-</u>	<u>11,302</u>
<u>Total Fire Dept Equipment Fund</u>	<u>-</u>	<u>11,302</u>
Road Aid Fund -		
Due to/from Asset Forfeiture Fund	-	737
Due to/from General Fund	36,973	-
Due to/from Disbursement Fund	<u>62</u>	<u>-</u>
<u>Total Road Aid Fund</u>	<u>37,035</u>	<u>737</u>
Asset Forfeiture Fund -		
Due to/from Road Aid Fund	<u>737</u>	<u>-</u>
<u>Total Asset Forfeiture Fund</u>	<u>737</u>	<u>-</u>
Fire-Police Pension Fund -		
Due to/from Disbursement Fund	<u>287</u>	<u>-</u>
<u>Total F&P Pension Fund</u>	<u>287</u>	<u>-</u>
<u>Total</u>	<u>\$ 703,531</u>	<u>\$ 703,531</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**15. - Interfund Operating Transfers**

Individual Fund operating transfers for fiscal year 2018, were as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund -		
Transfer to/from Fire and Police Pension Fund	494,948	-
Transfer to/from Jacklot Hollow Development Trust	-	100,000
Transfer to/from Garbage Fund	71,259	113,541
Transfer to/from Gas Fund	33,870	33,151
Transfer to/from Pavilion Fund	235,846	-
Transfer to/from Payroll Fund	92,912	92,912
Transfer to/from Disbursement Fund	52,464	52,464
Transfer to/from Sewer Fund	279,019	26,732
Transfer to/from Water Fund	100,228	136,726
Transfer to/from LGEA Fund	-	20,000
Transfer to/from FEMA Grant Fund	26,510	-
Transfer to/from Forum	7,554	-
Transfer to/from Fire Dept Fund	5,000	-
Transfer to/from Mayor and Commissioners Special Recreation	-	281
Transfer to/from Public Improvement Corp Fund	283,627	19,100
<u>Total General Fund</u>	<u>1,683,237</u>	<u>594,907</u>
Special Revenue -		
Road Aid Fund		
Transfer to/from LGEA Fund	-	35,435
Mayor and Commissioners Special Recreation		
Transfer to/from General Fund	281	-
LGEA Fund		
Transfer to/from Road Aid Fund	35,435	-
Transfer to/from General Fund	20,000	-
<u>Total Special Revenue Funds</u>	<u>55,716</u>	<u>35,435</u>
Capital Projects -		
Fire Department Equipment Fund		
Transfer to/from Fire Dept Fund	46,889	-
Fire Dept Fund		
Transfer to/from General Fund	-	5,000
Transfer to/from Fire Department Equipment Fund	-	46,889
Transfer to/from FEMA Grant Fund	17,776	-
FEMA Grant Fund		
Transfer to/from General Fund	-	26,510
Transfer to/from Fire Dept Fund	-	17,776
<u>Total Capital Projects</u>	<u>64,665</u>	<u>96,175</u>

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**15. - Interfund Operating Transfers (continued)**

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Fiduciary Fund Type -		
Fire and Police Pension Fund		
Transfer to/from General Fund	-	494,948
Jacklot Hollow Development Trust		
Transfer to/from General Fund	100,000	-
Disbursement Fund		
Transfer to/from General Fund	52,464	52,464
Transfer to/from Water Fund	52,962	52,962
Transfer to/from Gas Fund	30,866	30,866
Transfer to/from Garbage Fund	58,584	58,584
Transfer to/from Sewer Fund	21,488	21,488
Payroll Fund		
Transfer to/from General Fund	92,912	92,912
Transfer to/from Water Fund	14,615	14,615
Transfer to/from Pavilion Fund	3,913	3,913
Transfer to/from Sewer Fund	8,608	8,608
Transfer to/from Gas Fund	7,841	7,841
<u>Total Fiduciary Funds</u>	<u>444,253</u>	<u>839,201</u>
Proprietary Funds -		
Sewer Fund		
Transfer to/from General Fund	26,732	279,019
Transfer to/from Payroll Fund	8,608	8,608
Transfer to/from Water Fund	-	185
Transfer to/from Disbursement Fund	21,488	21,488
Water Fund		
Transfer to/from General Fund	136,726	100,228
Transfer to/from Payroll Fund	14,615	14,615
Transfer to/from Disbursement Fund	52,962	52,962
Transfer to/from Pavilion Fund	13,020	-
Transfer to/from Sewer Fund	185	-
Transfer to/from Gas Fund	3,133	-
Garbage Fund		
Transfer to/from General Fund	113,541	71,259
Transfer to/from Pavilion Fund	-	-
Transfer to/from Disbursement Fund	58,584	58,584
Public Improvement Corp Fund		
Transfer to/from General Fund	19,100	283,627
Transfer to/from Forum	44,203	-
Transfer to/from Gas Fund	91,500	-
Pavilion Fund		
Transfer to/from General Fund	-	235,846
Transfer to/from Payroll Fund	3,913	3,913
Transfer to/from Water Fund	-	13,020

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

15. - Interfund Operating Transfers (continued)

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Forum		
Transfer to/from General Fund	-	7,554
Transfer to/from Public Improvement Corp Fund	-	44,203
Gas fund		
Transfer to/from General Fund	33,151	33,870
Transfer to/from Payroll Fund	7,841	7,841
Transfer to/from Disbursement Fund	30,866	30,866
Transfer to/from Water Fund	-	3,133
Transfer to/from Public Improvement Corp Fund	-	91,500
<u>Total Proprietary Funds</u>	<u>680,168</u>	<u>1,362,321</u>
<u>Total All Funds</u>	<u>\$ 2,928,039</u>	<u>\$ 2,928,039</u>

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

16. - Leasing Transactions

- As Lessor -

The City of Hazard, as lessor, has entered into the following agreements:

<u>Tenant</u>	<u>Leased term</u>	<u>Monthly rent</u>	<u>Location</u>
KVC Behavioral Healthcare, Inc.	Monthly	\$ 2,909	The Forum
Commonwealth of Kentucky AML	Monthly	\$ 3,900	The Forum
Summit Community Church	Monthly	\$ 2,900	The Forum
LKLP, Inc.	Monthly	\$ 4,000	Starland Building
		2% of adjusted	
Drinkard Development, LLC	Monthly	base rents	Black Gold Plaza
KCTCS Kentucky Fire Commission	Monthly	\$ 3,000	65 Gorman Hollow Road

Summit Community Church discontinued their lease in March 2018.

