

CITY OF EDDYVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF EDDYVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Emphasis of Matter

As discussed in Note 15 to the financial statements, the City has implemented Governmental Accounting Standards Board (GASB) No. 75 during the year ended June 30, 2018. This standard requires measuring the other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to the plan, OPEB expense, including information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position within the financial statements. The cumulative effect of applying GASB 75 is presented as a restatement of beginning net position. 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 and budgetary comparison information, schedule of contributions, and schedule of proportionate share of net pension liability on pages 3-8 and 49-56 be presented to supplement the basic financial statements. Such information, although not 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.

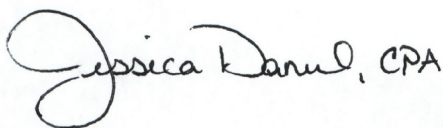
Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2019 on our consideration of the City of Eddyville, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Eddyville, Kentucky's internal control over financial reporting and compliance.



Eddyville, Kentucky
March 29, 2019

**CITY OF EDDYVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The City of Eddyville, Kentucky ("City") offers Management's Discussion and Analysis to provide an overview and analysis of the City's financial activities for the year ended June 30, 2018. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements provided in this document.

The City reports its annual financial statements in a required model format issued by the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

The financial statements, which follow the Management's Discussion and Analysis, provide these key financial highlights for the fiscal year ended June 30, 2018:

- The total assets and deferred outflows of resources of the City exceed its total liabilities and deferred inflows of resources at the close of the 2018 fiscal year by \$10,861,179 (Net Position). Of this amount, \$1,730,790 represents the unrestricted net position.
- The City's total net position increased by \$33,047 during the year. Governmental activities increased the City's net position by \$89,572, and business-type activities decreased the City's net position by \$56,525.
- As of June 30, 2018, the City's governmental funds reported combined fund balances of \$1,992,679. Over 80% of this total amount, or \$1,598,631, is unassigned and available for spending at the City's discretion.
- As of June 30, 2018, unassigned fund balances for the General Fund were \$1,598,631.
- The City's total long-term debt obligations decreased by \$565,125 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) Government-wide 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 themselves.

Government-wide Statements

The **government-wide** financial statements are designed to provide readers with a broad overview of the City of Eddyville's finances, in a manner similar to private-sector business and, accordingly, to provide information about the City as a whole, presenting both an aggregate current view of the City's finances and longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements reflect how services were financed in the short-term as well as what dollars remain for future spending. The major fund financial statements also display the City's most significant funds.

The **Statement of Net Position** presents financial information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows of resources, 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 are expected to result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, cemetery, and parks and recreation. The business-type activities of the City include water, sewer, and parks. The government-wide financial statements can be found on pages 9-11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following categories - **governmental** funds and **proprietary** funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, and provide the balances of spendable resources available at the end of the fiscal year. Such information reflects financial resources available in the near future to finance the City's programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of Eddyville maintains two individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Fire Protection Fund which are considered to be major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 12-15.

Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges customers; either outside customers, or internal units/divisions of the City. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Eddyville maintains the following type of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and parks operations.

The proprietary fund financial statements provide separate information for the Water Fund and Sewer Fund since both are considered to be major funds of the City. Because the Park Fund is the only remaining enterprise fund, it is being presented as a major fund even though it does not meet the criteria of a major fund established in Governmental Accounting Standards Board (GASB) Statement No. 34. The basic proprietary fund financial statements can be found on pages 16-19 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-47 of this report.

Supplementary Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 49-56. The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 58 and 59 of this report.

OVERVIEW OF THE CITY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

While this document contains information about the funds used by the City to provide services to its citizens, the Statement of Net Position and the Statement of Activities serve to provide an answer to the question of how the City, as a whole, did financially throughout the year. These statements include all assets/deferred outflows of resources and liabilities/deferred inflows of resources using the accrual basis of accounting similar to the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and changes in net position. The change in net position reflects whether the financial position of the City as a whole has improved or diminished; however, in evaluating the overall financial position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets should also be considered.

The government-wide financial statements reports that during the year ending June 30, 2018, the City received \$165,242 in operating and capital grants. Revenue from taxes increased approximately \$31,915 from June 30, 2017 to \$1,724,811. Expenses directly related to programs offered by the city increased \$629,084 to \$3,864,328. The Statement of Activities reflects the current year increase in net position of \$33,047.

The following is a recap of financial activity for the year:

CITY OF EDDYVILLE, KENTUCKY'S NET POSITION

	<u>2018</u>	<u>2017</u>
Assets and Deferred Outflows of Resources:		
Current and other assets	\$ 2,930,806	\$ 2,731,251
Noncurrent assets, net	<u>13,810,258</u>	<u>14,203,116</u>
Total Assets	<u>16,741,064</u>	<u>16,934,367</u>
Deferred outflows of resources	<u>1,156,970</u>	<u>653,345</u>
Total Assets and Deferred Outflows of Resources	<u>17,898,034</u>	<u>17,587,712</u>
Liabilities and Deferred Inflows of Resources		
Long-term liabilities	5,535,092	4,928,338
Other liabilities	<u>846,085</u>	<u>847,704</u>
Total Liabilities	<u>6,381,177</u>	<u>5,776,042</u>
Deferred inflows of resources	<u>655,678</u>	<u>575,163</u>
Total Liabilities and Deferred Inflows of Resources	<u>7,036,855</u>	<u>6,351,205</u>
Net Position:		
Invested in capital assets net of related debt	8,572,100	8,351,097
Restricted	558,289	555,277
Unrestricted	<u>1,730,790</u>	<u>2,330,133</u>
Total Net Position	<u>\$ 10,861,179</u>	<u>\$ 11,236,507</u>