17. - Grant Programs

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

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 2018**17. - Grant Programs (continued)**

To ensure adequate funds for major maintenance and replacement of the wastewater projects funded by the Kentucky Infrastructure Authority, the City of Hazard is required to set aside annually to a replacement reserve fund from current sewer revenues, after taking into account costs of operations and maintenance and debt service requirements an amount determined by the cabinet. Monies may be withdrawn from the account when major maintenance or replacement of equipment in excess of budgeted amounts is required.

18. - Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years, with the exception of contingent liabilities disclosed in the notes to the financial statements.

19. - Commitments

The City continues to participate in an ongoing interlocal cooperation with Perry County Fiscal Court agreement dated May 7, 2003 for the development of waterline extensions throughout Perry County.

The City, acting as a political subdivision for a private activity bond issue, agreed to enter into a promissory note arrangement with Appalachian Regional Healthcare, Inc. (ARH) in the amount of \$55,867,000 after the end of the June 30, 2012 fiscal year. The City refinanced the issue named series 2014 anticipation note having a par amount of \$42,000,000. The proceeds are used to finance improvements to medical facilities in Perry County, Kentucky. Debt service payments will not be administered directly by City personnel. The City has no obligation to repay the bond issue.

The City entered into an agreement with Rumpke of Kentucky, Inc. beginning January 1, 2016, for a five year period, awarding franchise and license privileges within the City to provide residential and commercial solid waste collection, transfer and disposal services. The City retains solid waste billing services and receives twenty percent of gross receipts from all collection and disposal services.

In addition, the City entered into an agreement with Perry Fiscal Court and Waste Connections of Kentucky, Inc. to provide billing and payment processing services at 8% of the total monthly amount billed for solid waste collection services to those customers who are also provided other City utility customer services.

The City approved acquiring accounting and utility software from Springbrook for an initial cost of \$76,800 and four annual payments of \$33,624 implemented during fiscal year 2017. The City has since entered into a contract with Data Design, Inc. to replace existing accounting and utility software for \$81,016.

CITY OF HAZARDNOTES TO FINANCIAL STATEMENTS (CONTINUED)June 30, 201819. – **Commitments (continued)**

In addition, the City will propose subsequent to the financial statement date, a new sewer processing monthly rate to Sanitation District No. 1 in the amount of \$2.48 based on the audited financial statements.

20. – **Restatement of Net Position**

Beginning net position was restated to recognize implementation of GASB 75 as follows below:

Adjustments to recognize net OPEB liability:	
Governmental funds	(\$1,617,925)
Water Fund	(526,282)
Sewer Fund	(186,932)
Gas Fund	(163,532)
Pavilion Fund	(\$138,655)
Total	<u>(\$2,633,326)</u>

SUPPLEMENTARY DATA

CITY OF HAZARDSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUNDFor the Year Ended June 30, 2018

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Budget		
REVENUES:				
Taxes	\$2,355,982	\$ 2,355,982	\$ 2,285,114	\$ (70,868)
Licenses and permits	3,639,750	3,639,750	3,755,342	115,592
Intergovernmental revenues	320,679	320,679	303,966	(16,713)
Charges for services	-	-	-	-
Fines and forfeits	36,612	36,612	113,673	77,061
Miscellaneous revenues	141,977	141,977	164,581	22,604
<u>Total revenues</u>	<u>6,495,000</u>	<u>6,495,000</u>	<u>6,622,676</u>	<u>127,676</u>
EXPENDITURES:				
<u>Current:</u>				
General government	1,231,134	1,231,134	1,304,706	(73,572)
Police department	2,222,773	2,222,773	1,782,865	439,908
Fire department	1,203,522	1,203,522	1,151,316	52,206
Public works department	1,516,542	1,516,542	1,120,920	395,622
Other expenditures	62,145	62,145	67,208	(5,063)
Capital outlay	-	-	177,939	(177,939)
Debt service	-	-	79,562	(79,562)
<u>Total expenditures</u>	<u>6,236,116</u>	<u>6,236,116</u>	<u>5,684,516</u>	<u>551,600</u>
Excess of revenues over (under) expenditures	<u>258,884</u>	<u>258,884</u>	<u>938,160</u>	<u>679,276</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	1,541,148	1,541,148	594,907	(946,241)
Operating transfers (out)	(1,881,030)	(1,881,030)	(1,683,237)	197,793
Proceeds from notes	-	-	300,160	300,160
Other income	80,998	80,998	177,024	96,026
<u>Total other financing sources (uses)</u>	<u>(258,884)</u>	<u>(258,884)</u>	<u>(611,146)</u>	<u>(352,262)</u>
Excess of revenues and other sources over (under) <u>expenditures and other uses</u>	-	-	327,014	327,014
<u>FUND BALANCE, JULY 1</u>	-	-	(20,464)	-
<u>FUND BALANCE, JUNE 30</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,550</u>	<u>\$ -</u>

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

CITY OF HAZARDSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2018

	Employer's Proportionate Share of Net Pension Liability					
	2018			2017		
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>
Employer's proportion of the net pension liability	0.163860%	0.010020%	100.00%	0.176530%	0.010380%	100.00%
Employer's proportionate share of the net pension liability	9,591,230	224,175	4,602,159	8,691,781	178,044	4,602,159
Employer's covered employee payroll	3,584,162	58,738	-	4,020,479	55,002	-
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	268%	382%	N/a	216%	324%	N/a
Plan fiduciary net position as a percentage of the total pension liability	53.30%	49.80%	23.20%	55.50%	53.95%	23.20%

	Employer's Contributions					
	2018			2017		
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>
Contractually required contribution	556,546	11,941	494,269	501,538	10,969	455,949
Contributions in relation to the contractually required contribution	556,546	11,941	494,269	494,600	10,929	456,087
Contribution deficiency (excess)	-	-	-	6,938	40	(138)
City's covered employee payroll	3,584,162	58,738	-	4,020,479	55,002	-
Contributions as a percentage of covered employee payroll	15.53%	20.33%	N/a	12.30%	19.87%	N/a

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

CITY OF HAZARDSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2018

	Employer's Proportionate Share of Net Pension Liability					
	2016			2015		
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>
Employer's proportion of the net pension liability	0.189850%	0.010900%	100.00%	0.166407%	0.016623%	100.00%
Employer's proportionate share of the net pension liability	8,162,517	167,284	4,602,159	5,399,000	200,000	4,602,159
Employer's covered employee payroll	4,244,921	53,943	-	4,456,896	55,741	-
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	192%	310%	N/a	121%	359%	N/a
Plan fiduciary net position as a percentage of the total pension liability	59.97%	57.52%	23.20%	62.60%	59.80%	23.20%

	Employer's Contributions					
	2016			2015		
	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>	<u>CERS</u> <u>Nonhazardous</u>	<u>CERS</u> <u>Hazardous</u>	<u>Fire-Police</u> <u>Pension Fund</u>
Contractually required contribution	566,818	11,777	458,435	432,000	15,000	471,580
Contributions in relation to the contractually required contribution	564,747	11,555	463,334	432,000	15,000	474,306
Contribution deficiency (excess)	2,071	222	(4,899)	-	-	(2,726)
City's covered employee payroll	4,244,921	53,943	-	4,456,896	55,741	-
Contributions as a percentage of covered employee payroll	13.30%	21.42%	N/a	9.69%	26.91%	N/a

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

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

	<u>2018</u>	
	<u>CERS</u> <u>Non-hazardous</u>	<u>CERS</u> <u>Hazardous</u>
Employer's proportion of the net OPEB liability	0.163860%	0.010020%
Employer's proportionate share of the net OPEB liability	3,294,146	82,832
Employer's covered employee payroll	3,584,162	58,738
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	92%	141%
Plan fiduciary net position as a percentage of the total pension liability	52.40%	59.00%

Employer's Contributions

	<u>2018</u>	
	<u>CERS</u> <u>Non-hazardous</u>	<u>CERS</u> <u>Hazardous</u>
Contractually required contribution	188,707	5,143
Contributions in relation to the contractually required contribution	188,707	5,143
Contribution deficiency (excess)	-	-
City's covered employee payroll	3,584,162	58,738
Contributions as a percentage of covered employee payroll	5.27%	8.76%

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

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDSJune 30, 2018

	<u>Mayor and Commissioners Special Recreation</u>	<u>Asset Forfeiture Fund</u>	<u>Municipal Road Aid</u>
<u>ASSETS</u>			
Cash	\$ 5,772	\$ 110,506	\$ 301,365
Receivables - other	-	-	10,508
Due from other funds	<u>-</u>	<u>737</u>	<u>37,035</u>
<u>Total assets</u>	<u>5,772</u>	<u>111,243</u>	<u>348,908</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities:</u>			
Accounts payable	-	-	226
Due to other funds	<u>-</u>	<u>-</u>	<u>737</u>
<u>Total liabilities</u>	<u>-</u>	<u>-</u>	<u>963</u>
<u>Fund balances:</u>			
Restricted	<u>5,772</u>	<u>111,243</u>	<u>347,945</u>
<u>Total fund balance</u>	<u>5,772</u>	<u>111,243</u>	<u>347,945</u>
<u>Total liabilities and fund balances</u>	<u>\$ 5,772</u>	<u>\$ 111,243</u>	<u>\$ 348,908</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS (CONTINUED)June 30, 2018

<u>LGEA Coal and Mineral Severance</u>	<u>Police Report Fund</u>	<u>Daniel Boone Warrior Trail Fund</u>	<u>Hazard Flood Inundation Mapping Project</u>	<u>Total</u>
\$ 62,751	\$ 12,985	\$ -	\$ 21,663	\$ 515,042
-	-	-	-	10,508
-	-	-	-	<u>37,772</u>
<u>62,751</u>	<u>12,985</u>	<u>-</u>	<u>21,663</u>	<u>563,322</u>
-	-	-	-	226
-	-	-	-	<u>737</u>
-	-	-	-	<u>963</u>
<u>62,751</u>	<u>12,985</u>	<u>-</u>	<u>21,663</u>	<u>562,359</u>
<u>62,751</u>	<u>12,985</u>	<u>-</u>	<u>21,663</u>	<u>562,359</u>
<u>\$ 62,751</u>	<u>\$ 12,985</u>	<u>\$ -</u>	<u>\$ 21,663</u>	<u>\$ 563,322</u>

See independent auditor's report.