**CITY OF EDDYVILLE, KENTUCKY
CHANGES IN NET POSITION**

	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,619,674	\$ 1,641,982
Grants and contributions	165,242	297,141
General revenues:		
Taxes	1,724,811	1,692,896
Other	23,165	31,945
Insurance proceeds	118,608	-
Contributed capital	117,000	-
Gain (loss) on disposal of capital assets	100,576	-
Investment earnings	<u>28,299</u>	<u>25,995</u>
Total revenues	<u>3,897,375</u>	<u>3,689,959</u>
Expenses		
General government	835,538	752,926
Public safety	1,032,422	715,871
Public works	494,221	341,376
Cemetery	11,770	13,214
Parks and recreation	7,143	7,144
Interest expense	28,323	35,558
Business-type activities	<u>1,454,911</u>	<u>1,369,155</u>
Total Expenses	<u>3,864,328</u>	<u>3,235,244</u>
Change in net position	33,047	454,715
Net position - beginning, restated	<u>10,828,132</u>	<u>10,781,792</u>
Net position - ending	<u>\$ 10,861,179</u>	<u>\$ 11,236,507</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The original and final General Fund budget passed by the city council anticipated revenues to exceed expenditures by \$24,719. The budgeted operating revenue exceeded actual revenue by \$103,430 in the general fund. Actual expenditures were greater than budgeted expenditures by \$134,808. The budgetary figures and actual amounts are reported in the supplementary information on page 49.

The original and final Fire Protection Fund budget passed by the city council anticipated expenditures to exceed revenues by \$77,971. The budgeted revenue exceeded actual revenue received by \$22,074 in the fire protection fund. Actual expenditures were less than budgeted expenditures by \$8,027. The budgetary figures and actual amounts are reported in the supplementary information on page 50.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets as of June 30, 2018 amounted to \$12,111,308 (net of accumulated depreciation). This investment includes land, buildings, vehicles, and equipment.

	2018	2017
Governmental activities:		
Capital assets, not being depreciated:		
Land	\$ 125,945	\$ 8,945
Construction in progress	16,000	-
Total capital assets, not being depreciated	141,945	8,945
Capital assets, being depreciated (net):		
Infrastructure	542,345	326,301
Buildings and improvements	307,316	503,355
Machinery and equipment	165,452	253,766
Vehicles	521,586	540,123
Total capital assets, being depreciated (net)	1,536,699	1,623,545
Governmental activities capital assets, net	\$ 1,678,644	\$ 1,632,490
 Business-type activities:		
Capital assets, not being depreciated:		
Land	\$ 58,426	\$ 58,426
Total capital assets, not being depreciated	58,426	58,426
Capital assets, being depreciated:		
Buildings and improvements	10,167,329	10,599,080
Machinery and equipment	26,987	37,757
Vehicles	179,922	127,678
Total capital assets, being depreciated	10,374,238	10,764,515
Business-type activities capital assets, net	\$ 10,432,664	\$ 10,822,941

Long-term and other debt

At the end of the current fiscal year, the City had a total outstanding debt in the governmental and proprietary funds of \$670,000 and \$2,869,209 respectively. During the next fiscal year the general fund amount due is \$330,000, and the remainder is scheduled to be paid out in 2020. Interest expense for 2018 was \$28,323. The proprietary fund debt is payable from charges for water and sewer services. The amount due during the next fiscal year for proprietary fund debt is \$246,239, and the remainder is scheduled to be paid out in 2037. Interest expense paid by the proprietary funds for 2018 was \$54,252.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the City of Eddyville, Kentucky's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to John Choat, Mayor, City of Eddyville, Kentucky - 153 West Main Street, Eddyville, KY 42038.

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

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<u>Assets</u>			
Current Assets:			
Cash equivalents	\$ 1,539,777	\$ 200	\$ 1,539,977
Investments	16,480	-	16,480
Accounts receivable (net):			
Taxes	213,639	-	213,639
Fees and services	22,455	128,533	150,988
Unbilled revenue	10,322	66,968	77,290
Other	133,204	-	133,204
Intergovernmental receivables	6,023	-	6,023
Inventory	-	45,551	45,551
Prepaid expenses	124,212	81,701	205,913
Restricted assets:			
Cash equivalents	16,306	483,131	499,437
Investments	42,304	-	42,304
Total current assets	<u>2,124,722</u>	<u>806,084</u>	<u>2,930,806</u>
Noncurrent Assets:			
Lease Receivable	1,698,950	-	1,698,950
Capital assets, net of depreciation	<u>1,678,644</u>	<u>10,432,664</u>	<u>12,111,308</u>
Total noncurrent assets	<u>3,377,594</u>	<u>10,432,664</u>	<u>13,810,258</u>
Total Assets	<u>5,502,316</u>	<u>11,238,748</u>	<u>16,741,064</u>
<u>Deferred Outflows of Resources:</u>			
Related to pensions and other postemployment benefits	<u>965,296</u>	<u>191,674</u>	<u>1,156,970</u>
Total Deferred Outflows of Resources	<u>965,296</u>	<u>191,674</u>	<u>1,156,970</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	66,257	20,442	86,699
Taxes withheld and accrued	7,062	105	7,167
Meter deposits payable	-	102,061	102,061
Accrued employee benefits	38,039	22,283	60,322
Accrued interest	1,608	11,989	13,597
Long-term debt due in one year	<u>330,000</u>	<u>246,239</u>	<u>576,239</u>
Total current liabilities	<u>442,966</u>	<u>403,119</u>	<u>846,085</u>
Non-current liabilities			
Net pension and other post employment benefit liabilities	1,969,337	602,786	2,572,123
Long-term debt due after one year	<u>340,000</u>	<u>2,622,969</u>	<u>2,962,969</u>
Total non-current liabilities	<u>2,309,337</u>	<u>3,225,755</u>	<u>5,535,092</u>
Total Liabilities	<u>2,752,303</u>	<u>3,628,874</u>	<u>6,381,177</u>

See accompanying notes to financial statements.