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

	<u>Mayor and Commissioners Special Recreation</u>	<u>Asset Forfeiture Fund</u>	<u>Municipal Road Aid</u>
<u>REVENUES:</u>			
Intergovernmental	\$ -	\$ 107,146	\$ 87,366
Other revenues	<u>1,653</u>	<u>-</u>	<u>1,442</u>
<u>Total revenues</u>	<u>1,653</u>	<u>107,146</u>	<u>88,808</u>
<u>EXPENDITURES:</u>			
Highway and streets	-	-	100,825
Other expenditures	<u>-</u>	<u>29,333</u>	<u>-</u>
<u>Total expenditures</u>	<u>-</u>	<u>29,333</u>	<u>100,825</u>
Excess of revenues <u>(over) under expenditures</u>	<u>1,653</u>	<u>77,813</u>	<u>(12,017)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Other transfers in	-	-	35,435
Other transfers (out)	<u>(281)</u>	<u>-</u>	<u>-</u>
<u>Total other financial sources (uses)</u>	<u>(281)</u>	<u>-</u>	<u>35,435</u>
Excess of revenues and other sources <u>over (under) expenditures and other sources</u>	1,372	77,813	23,418
<u>FUND BALANCE - JULY 1</u>	<u>4,400</u>	<u>33,430</u>	<u>324,527</u>
<u>FUND BALANCE - JUNE 30</u>	<u>\$ 5,772</u>	<u>\$ 111,243</u>	<u>\$ 347,945</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS (CONTINUED)For the Year Ended June 30, 2018

<u>LGEA Coal and Mineral Severance</u>	<u>Police Report Fund</u>	<u>Daniel Boone Warrior Trail Fund</u>	<u>Hazard Flood Inundation Mapping Project</u>	<u>Total</u>
\$ 118,117	\$ -	\$ -	\$ -	\$ 312,629
<u>35</u>	<u>6,550</u>	<u>-</u>	<u>33</u>	<u>9,713</u>
<u>118,152</u>	<u>6,550</u>	<u>-</u>	<u>33</u>	<u>322,342</u>
-	-	-	-	100,825
<u>-</u>	<u>-</u>	<u>1,501</u>	<u>33,400</u>	<u>64,234</u>
<u>-</u>	<u>-</u>	<u>1,501</u>	<u>33,400</u>	<u>165,059</u>
<u>118,152</u>	<u>6,550</u>	<u>(1,501)</u>	<u>(33,367)</u>	<u>157,283</u>
-	-	-	-	35,435
<u>(55,435)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,716)</u>
<u>(55,435)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,281)</u>
62,717	6,550	(1,501)	(33,367)	137,002
<u>34</u>	<u>6,435</u>	<u>1,501</u>	<u>55,030</u>	<u>425,357</u>
<u>\$ 62,751</u>	<u>\$ 12,985</u>	<u>\$ -</u>	<u>\$ 21,663</u>	<u>\$ 562,359</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING BALANCE SHEET – ALL CAPITAL PROJECTSJune 30, 2018

	Fire Department Equipment Fund	FEMA Grant Fund	Fire Dept Fund	Totals
<u>ASSETS</u>				
Cash	\$ 22,000	\$ 39,975	\$ 34,289	\$ 96,264
Grants receivable	-	-	-	-
<u>Total assets</u>	<u>22,000</u>	<u>39,975</u>	<u>34,289</u>	<u>96,264</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities:</u>				
Accounts payable	-	-	-	-
Due to other funds	<u>11,302</u>	-	-	<u>11,302</u>
<u>Total liabilities</u>	<u>11,302</u>	-	-	<u>11,302</u>
 <u>Fund Equity</u>				
<u>Fund balance:</u>				
Restricted	<u>10,698</u>	<u>39,975</u>	<u>34,289</u>	<u>84,962</u>
<u>Total fund equity</u>	<u>10,698</u>	<u>39,975</u>	<u>34,289</u>	<u>84,962</u>
 <u>Total liabilities and fund equity</u>	 <u>\$ 22,000</u>	 <u>\$ 39,975</u>	 <u>\$ 34,289</u>	 <u>\$ 96,264</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – ALL CAPITAL PROJECTSFor the Year Ended June 30, 2018

	Fire Department Equipment Fund	FEMA Grant Fund	Fire Dept Fund	Totals
<u>REVENUES:</u>				
Intergovernmental revenues	\$ 13,726	\$ 13,000	\$ 43,200	\$ 69,926
Other revenues	-	6,000	-	6,000
<u>Total revenues</u>	<u>13,726</u>	<u>19,000</u>	<u>43,200</u>	<u>75,926</u>
<u>EXPENDITURES:</u>				
Capital outlay	-	38,743	43,024	81,767
<u>Excess of revenues over (under) expenditures</u>	<u>13,726</u>	<u>(19,743)</u>	<u>176</u>	<u>(5,841)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in (out)	(46,889)	44,286	34,113	31,510
Interest income	-	-	-	-
<u>Total other financing sources (uses)</u>	<u>(46,889)</u>	<u>44,286</u>	<u>34,113</u>	<u>31,510</u>
<u>Excess of revenues and other sources over (under) expenditures and other uses</u>	<u>(33,163)</u>	<u>24,543</u>	<u>34,289</u>	<u>25,669</u>
<u>FUND BALANCE, JULY 1</u>	<u>43,861</u>	<u>15,432</u>	<u>-</u>	<u>59,293</u>
<u>FUND BALANCE, JUNE 30</u>	<u>\$ 10,698</u>	<u>\$ 39,975</u>	<u>\$ 34,289</u>	<u>\$ 84,962</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDSJune 30, 2018

	Public Improvement <u>Corporation</u>	The Hazard <u>Forum</u>	Hazard <u>Pavilion</u>	Starland <u>Building</u>	<u>Totals</u>
Assets:					
- Current Assets -					
Cash and cash equivalents	\$ 677	\$ 67,040	\$ 913	\$ 24,979	\$ 93,609
Receivables, net of allowances:					
Fees and services	-	-	-	-	-
Due from other funds	-	411	4,676	-	5,087
Other	-	-	-	-	-
Inventories of supplies, at cost	-	-	4,038	-	4,038
	<u>677</u>	<u>67,451</u>	<u>9,627</u>	<u>24,979</u>	<u>102,734</u>
<u>Total current assets</u>					
-Restricted Assets -					
Cash	-	-	-	-	-
Investments, at cost	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total restricted assets</u>					
- Noncurrent Assets -					
Capital assets	3,905,985	7,060,964	1,836,144	203,164	13,006,257
Less: accumulated depreciation	(1,936,878)	(2,748,345)	(1,399,221)	(4,233)	(6,088,677)
	<u>1,969,107</u>	<u>4,312,619</u>	<u>436,923</u>	<u>198,931</u>	<u>6,917,580</u>
<u>Total noncurrent assets</u>					
Deferred Outflows of Resources:					
Deferred outflows - pension/OPEB resources	-	-	180,387	-	180,387
	<u>-</u>	<u>-</u>	<u>180,387</u>	<u>-</u>	<u>180,387</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 1,969,784</u>	<u>\$ 4,380,070</u>	<u>\$ 626,937</u>	<u>\$ 223,910</u>	<u>\$ 7,200,701</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – NONMAJOR PROPRIETARY FUNDS

June 30, 2018

	Public Improvement <u>Corporation</u>	The Hazard <u>Forum</u>	Hazard <u>Pavilion</u>	Starland <u>Building</u>	<u>Totals</u>
Liabilities:					
- Current Liabilities -					
Accounts payable	\$ 236	\$ 5,517	\$ 812	\$ -	\$ 6,565
Accrued interest payable	1,159	-	-	-	1,159
Accrued wages	-	-	4,594	-	4,594
Accrued vacation payable	-	-	1,744	-	1,744
Due to other funds	-	-	48	-	48
Current portion of long-term debt	<u>115,045</u>	<u>27,924</u>	<u>-</u>	<u>5,259</u>	<u>148,228</u>
<u>Total current liabilities</u>	<u>116,440</u>	<u>33,441</u>	<u>7,198</u>	<u>5,259</u>	<u>162,338</u>
- Noncurrent Liabilities -					
Notes payable	408,818	400,281	-	179,117	988,216
Due to other taxing units	-	-	-	-	-
Revenue bonds payable	-	-	-	-	-
Net pension/OPEB liability	<u>-</u>	<u>-</u>	<u>697,411</u>	<u>-</u>	<u>697,411</u>
<u>Total noncurrent liabilities</u>	<u>408,818</u>	<u>400,281</u>	<u>697,411</u>	<u>179,117</u>	<u>1,685,627</u>
- Other Liabilities -					
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
<u>Total other liabilities</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
<u>Total liabilities</u>	<u>525,258</u>	<u>433,722</u>	<u>704,609</u>	<u>186,376</u>	<u>1,849,965</u>
Deferred Inflows of Resources:					
Deferred inflows - pension/OPEB related	<u>-</u>	<u>-</u>	<u>94,406</u>	<u>-</u>	<u>94,406</u>
Net Position:					
Net investment in capital assets	1,445,244	3,884,414	436,923	14,555	5,781,136
Restricted	-	-	-	-	-
Unrestricted (deficit)					
Pension resources	-	-	(611,430)	-	(611,430)
Unrestricted - other	<u>(718)</u>	<u>61,934</u>	<u>2,429</u>	<u>22,979</u>	<u>86,624</u>
<u>Total net position</u>	<u>1,444,526</u>	<u>3,946,348</u>	<u>(172,078)</u>	<u>37,534</u>	<u>5,256,330</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>\$ 1,969,784</u>	<u>\$ 4,380,070</u>	<u>\$ 626,937</u>	<u>\$ 223,910</u>	<u>\$ 7,200,701</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – NONMAJOR PROPRIETARY FUNDSFor the Year Ended June 30, 2018

	Public Improvement Corporation	The Hazard Forum	Hazard Pavilion	Starland Building	Totals
Operating revenues:					
Charges for services	\$ -	\$ 125,863	\$ 87,148	\$ 48,000	\$ 261,011
Other	-	-	-	-	-
<u>Total operating revenues</u>	<u>-</u>	<u>125,863</u>	<u>87,148</u>	<u>48,000</u>	<u>261,011</u>
Operating expenses:					
Salaries and wages	-	-	366,037	-	366,037
Contract services	2,795	142,578	5,729	-	151,102
Materials and supplies	-	3,015	25,501	-	28,516
Depreciation	60,512	176,748	54,785	4,233	296,278
Other operating expenses	-	-	-	-	-
<u>Total operating expenses</u>	<u>63,307</u>	<u>322,341</u>	<u>452,052</u>	<u>4,233</u>	<u>841,933</u>
<u>Operating income (loss)</u>	<u>(63,307)</u>	<u>(196,478)</u>	<u>(364,904)</u>	<u>43,767</u>	<u>(580,922)</u>
Non-operating revenues (expenses):					
Interest income	1	91	-	17	109
Interest expense	(11,232)	(16,133)	-	(6,250)	(33,615)
Other income/(loss)	-	-	-	-	-
<u>Total non-operating revenues (expenses)</u>	<u>(11,231)</u>	<u>(16,042)</u>	<u>-</u>	<u>(6,233)</u>	<u>(33,506)</u>
<u>Net income (loss) before operating transfer</u>	<u>(74,538)</u>	<u>(212,520)</u>	<u>(364,904)</u>	<u>37,534</u>	<u>(614,428)</u>
<u>Operating transfers in (out)</u>	<u>128,824</u>	<u>51,757</u>	<u>248,866</u>	<u>-</u>	<u>429,447</u>
<u>Net income (loss)</u>	<u>54,286</u>	<u>(160,763)</u>	<u>(116,038)</u>	<u>37,534</u>	<u>(184,981)</u>
<u>Net Position - Beginning, restated</u>	<u>1,390,240</u>	<u>4,107,111</u>	<u>(56,040)</u>	<u>-</u>	<u>5,441,311</u>
<u>Contributed capital</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position - Ending</u>	<u>\$ 1,444,526</u>	<u>\$ 3,946,348</u>	<u>\$(172,078)</u>	<u>\$ 37,534</u>	<u>\$ 5,256,330</u>

See independent auditor's report.