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

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<u>Deferred Inflows of Resources:</u>			
Unavailable revenue - property taxes	20,685	-	20,685
Unearned interest revenue	389,780	-	389,780
Related to pensions and other postemployment benefits	164,608	80,605	245,213
Total Deferred Inflows of Resources	575,073	80,605	655,678
<u>Net Position</u>			
Net invested in capital assets	1,008,644	7,563,456	8,572,100
Restricted for:			
Debt service	-	483,131	483,131
Public safety	462	-	462
Cemetery fund	74,696	-	74,696
Unrestricted	2,056,434	(325,644)	1,730,790
Total Net Position	\$ 3,140,236	\$ 7,720,943	\$ 10,861,179

See accompanying notes to financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<u>Governmental activities</u>							
General government	\$ 835,538	\$ 256,349	\$ -	\$ -	\$ (579,189)	\$ -	\$ (579,189)
Public safety	1,032,422	5,125	114,544	-	(912,753)	-	(912,753)
Public works	494,221	-	50,698	-	(443,523)	-	(443,523)
Cemetery maintenance	11,770	-	-	-	(11,770)	-	(11,770)
Parks and recreations	7,143	-	-	-	(7,143)	-	(7,143)
Interest on long-term debt	28,323	-	-	-	(28,323)	-	(28,323)
Total governmental activities	<u>2,409,417</u>	<u>261,474</u>	<u>165,242</u>	<u>-</u>	<u>(1,982,701)</u>	<u>-</u>	<u>(1,982,701)</u>
<u>Business-type activities</u>							
Water system	711,183	778,826	-	-	-	67,643	67,643
Sewer system	685,127	558,848	-	-	-	(126,279)	(126,279)
Park	58,601	20,526	-	-	-	(38,075)	(38,075)
Total business-type activities	<u>1,454,911</u>	<u>1,358,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(96,711)</u>	<u>(96,711)</u>
Total Primary Government	<u>\$ 3,864,328</u>	<u>\$ 1,619,674</u>	<u>\$ 165,242</u>	<u>\$ -</u>	<u>(1,982,701)</u>	<u>(96,711)</u>	<u>(2,079,412)</u>
<u>General Revenues and Transfers</u>							
Taxes:							
Occupational					656,678	-	656,678
Property taxes					397,632	-	397,632
Insurance premium tax					217,080	-	217,080
Restaurant tax					136,428	-	136,428
Franchise tax					121,756	-	121,756
Regulatory fees					94,613	-	94,613
Other taxes					65,129	-	65,129
Business license					35,495	-	35,495
Miscellaneous					17,365	-	17,365
Cemetery					5,800	-	5,800
Interest income					28,299	-	28,299
Gain (loss) on disposal of capital assets					34,138	66,438	100,576
Insurance Proceeds					118,608	-	118,608
Contributed capital					117,000	-	117,000
Transfers					26,252	(26,252)	-
Total General Revenues and Transfers					<u>2,072,273</u>	<u>40,186</u>	<u>2,112,459</u>
<u>Change in Net Position</u>					89,572	(56,525)	33,047
<u>Net Position at Beginning of Year</u>					3,335,851	7,900,656	11,236,507
<u>Prior period adjustments (See Note 15)</u>					(285,187)	(123,188)	(408,375)
<u>Net Position at End of Year</u>					<u>\$ 3,140,236</u>	<u>\$ 7,720,943</u>	<u>\$ 10,861,179</u>

See accompanying notes to financial statements.

CITY OF EDDYVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Fire Protection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash equivalents	\$ 1,474,047	\$ 65,730	\$ -	\$ 1,539,777
Investments	-	-	16,480	16,480
Accounts Receivable:				
Taxes	213,639	-	-	213,639
Fees and services	22,455	-	-	22,455
Other receivables	86,869	36,133	10,202	133,204
Unbilled revenue	10,322	-	-	10,322
Intergovernmental receivable	-	-	6,023	6,023
Prepaid expenses	108,203	16,009	-	124,212
Due from other funds	-	68,971	-	68,971
Restricted assets:				
Cash equivalents	462	-	15,844	16,306
Investments	-	-	42,304	42,304
<u>Total Assets</u>	<u>\$ 1,915,997</u>	<u>\$ 186,843</u>	<u>\$ 90,853</u>	<u>\$ 2,193,693</u>
<u>Liabilities, Deferred Inflows, and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ 65,761	\$ 496	\$ -	\$ 66,257
Accrued payroll and related expenses	7,052	10	-	7,062
Accrued employee benefits	38,039	-	-	38,039
Due to other funds	68,971	-	-	68,971
Total Liabilities	<u>179,823</u>	<u>506</u>	<u>-</u>	<u>180,329</u>
<u>Deferred Inflows of Resources</u>				
Property Taxes	<u>20,685</u>	<u>-</u>	<u>-</u>	<u>20,685</u>
<u>Fund Balances</u>				
Nonspendable:				
Prepaid expenses	108,203	16,009	-	124,212
Restricted for:				
Cemetery fund	-	-	74,696	74,696
Municipal aid	-	-	6,023	6,023
Public safety	462	-	-	462
Committed for:				
Fire protection fund	-	170,328	-	170,328
Alcoholic beverage control	-	-	10,134	10,134
Assigned for:				
Employee Benefits	8,193	-	-	8,193
Unassigned:	<u>1,598,631</u>	<u>-</u>	<u>-</u>	<u>1,598,631</u>
Total Fund Balances	<u>1,715,489</u>	<u>186,337</u>	<u>90,853</u>	<u>1,992,679</u>
<u>Total Liabilities, Deferred Inflows and Fund Balances</u>	<u>\$ 1,915,997</u>	<u>\$ 186,843</u>	<u>\$ 90,853</u>	<u>\$ 2,193,693</u>

See accompanying notes to financial statements.

CITY OF EDDYVILLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2018

Fund Balances - Total Governmental Funds \$ 1,992,679

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet:

Governmental capital assets	\$ 3,631,027	
Less accumulated depreciation	<u>(1,952,383)</u>	1,678,644

Under modified accrual basis of accounting the only receivables recognized are those expected to be collected within sixty days or the close of the fiscal year.

Lease receivable		1,698,950
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.