CITY OF HAZARD

**COMBINING STATEMENT OF CASH FLOWS –
NONMAJOR PROPRIETARY FUNDS**

For the Year Ended June 30, 2018

	<u>Public Improvement Corporation</u>	<u>The Hazard Forum</u>	<u>Hazard Pavilion</u>	<u>Starland Building</u>	<u>Totals</u>
Cash flows from operating activities:					
Cash received from:					
Charges for services	\$ -	\$ 125,863	\$ 91,061	\$ 50,000	\$ 266,924
Other operating revenue	-	-	-	-	-
Cash paid to/for:					
Employees	-	-	(302,683)	-	(302,683)
Supplies/contractual	(3,033)	(151,118)	(34,908)	-	(189,059)
Other operating expenses	-	-	-	-	-
<u>Net cash provided/(used) by operating activities</u>	<u>(3,033)</u>	<u>(25,255)</u>	<u>(246,530)</u>	<u>50,000</u>	<u>(224,818)</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	-	-	(3,526)	(203,164)	(206,690)
Principal paid on notes and bonds	(115,044)	(27,925)	-	(5,259)	(148,228)
Proceeds from notes and bonds	-	-	-	189,635	189,635
Interest paid on notes and bonds	(11,232)	(16,133)	-	(6,250)	(33,615)
Nonoperating - income	-	-	-	-	-
Contributed capital	-	-	-	-	-
<u>Net cash provided (used) for capital and related financing</u>	<u>(126,276)</u>	<u>(44,058)</u>	<u>(3,526)</u>	<u>(25,038)</u>	<u>(198,898)</u>
Cash flows from non-capital financing activities:					
Operating transfers - in (out)	128,824	51,757	248,866	-	429,447
Cash flows from investing activities:					
Interest income	1	91	-	17	109
<u>Net cash provided (used) for investing activities</u>	<u>1</u>	<u>91</u>	<u>-</u>	<u>17</u>	<u>109</u>
Net increase (decrease) in cash	(484)	(17,465)	(1,190)	24,979	5,840
Cash, beginning of year	1,161	84,505	2,103	-	87,769
Cash, end of year	<u>677</u>	<u>67,040</u>	<u>913</u>	<u>24,979</u>	<u>93,609</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:					
Operating income (loss)	(63,307)	(196,478)	(364,904)	43,767	(580,922)
Adjustment to reconcile operating income to cash provided (used) by operating activities:					
Depreciation	60,512	176,748	54,785	4,233	296,278
Restatement of net position	-	-	(138,655)	-	(138,655)
Changes in current assets/liabilities:					
Accounts receivable	-	-	-	-	-
Due from other funds	-	-	3,913	-	3,913
Other receivables	-	-	-	-	-
Inventory	-	-	-	-	-
Accounts payable	16	(5,379)	(3,678)	-	(9,041)
Accrued interest payable	(254)	(146)	-	-	(400)
Accrued wages	-	-	791	-	791
Accrued vacation payable	-	-	(672)	-	(672)
Due to other funds	-	-	-	-	-
Due to other taxing units	-	-	-	-	-
Customer deposits	-	-	-	2,000	2,000
Deferred outflows - pension/OPEB resources	-	-	(93,312)	-	(93,312)
Deferred inflows - pension/OPEB related	-	-	67,601	-	67,601
Net pension/OPEB liability	-	-	227,601	-	227,601
<u>Net cash provided (used) by operating activities</u>	<u>\$ (3,033)</u>	<u>\$ (25,255)</u>	<u>\$ (246,530)</u>	<u>\$ 50,000</u>	<u>\$ (224,818)</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – ALL FIDUCIARY TYPE FUNDSJune 30, 2018

	<u>Fire-Police Pension Fund</u>	<u>Jacklot Hollow Development Trust</u>
<u>ASSETS</u>		
<u>Restricted Assets:</u>		
Cash and cash equivalents	\$ 1,731	\$ 45,463
Investments	1,454,304	-
Other receivables	1,057	20,035
Due from other funds	<u>287</u>	<u>-</u>
<u>Total assets</u>	<u>1,457,379</u>	<u>65,498</u>
<u>LIABILITIES</u>		
Due to other funds	-	-
Net pension liability	<u>4,602,159</u>	<u>-</u>
<u>Total liabilities</u>	<u>4,602,159</u>	<u>-</u>
<u>NET POSITION</u>		
Designated for employee retirement	(3,144,780)	-
Designated for a specific purpose	<u>-</u>	<u>65,498</u>
<u>Total net position</u>	<u>(3,144,780)</u>	<u>65,498</u>
	<u>\$ 1,457,379</u>	<u>\$ 65,498</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF NET POSITION – ALL FIDUCIARY TYPE FUNDS
(CONTINUED)June 30, 2018

<u>Disbursement</u> <u>Fund</u>	<u>Payroll</u> <u>Fund</u>	<u>Totals</u>
\$ 122,209	\$ 52,506	\$ 221,909
-	-	1,454,304
-	-	21,092
<u>19,335</u>	<u>-</u>	<u>19,622</u>
<u>141,544</u>	<u>52,506</u>	<u>1,716,927</u>
141,544	52,506	194,050
<u>-</u>	<u>-</u>	<u>4,602,159</u>
<u>141,544</u>	<u>52,506</u>	<u>4,796,209</u>
-	-	(3,144,780)
<u>-</u>	<u>-</u>	<u>65,498</u>
<u>-</u>	<u>-</u>	<u>(3,079,282)</u>
<u>\$ 141,544</u>	<u>\$ 52,506</u>	<u>\$ 1,716,927</u>

See independent auditor's report.

CITY OF HAZARDCOMBINING STATEMENT OF CHANGES IN NET POSITION –
TRUST FUNDSFor the Year Ended June 30, 2018

	<u>Fire-Police Pension Fund</u>	<u>Jacklot Hollow Development Trust</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>			
Miscellaneous	\$ -	\$ 22,811	\$ 22,811
<u>Total operating revenues</u>	<u>-</u>	<u>22,811</u>	<u>22,811</u>
<u>OPERATING EXPENSES:</u>			
Pension	494,269	-	494,269
Administrative expenses	-	-	-
Materials and supplies	-	-	-
<u>Total operating expenses</u>	<u>494,269</u>	<u>-</u>	<u>494,269</u>
<u>Operating income (loss)</u>	<u>(494,269)</u>	<u>22,811</u>	<u>(471,458)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	12,133	145	12,278
Transfers in (out)	494,948	(100,000)	394,948
<u>Total non-operating revenues (expenses)</u>	<u>507,081</u>	<u>(99,855)</u>	<u>407,226</u>
<u>Net income (loss)</u>	<u>12,812</u>	<u>(77,044)</u>	<u>(64,232)</u>
<u>NET POSITION - JULY 1</u>	<u>(3,157,592)</u>	<u>142,542</u>	<u>(3,015,050)</u>
<u>NET POSITION - JUNE 30</u>	<u>\$ (3,144,780)</u>	<u>\$ 65,498</u>	<u>\$ (3,079,282)</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
WATER FUNDJune 30, 2018 and 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 120,607	\$ 258,459
Receivables, net of allowances:		
Fees and services	1,005,479	799,164
Due from other funds	118,113	79,766
Other	-	105,624
Inventories of supplies, at cost	<u>104,305</u>	<u>115,070</u>
<u>Total current assets</u>	<u>1,348,504</u>	<u>1,358,083</u>
-Restricted Assets -		
Cash	<u>751,198</u>	<u>656,492</u>
- Noncurrent Assets -		
Capital assets	51,435,248	51,276,297
Less: accumulated depreciation	<u>(19,636,488)</u>	<u>(18,584,384)</u>
<u>Total noncurrent assets</u>	<u>31,798,760</u>	<u>32,691,913</u>
Deferred Outflows of Resources:		
Deferred outflows - pension/OPEB resources	<u>653,730</u>	<u>299,552</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 34,552,192</u>	<u>\$ 35,006,040</u>

See independent auditor's report.

CITY OF HAZARD

COMPARATIVE STATEMENT OF NET POSITION -
WATER FUND (CONTINUED)

June 30, 2018 and 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Liabilities:		
- Current Liabilities -		
Accounts payable	\$ 175,604	\$ 388,086
Accrued wages	36,098	14,266
Accrued vacation payable	6,175	6,075
Due to other funds	202,959	-
Current portion of long-term debt	132,595	139,638
<u>Total current liabilities</u>	<u>553,431</u>	<u>548,065</u>
- Noncurrent Liabilities -		
Notes payable	22,798	41,575
Due to other taxing units	21,634	23,189
Revenue bonds payable	5,356,800	5,472,100
Net pension/OPEB liability	2,413,115	1,549,233
<u>Total noncurrent liabilities</u>	<u>7,814,347</u>	<u>7,086,097</u>
- Other Liabilities -		
Deposits	565,204	585,560
<u>Total liabilities</u>	<u>8,932,982</u>	<u>8,219,722</u>
Deferred Inflows of Resources:		
Deferred inflows - pension/OPEB related	331,889	75,303
Net Position:		
Net investment in capital assets	26,286,567	27,038,600
Restricted	751,198	656,492
Unrestricted (deficit)		
Pension/OPEB resources	(2,091,274)	(1,324,984)
Unrestricted - other	340,830	340,907
<u>Total net position</u>	<u>25,287,321</u>	<u>26,711,015</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 34,552,192</u>	<u>\$ 35,006,040</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - WATER FUNDFor the Years Ended June 30, 2018 and 2017

	<u>Year Ended</u>	
	<u>2018</u>	<u>2017</u>
Operating revenues:		
Charges for services	\$ 3,839,359	\$ 3,468,027
Other	<u>29,509</u>	<u>16,921</u>
<u>Total operating revenues</u>	<u>3,868,868</u>	<u>3,484,948</u>
Operating expenses:		
Salaries and wages	1,551,322	1,447,361
Contract services	1,220,371	1,110,805
Materials and supplies	845,411	894,840
Depreciation	1,052,105	1,011,231
Other operating expenses	<u>3,812</u>	<u>5,731</u>
<u>Total operating expenses</u>	<u>4,673,021</u>	<u>4,469,968</u>
<u>Operating income (loss)</u>	<u>(804,153)</u>	<u>(985,020)</u>
Non-operating revenues (expenses):		
Interest income	1,171	1,438
Interest expense	(185,952)	(193,819)
Other income	<u>-</u>	<u>-</u>
<u>Total non-operating revenues (expenses)</u>	<u>(184,781)</u>	<u>(192,381)</u>
<u>Net income (loss) before operating transfers</u>	<u>(988,934)</u>	<u>(1,177,401)</u>
<u>Operating transfers in (out)</u>	<u>(52,836)</u>	<u>131,000</u>
<u>Net income (loss)</u>	<u>(1,041,770)</u>	<u>(1,046,401)</u>
<u>Net Position - Beginning, restated</u>	<u>26,184,733</u>	<u>26,769,558</u>
Contributed Capital	144,358	987,858
<u>Net Position - Ending</u>	<u>\$ 25,287,321</u>	<u>\$ 26,711,015</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
SEWER FUNDJune 30, 2018 and 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets:		
- Current Assets -		
Cash and cash equivalents	\$ 7,761	\$ 387,574
Receivables, net of allowances:		
Fees and services	370,003	289,776
Due from other funds	217,906	15,088
Other	14,863	2,927
Inventories of supplies, at cost	<u>13,038</u>	<u>12,508</u>
<u>Total current assets</u>	<u>623,571</u>	<u>707,873</u>
-Restricted Assets -		
Cash	<u>755,881</u>	<u>444,312</u>
- Noncurrent Assets -		
Capital assets	14,208,913	13,936,027
Less: accumulated depreciation	<u>(8,431,685)</u>	<u>(7,945,276)</u>
<u>Total noncurrent assets</u>	<u>5,777,228</u>	<u>5,990,751</u>
Deferred Outflows of Resources:		
Deferred outflows - pension/OPEB resources	<u>180,039</u>	<u>54,238</u>
<u>Total assets and deferred outflows of resources</u>	<u>\$ 7,336,719</u>	<u>\$ 7,197,174</u>

See independent auditor's report.