Accrued interest payable	(1,608)	
Debt due within one year	(330,000)	
Debt due after one year	(340,000)	
Unearned interest income	(389,780)	
Net pension and OPEB liability and related deferred outflows and inflows of resources	<u>(1,168,649)</u>	<u>(2,230,037)</u>

Net Position of Governmental Activities **\$ 3,140,236**

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

	<u>General</u>	<u>Fire Protection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Taxes:				
Occupational	\$ 656,678	\$ -	\$ -	\$ 656,678
Property	397,632	-	-	397,632
Insurance premiums	74,286	142,794	-	217,080
Restaurant	136,428	-	-	136,428
Franchise	121,756	-	-	121,756
Regulatory Fees	-	-	94,613	94,613
Other	65,129	-	-	65,129
License and permits	35,495	-	-	35,495
Charges for services	256,349	5,125	-	261,474
Intergovernmental	80,667	34,500	50,075	165,242
Miscellaneous	17,365	-	-	17,365
Investment income	5,445	7	874	6,326
Cemetery	-	-	5,800	5,800
Total Revenues	<u>1,847,230</u>	<u>182,426</u>	<u>151,362</u>	<u>2,181,018</u>
<u>Expenditures</u>				
Current:				
General government	743,169	-	-	743,169
Public safety	374,805	110,662	104,725	590,192
Public works	367,554	-	50,022	417,576
Cemetery maintenance	-	-	11,729	11,729
Debt service	354,038	-	-	354,038
Capital outlay	265,183	7,840	-	273,023
Total Expenditures	<u>2,104,749</u>	<u>118,502</u>	<u>166,476</u>	<u>2,389,727</u>
<u>Excess (Deficiency) of Revenues</u>				
<u>Over Expenditures</u>				
	<u>(257,519)</u>	<u>63,924</u>	<u>(15,114)</u>	<u>(208,709)</u>
<u>Other Financing Sources (Uses)</u>				
Insurance proceeds	118,608	-	-	118,608
Contributed capital	117,000	-	-	117,000
Lease revenue	48,735	-	-	48,735
Proceeds from sale of capital assets	13,287	20,851	-	34,138
Transfers in	9,892	267	16,093	26,252
Total Other Financing Sources (Uses)	<u>307,522</u>	<u>21,118</u>	<u>16,093</u>	<u>344,733</u>
<u>Net Change in Fund Balances</u>	50,003	85,042	979	136,024
<u>Fund Balances at Beginning of Year</u>	<u>1,665,486</u>	<u>101,295</u>	<u>89,874</u>	<u>1,856,655</u>
<u>Fund Balances at End of Year</u>	<u>\$ 1,715,489</u>	<u>\$ 186,337</u>	<u>\$ 90,853</u>	<u>\$ 1,992,679</u>

See accompanying notes to financial statements.

CITY OF EDDYVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Total Governmental Funds \$ 136,024

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	\$ 273,023	
Less current year depreciation	<u>(226,871)</u>	46,152

Under the modified accrual basis of accounting the only receivables recognized are those expected to be collected within sixty days of the close of the fiscal year. The accrual basis of accounting recognizes all receivables at year end. This is the net additional revenue associated with receivables recognized this year less the additional revenue from receivables recombined last year.

Lease receivable payments	(48,735)	
Recognized unearned income	<u>21,972</u>	(26,763)

The net pension and other postemployment benefits liabilities and related deferred outflows and inflows of resources are an obligation of the City of Eddyville not payable from current year resources and not reported as an expenditure of the current year. In the Statement of Activities, these costs represent expenses of the current year. (391,558)

Principal payments of debt require the use of current financial resources and, therefore, are reported as expenditures in governmental funds. However, principal payments of debt do not affect net assets in the government-wide Statement of Activities. 325,000

Accrued interest payments on debt do not require the use of current financial resources. The change in accrued interest is reported as an expenditure in the government-wide statement of activities. 717

Changes in Net Position of Governmental Activities **\$ 89,572**

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

	Business-type Activities Enterprise Funds			Total
	Water	Sewer	Park Board Nonmajor Enterprise Fund	
<u>ASSETS</u>				
<u>Current Assets</u>				
Cash equivalents	\$ -	\$ -	\$ 200	\$ 200
Receivables, net				
Fees and services	75,095	53,438	-	128,533
Unbilled revenue	39,666	27,302	-	66,968
Inventory	39,427	6,124	-	45,551
Prepaid insurance	44,441	37,260	-	81,701
Restricted assets:				
Cash equivalents	483,131	-	-	483,131
Total Current Assets	<u>681,760</u>	<u>124,124</u>	<u>200</u>	<u>806,084</u>
<u>Noncurrent Assets</u>				
Property, plant, and equipment, net of accumulated depreciation	<u>4,953,043</u>	<u>5,393,891</u>	<u>85,730</u>	<u>10,432,664</u>
Total Noncurrent Assets	<u>4,953,043</u>	<u>5,393,891</u>	<u>85,730</u>	<u>10,432,664</u>
Total Assets	<u>5,634,803</u>	<u>5,518,015</u>	<u>85,930</u>	<u>11,238,748</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Related to pensions and other postemployment benefits	<u>95,837</u>	<u>95,837</u>	<u>-</u>	<u>191,674</u>
Total deferred outflows of resources	<u>95,837</u>	<u>95,837</u>	<u>-</u>	<u>191,674</u>
<u>LIABILITIES</u>				
<u>Current Liabilities</u>				
Accounts payable	11,891	4,500	4,051	20,442
Taxes withheld and accrued	-	-	105	105
Meter deposits payable	102,061	-	-	102,061
Accrued employee benefits	10,156	10,156	1,971	22,283
Accrued interest payable	11,293	696	-	11,989
Long-term debt due in one year	186,985	59,254	-	246,239
Total Current Liabilities	<u>322,386</u>	<u>74,606</u>	<u>6,127</u>	<u>403,119</u>
<u>Noncurrent Liabilities</u>				
Net pension and other postemployment benefit liabilities	301,518	301,268	-	602,786
Long-term debt due after one year	<u>1,510,886</u>	<u>1,112,083</u>	<u>-</u>	<u>2,622,969</u>
Total Noncurrent Liabilities	<u>1,812,404</u>	<u>1,413,351</u>	<u>-</u>	<u>3,225,755</u>
Total Liabilities	<u>2,134,790</u>	<u>1,487,957</u>	<u>6,127</u>	<u>3,628,874</u>

See accompanying notes to financial statements.

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

	Business-type Activities Enterprise Funds			Total
	Water	Sewer	Park Board Nonmajor Enterprise Fund	
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Related to pensions and other postemployment benefits	40,303	40,302	-	80,605
Total deferred inflows of resources	40,303	40,302	-	80,605
<u>NET POSITION</u>				
Net invested in capital assets	3,255,172	4,222,554	85,730	7,563,456
Restricted for debt service	483,131	-	-	483,131
Unrestricted	(182,756)	(136,961)	(5,927)	(325,644)
Total Net Position	<u>\$ 3,555,547</u>	<u>\$ 4,085,593</u>	<u>\$ 79,803</u>	<u>\$ 7,720,943</u>

See accompanying notes to financial statements.

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

	Business-type Activities Enterprise Funds			Total
	Water	Sewer	Park Board Nonmajor Enterprise Fund	
<u>Operating Revenues</u>				
Charges for services	\$ 778,132	\$ 558,154	\$ 20,424	\$ 1,356,710
Miscellaneous	694	694	102	1,490
Total Operating Revenues	<u>778,826</u>	<u>558,848</u>	<u>20,526</u>	<u>1,358,200</u>
<u>Operating Expenses</u>				
Depreciation	251,385	220,232	8,508	480,125
Salaries and wages	102,707	102,707	18,526	223,940
Repairs and maintenance	72,672	140,397	2,620	215,689
Utilities	66,455	94,596	8,952	170,003
Employee benefits	62,257	62,471	-	124,728
Materials and supplies	51,571	8,279	10,184	70,034
Insurance	35,589	28,986	3,277	67,852
Taxes	8,389	8,326	1,687	18,402
Gasoline, oil and grease	5,414	4,163	-	9,577
Miscellaneous	6,510	2,187	820	9,517
Loan fees	1,742	2,431	-	4,173
Cost of sales	-	-	4,027	4,027
Office supplies	1,304	1,156	-	2,460
Bad debt expense	56	76	-	132
Total Operating Expenses	<u>666,051</u>	<u>676,007</u>	<u>58,601</u>	<u>1,400,659</u>
<u>Income (Loss) from Operations</u>	<u>112,775</u>	<u>(117,159)</u>	<u>(38,075)</u>	<u>(42,459)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Gain (Loss) on disposal of assets	32,919	32,919	600	66,438
Interest expense	(45,132)	(9,120)	-	(54,252)
Total Nonoperating Revenues (Expenses)	<u>(12,213)</u>	<u>23,799</u>	<u>600</u>	<u>12,186</u>
<u>Income (Loss) Before Contributions and Transfers</u>	100,562	(93,360)	(37,475)	(30,273)
Transfers (out)	(79,815)	-	-	(79,815)
Transfers in	-	21,156	32,407	53,563
<u>Change in Net Position</u>	20,747	(72,204)	(5,068)	(56,525)
<u>Net Position at Beginning of Year</u>	3,596,394	4,219,391	84,871	7,900,656
<u>Prior period adjustment (See Note 15)</u>	(61,594)	(61,594)	-	(123,188)
<u>Net Position at End of Year</u>	<u>\$ 3,555,547</u>	<u>\$ 4,085,593</u>	<u>\$ 79,803</u>	<u>\$ 7,720,943</u>

See accompanying notes to financial statements.

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

	Business-type Activities Enterprise Funds			Total
	Water	Sewer	Park Board Nonmajor Enterprise Fund	
<u>Cash Flows From Operating Activities</u>				
Cash received from customers	\$ 781,233	\$ 557,868	\$ 20,635	\$ 1,359,736
Cash payments to suppliers for goods and services	(355,663)	(395,774)	(34,989)	(786,426)
Cash payments to employees for services	(103,638)	(103,270)	(18,653)	(225,561)
Net Cash Provided (Used) By Operating Activities	<u>321,932</u>	<u>58,824</u>	<u>(33,007)</u>	<u>347,749</u>
<u>Cash Flows From Noncapital Financing Activities</u>				
Transfers in	-	21,156	32,407	53,563
Transfers out	(79,815)	-	-	(79,815)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(79,815)</u>	<u>21,156</u>	<u>32,407</u>	<u>(26,252)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal paid on debt	(181,313)	(58,812)	-	(240,125)
Gain/(Loss) on disposal of assets	32,919	32,919	600	66,438
Acquisition of property, plant and equipment	(44,925)	(44,925)	-	(89,850)
Interest paid on debt	(46,796)	(9,162)	-	(55,958)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(240,115)</u>	<u>(79,980)</u>	<u>600</u>	<u>(319,495)</u>
<u>Cash Flows from Investing Activities</u>				
Net Cash Provided (Used) By Investing Activities	-	-	-	-
<u>Net Increase (Decrease) in Cash Equivalents</u>	2,002	-	-	2,002
<u>Cash and Cash Equivalents at Beginning of Year</u>	481,129	-	200	481,329
<u>Cash and Cash Equivalents at End of Year</u>	<u>\$ 483,131</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ 483,331</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u>				
<u>By Operating Activities</u>				
Operating income (loss)	\$ 112,775	\$ (117,159)	\$ (38,075)	\$ (42,459)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	251,385	220,232	8,508	480,125
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(145)	(980)	109	(1,016)
Decrease (increase) in prepayments	(40,234)	(33,055)	-	(73,289)
Decrease (increase) in inventory	2,642	(650)	-	1,992
Decrease (increase) in deferred outflows of resources	(40,234)	(40,294)	-	(80,528)
Increase (decrease) in accounts payable	3,808	1,257	(3,354)	1,711
Increase (decrease) in accrued liabilities	1,946	(563)	(195)	1,188
Increase (decrease) in deferred pension liability	28,240	28,240	-	56,480
Increase (decrease) in deferred inflows of resources	1,749	1,796	-	3,545
Net Cash Provided (Used) by Operating Activities	<u>\$ 321,932</u>	<u>\$ 58,824</u>	<u>\$ (33,007)</u>	<u>\$ 347,749</u>
<u>Reconciliation of Total Cash</u>				
Current Assets - Cash	\$ -	\$ -	\$ 200	\$ 200
Restricted Assets - Cash	483,131	-	-	483,131
Total Cash	<u>\$ 483,131</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ 483,331</u>