CITY OF HAZARDCOMPARATIVE STATEMENT OF NET POSITION -
SEWER FUND (CONTINUED)June 30, 2018 and 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Liabilities:		
- Current Liabilities -		
Accounts payable	\$ 41,883	\$ 64,112
Accrued wages	5,191	4,922
Accrued vacation payable	3,524	6,236
Due to other funds	16,375	29,396
Current portion of long-term debt	<u>62,560</u>	<u>61,460</u>
<u>Total current liabilities</u>	<u>129,533</u>	<u>166,126</u>
- Noncurrent Liabilities -		
Notes payable	1,293,812	1,328,763
Due to other taxing units	-	-
Net pension/OPEB liability	<u>575,692</u>	<u>268,847</u>
<u>Total noncurrent liabilities</u>	<u>1,869,504</u>	<u>1,597,610</u>
<u>Total liabilities</u>	<u>1,999,037</u>	<u>1,763,736</u>
Deferred Inflows of Resources:		
Deferred inflows - pension/OPEB related	<u>101,818</u>	<u>10,681</u>
Net Position:		
Net investment in capital assets	4,420,856	4,600,528
Restricted	755,881	377,026
Unrestricted (deficit)		
Pension/OPEB resources	(497,471)	(225,290)
Unrestricted - other	<u>556,598</u>	<u>670,493</u>
<u>Total net position</u>	<u>5,235,864</u>	<u>5,422,757</u>
Total liabilities, deferred inflows of resources and <u>net position</u>	<u>\$ 7,336,719</u>	<u>\$ 7,197,174</u>

See independent auditor's report.

CITY OF HAZARD

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - SEWER FUND**

For the Years Ended June 30, 2018 and 2017

	Year Ended	
	2018	2017
Operating revenues:		
Charges for services	\$ 1,516,065	\$ 1,521,456
<u>Total operating revenues</u>	<u>1,516,065</u>	<u>1,521,456</u>
Operating expenses:		
Salaries and wages	518,151	428,996
Contract services	548,857	578,851
Materials and supplies	177,977	247,155
Depreciation	486,410	459,705
Other operating expenses	2,132	4,070
<u>Total operating expenses</u>	<u>1,733,527</u>	<u>1,718,777</u>
<u>Operating income (loss)</u>	<u>(217,462)</u>	<u>(197,321)</u>
Non-operating revenues (expenses):		
Interest income	1,959	2,139
Interest expense	(36,930)	(28,256)
Other income	-	-
<u>Total non-operating revenues (expenses)</u>	<u>(34,971)</u>	<u>(26,117)</u>
<u>Net income (loss) before operating transfers</u>	<u>(252,433)</u>	<u>(223,438)</u>
<u>Operating transfers in (out)</u>	<u>252,472</u>	<u>111,911</u>
<u>Net income (loss)</u>	<u>39</u>	<u>(111,527)</u>
<u>Net Position - Beginning, restated</u>	<u>5,235,825</u>	<u>5,534,284</u>
Contributed Capital	-	-
<u>Net Position - Ending</u>	<u>\$ 5,235,864</u>	<u>\$ 5,422,757</u>

See independent auditor's report.

Chris Gooch

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

Honorable Mayor and City Commissioners
City of Hazard, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hazard, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hazard, Kentucky's basic financial statements and have issued our report thereon dated December 28, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, 2018-001.

Compliance and Other Matters

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

City of Hazard, Kentucky's Response to Findings

City of Hazard, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Hazard, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

December 28, 2018

CITY OF HAZARDSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSJune 30, 2018**2017-001**

Condition:	Fund financial statements presented for audit required several significant adjustments related to reconciliation and reclassification.
Criteria:	End of year closing information in anticipation of audited financial statements should be reviewed and reconciled to underlying documentation. Any potential differences should be documented to indicate management is aware of potential adjusting entries.
Cause:	Management does not have formal monitoring procedures to document differences and potential adjustments for end of year financial reporting.
Effect:	Annual financial reporting information presented for audit required significant adjustments to assure financial statements were fairly stated.
Recommendations:	The City should enhance its controls over fiscal year-end and interim processing to include review of transactions for all fund types to ensure significant adjustments are entered or acknowledged and significant account balances are reconciled.
Management's Response:	The City is in process of establishing procedures over fiscal year-end processing to include review of transactions for all fund types to assure significant adjustments are entered or acknowledged and significant account balances are reconciled. The City has implemented new accounting software anticipated to improve this deficiency. The City had converted to the new accounting system at report date on a departmental basis. However, the City had negotiated to replace its accounting software through a new vendor, which was in progress at report date.

CITY OF HAZARDSCHEDULE OF FINDINGS AND RESPONSESJune 30, 2018- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2018-001**

Condition:	Fund financial statements presented for audit required several significant adjustments related to reconciliation and reclassification.
Criteria:	End of year closing information in anticipation of audited financial statements should be reviewed and reconciled to underlying documentation. Any potential differences should be documented to indicate management is aware of potential adjusting entries.
Cause:	Management does not have formal monitoring procedures to document differences and potential adjustments for end of year financial reporting.
Effect:	Annual financial reporting information presented for audit required significant adjustments to assure financial statements were fairly stated.
Recommendations:	The City should enhance its controls over fiscal year-end and interim processing to include review of transactions for all fund types to ensure significant adjustments are entered or acknowledged and significant account balances are reconciled.
Management's Response:	The City is in process of establishing procedures over fiscal year-end processing to include review of transactions for all fund types to assure significant adjustments are entered or acknowledged and significant account balances are reconciled. The City has implemented new accounting software anticipated to improve this deficiency. The City had begun conversion to the new accounting system at report date on a departmental basis.

APPENDIX A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

CITY OF HAZARD

For the Year Ended June 30, 2018

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



Derrick Hall
City Manager