Non-Cash Investing, Capital and Related Financing Activities - none

See accompanying notes to financial statements.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eddyville, Kentucky (the City) operates under a Mayor/Council form of government and provides the following services as authorized: public safety (police and fire), public works (highway and streets), water distribution, wastewater treatment, cemetery maintenance, and community pool and park.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable). The City follows GASB pronouncements as codified under GASB 62, which was adopted in the current year. The more significant accounting policies of the City are described below:

A. The Financial Reporting Entity

The City of Eddyville, Kentucky operates under a Mayor/Council form of government. The City Council consists of six members elected at large by the citizens on a non-partisan basis. The City has adhered to the standards set forth in Statement No. 14 as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity, and related relationships with the City.

B. Basis of Presentation

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information for the City as a whole. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on sources, uses, and balances of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Fire Protection Fund

The Fire Protection Fund is used to account for the provision of fire protection services to the residents of the City. Revenues consist of insurance premium taxes assigned to this fund.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the City. Activities of the fund include administration, water treatment and distribution, infrastructure additions, and maintenance. The department accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for water system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Sewer Fund

The Sewer Fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, wastewater treatment and collection, and infrastructure additions and maintenance. The fund accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for sewer system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the costs of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Insurance premium and franchise taxes are considered available and are, therefore, recognized as revenues even though a portion of taxes may be collected in the subsequent year. Intergovernmental revenues received as reimbursements for specific purposes or projects are recognized based upon expenditures recorded. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer, and natural gas services which are accrued. Expenses are recognized at the time the liability is incurred.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the City must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and proprietary funds. Non-major governmental funds are not budgeted.

Prior to June 1 of each year, the Mayor submits a proposed budget to the City Council for the year commencing the following July 1. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and request appropriations for the next fiscal year. The City Council holds public hearings to obtain taxpayer comments. Prior to June 30 of each year, the City Council approves the budget by majority vote.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

As required by Kentucky Revised Statutes (KRS) 91A.030 (2), formal budgetary integration is employed as a management device during the year for the General Fund, and Proprietary Funds. Total expenditures for a fund legally may not exceed the total appropriations as required by KRS 91A.030 (13).

Budget amendments, as allowed by ordinance, require majority approval by the City Council. There were no amendments to the original adopted budget for year ended June 30, 2018.

E. Cash and Investments

For the purpose of the Statement of Net Position, "cash equivalents" includes all demand and savings accounts of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash equivalents" include all demand and savings accounts, and certificates of deposit, or short-term investments with an original maturity of three months or less.

Investments include certificates of deposit reported at cost, which approximates fair value. Investments also include short-term pooled municipal guaranteed securities which are valued at market value. In accordance with GASB Statement 31, quoted market price was used to determine the fair value of investments. Additional cash and investment disclosures are presented in Note 3.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. The major receivable balance for the governmental activities normally include taxpayer assessed revenues such as occupational and insurance premium taxes. Business-type activities report customer utility usages as their major receivable.

G. Allowance for Uncollectible Accounts

The City elects to not recognize an allowance for uncollectible accounts. Bad debts are removed utilizing the direct write-off method.

H. Inventory

Material and supplies inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies and replacement parts. The cost is recorded as an asset at the time of purchase and as expenditures when used (consumption method).

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018 are recorded as prepaid items. Prepaid items recorded in the governmental funds are reflected as nonspendable fund balance.

J. Restricted Assets

The restricted funds have been handled in accordance with the provisions of the various proprietary fund revenue bond resolutions, loan agreements, or by state or federal laws and regulations. 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 EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Assets capitalized, not including infrastructure assets, have an original cost of \$500 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. The estimated useful lives are as follows:

Buildings and Infrastructure	12-50 years
Utility Plant	30-33 years
Machinery and Equipment	3-10 years

The City has elected not to retroactively report general infrastructure assets purchased prior to July 1, 2003.

L. Unearned Revenue

In the governmental funds, certain revenue transactions have been reported as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available. In the proprietary funds (and for the governmental activities in the government-wide statements), unearned revenue is reported regardless of its availability.

M. Compensated Absences

The City recognizes a liability for unpaid compensated absences arising from unpaid vacation and personal time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacations, sick, and other leave benefits that meet the following conditions:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences attributable to employees' services already rendered
- b. The obligation relates to rights that vest or accumulate.
- c. Payment of the compensation is probable.
- d. The amount can be reasonably estimated.

Employees earn vacation leave on January 1 of each year. Vacation leave is eligible as follows:

- a. 1st year - days granted equals the number of months the employee has worked during the previous calendar year times 83%.
- b. 2nd year through 10th year - 10 days
- c. 11th year and above - 15 days.

Employees are urged to take their annual leave each year. However, for leave that is not taken during the year, employees will be paid in December for up to 10 days. Vacation rights are vested after satisfactory completion of the first six months of employment. Only full time employees are eligible for vacation benefits. When an employee gives a proper notice of two weeks all accrued annual vacation leave shall be paid at the employee's current rate of pay.

Each full time employee is granted personal leave credit at the rate of one working day per month. Any personal days granted and unused in excess of 24 total days may be exchanged at the end of the calendar year at the rate of the employee's current rate of hourly pay. There is no limit to the number of personal leave days an employee may accrue. However, the exchange for year-end pay shall be based on the current year and in no case shall be more than 12 personal days per year to be exchanged for payment.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

N. Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of lease, note, and bond obligations payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

O. Bond Discounts/Issuance Costs

Bond discounts and issuance costs on long-term debt are deferred and charged as nonoperating expense over the terms of the related issues. Issuance costs are recognized when incurred.

P. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Q. Estimates

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

R. Pensions

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

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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S. Postemployment Benefits Other Than Pensions (OPEB)

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

T. Net Position

In the government-wide statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The City has implemented GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The City establishes (and modifies or rescinds) fund balance commitments by voting. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City through adoption or amendment of the budget is intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes). The following classifications describe the relative strength of the spending constraints:

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

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the city would first use committed then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

U. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category.

Deferred outflows related to pensions and other post employment benefits are reported in the government-wide and proprietary statement of net position. A deferred outflow from pensions and other postemployment benefits results from City contributions made subsequent to the measurement date and various changes resulting from actuarial pension/OPEB measurements. The contribution amount is deferred and will be recognized as a reduction of net pension and other postemployment liabilities in the year ending June 30, 2019. The various changes resulting from actuarial pension/OPEB measurements are deferred and amortized in future periods as a component of pension/OPEB expense.

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category.

Deferred inflows related to property taxes are reported in the government-wide statement of net position and governmental balance sheet. A deferred inflow from property taxes results from property taxes receivable that are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows related to pensions are reported in the government-wide statement and proprietary statement of net position. A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

Deferred inflows related to unearned interest revenue are reported in the government-wide statement of net position. A deferred inflow from unearned interest revenue results from the interest portion of the lease receivable that will be recognized as an inflow of resources in the period that the amounts become available.

V. Adoption of New Accounting Pronouncements

GASB Statement No. 75

The City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was issued June 2015. The provisions of this statement are effective for periods beginning after June 15, 2018. The scope of this Statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The adoption of this pronouncement did impact the City's financial position and resulted in a restatement of beginning net position due to this change in accounting principle in the amount of \$285,187 for governmental activities and \$123,188 for business-type activities.

GASB Statement No. 81

The City adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which was issued in March 2016. The provisions of this pronouncement are effective for periods beginning after December 15, 2016. This pronouncement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split-interest agreement. The City currently has no activity requiring

CITY OF EDDYVILLE, KENTUCKY
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such disclosures.

GASB Statement No. 85

The City adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, which was issued March 2017. The provisions of this Statement are effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPED]).

GASB Statement No. 86

The City adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishments Issues*, which was issued March 2017. The provisions of this pronouncement are effective for periods beginning after June 15, 2017. The requirements of this pronouncement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for recognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this pronouncement also will enhance the decision-usefulness of information in notes to the financial statements regarding debt that has been defeased in substance. The City currently has no activity requiring such disclosures.

W. Recent Accounting Pronouncements

As of June 30, 2018, the GASB has issued the following pronouncements not yet required to be adopted by the City.

GASB Statement No. 83

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016. The provisions of this pronouncement are effective for periods beginning after June 15, 2018. This pronouncement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (ARO), including obligations that may not have been previously reported. The pronouncement also will enhance the decision usefulness of the information provided to the financial statement users by requiring disclosures related to those ARO's. The City's management has not yet determined the effect this pronouncement will have on the financial statements.

GASB Statement No. 87

GASB Statement No. 87, *Leases*, was issued in June 2017. The provisions of this pronouncement are effective for periods beginning after December 15, 2019. This pronouncement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model and will require notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The City's management has not yet determined the effect this pronouncement will have on the financial statements.

GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The provisions of this pronouncement are effective for periods beginning after June 15, 2018. This pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on an government's future resource flows. The City's management has not yet determined the effect this pronouncement will have on the financial statements.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

X. Subsequent Events

The City has evaluated subsequent events through March 25, 2019, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE

Excess of Expenditures Over Appropriations in Individual Funds

The following funds had an excess of actual expenditures and other financing uses over budget for the year ended June 30, 2018:

General Fund \$ 134,808 Due capital outlay and paving expenditures

Fund equity and other financial sources were sufficient to offset the over expenditures in the General Fund.

Deficit Fund Balances/Net Position

No funds had a deficit fund balance or deficit net position during the fiscal year ending June 30, 2018.

3. DEPOSITS AND INVESTMENTS

A. Statement of Net Position Cash Presentation

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 1,000	\$ 1,538,977	\$ -	\$ 1,539,977
Investments	-	16,480	-	16,480
Restricted assets:				
Cash equivalents	-	499,437	-	499,437
Investments	-	42,304	-	42,304
Total	<u>\$ 1,000</u>	<u>\$ 2,097,198</u>	<u>\$ -</u>	<u>\$ 2,098,198</u>

B. Deposits

At year end, the carrying amount of the City's demand deposits and certificates of deposit was \$2,098,198 the bank balance was \$2,126,828. These demand deposits and certificates of deposit were held in various financial institutions. Of the bank balance \$500,000 was covered by federal depository insurance and \$1,626,828 was covered by collateral held by the pledging financial institution's agent or trust department in the City's name.

C. Investments

The Kentucky Revised Statutes authorize the City to invest in interest-bearing and demand deposits in national or state chartered banks and insured by an agency of the U.S. Government. The City can also invest in U.S. Treasury agencies and instrumentalities.

Interest Rate Risk

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 doesn't not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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Credit Risk and Custodial Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentrations of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not place any limit on the amount that may be invested with one issuer.

Identification

Investment	Maturities	Fair Value
Certificates of Deposit:		
Cemetery Fund - Rolling Hills		
Branch Banking & Trust	11/5/2018	\$ 8,480
Branch Banking & Trust	12/3/2018	8,000
Cemetery Trust - Hickory Grove		
Branch Banking & Trust	12/20/2018	19,831
Fredonia Valley Bank	3/31/2022	<u>22,473</u>
Total Investments		<u>\$ 58,784</u>

4. PROPERTY TAX

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Lyon County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Lyon County, and the annual increase in the property tax levy cannot exceed 4%. For the year ending June 30, 2018, taxes were levied on October 31, 2017 and payable on December 1, 2017. The tax rate was \$0.199 per \$100 of assessed valuation for motor vehicles, \$0.366 per \$100 of assessed valuation of real property, and \$0.3087 per \$100 of assessed valuation of tangible personal property. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with GASB Statement 1, "Revenue Recognition - Property Taxes".

5. RESTRICTED NET POSITION

Restrictions imposed by external sources are shown as restricted net position on the government-wide financial statements. The following restrictions apply to the Water Fund as of June 30, 2018.

Debt Requirement Restricted Assets

Loan reserve funds	<u>\$ 483,131</u>
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CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6. CAPITAL ASSETS

Governmental Activities

A summary of capital assets at June 30, 2018 for governmental activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 8,945	\$ 117,000	\$ -	\$ 125,945
Construction in progress	-	16,000	-	16,000
Total capital assets not being depreciated	<u>8,945</u>	<u>133,000</u>	<u>-</u>	<u>141,945</u>
Capital assets being depreciated:				
Infrastructure	863,237	93,119	-	956,356
Buildings and improvements	600,972	-	(1,650)	599,322
Machinery and equipment	1,358,741	46,904	(192,634)	1,213,011
Vehicles	720,393	-	-	720,393
Total capital assets being depreciated	<u>3,543,343</u>	<u>140,023</u>	<u>(194,284)</u>	<u>3,489,082</u>
Less accumulated depreciation for:				
Infrastructure	(359,882)	(54,129)	-	(414,011)
Buildings and improvements	(274,671)	(18,985)	1,650	(292,006)
Machinery and equipment	(1,104,973)	(135,220)	192,634	(1,047,559)
Vehicles	(180,270)	(18,537)	-	(198,807)
Total accumulated depreciation	<u>(1,919,796)</u>	<u>(226,871)</u>	<u>194,284</u>	<u>(1,952,383)</u>
Total capital assets being depreciated, net	<u>1,623,547</u>	<u>(86,848)</u>	<u>-</u>	<u>1,536,699</u>
Governmental activities capital assets, net	<u>\$ 1,632,492</u>	<u>\$ 46,152</u>	<u>\$ -</u>	<u>\$ 1,678,644</u>

Business-type Activities

A summary of property, plant, and equipment at June 30, 2018 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 58,426	\$ -	\$ -	\$ 58,426
Total capital assets not being depreciated	<u>58,426</u>	<u>-</u>	<u>-</u>	<u>58,426</u>
Capital assets being depreciated:				
Plant and facilities	18,470,111	-	-	18,470,111
Vehicles	94,573	-	-	94,573
Machinery and equipment	531,447	89,850	(34,424)	586,873
Total capital assets being depreciated	<u>19,096,131</u>	<u>89,850</u>	<u>(34,424)</u>	<u>19,151,557</u>
Less accumulated depreciation for:				
Plant and facilities	(7,871,033)	(431,750)	-	(8,302,783)
Vehicles	(56,816)	(10,769)	-	(67,585)
Machinery and equipment	(403,769)	(37,606)	34,424	(406,951)
Total accumulated depreciation	<u>(8,331,618)</u>	<u>(480,125)</u>	<u>34,424</u>	<u>(8,777,319)</u>
Total capital assets being depreciated, net	<u>10,764,513</u>	<u>(390,275)</u>	<u>-</u>	<u>10,374,238</u>
Business-type activities capital assets, net	<u>\$ 10,822,939</u>	<u>\$ (390,275)</u>	<u>\$ -</u>	<u>\$ 10,432,664</u>

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

Governmental activities:	
Public safety	\$ 127,500
General government	15,584
Public works	76,644
Parks and recreation	7,143
Total depreciation expense - governmental activities	<u>\$ 226,871</u>

CITY OF EDDYVILLE, KENTUCKY
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Business-type activities:	
Water	\$ 251,385
Sewer	220,232
Park	<u>8,508</u>
Total depreciation expense - business type activities	<u>\$ 480,125</u>

7. LEASE RECEIVABLE

On October 24, 2003, the City entered into a lease agreement with the City of Kuttawa to lease the gas transmission lines for \$2,188,000, of which \$648,000 is recognized as unearned interest income. The lease agreement calls for monthly lease payments determined by usage. The City of Kuttawa will pay to Eddyville \$0.50 per 1,000 cubic feet of gas transported by Kuttawa in the Eddyville gas lines. Payments will be based on the meter reading at the delivery point. The term of the agreement is 20 years, at which time the parties may extend the agreement for a subsequent term or term of 20 years. At the conclusion of the lease, legal ownership of the gas transmission lines vests in the City of Kuttawa. Due to the payment structure a five year payment schedule cannot be presented.

	Balance June 30, 2017	Payments Received	Interest Recognized	Balance June 30, 2018
Lease Receivable	\$ 1,747,685	\$ 48,735	\$ -	\$ 1,698,950
Unearned Interest	<u>(411,752)</u>	<u>-</u>	<u>(21,972)</u>	<u>(389,780)</u>
Lease Receivable, net	<u>\$ 2,159,437</u>	<u>\$ 48,735</u>	<u>\$ (21,972)</u>	<u>\$ 2,088,730</u>

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disaster. There were no claims in excess of insurance coverage levels during the fiscal year ended June 30, 2018. The City also did not have any claims in excess of insurance coverage levels for the prior three years. All other risks of loss are covered by commercial insurance purchased through private carriers. With regard to the insurance coverage provided by private carriers, there were no significant changes in insurance coverage for the prior three years.

9. LONG-TERM DEBT

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2018, the governmental long-term debt consisted of the following:

Current portion bond obligation	\$ 330,000
Noncurrent portion bond obligations	<u>340,000</u>
Total bond obligations	<u>\$ 670,000</u>

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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Business-Type Activities

As of June 30, 2018, the leases, notes, and bonds payable from proprietary fund resources consisted of the following:

Current portion proprietary debt:	\$ 246,239
Noncurrent portion proprietary debt:	<u>2,622,969</u>
Total Proprietary Debt Obligations	<u><u>\$ 2,869,208</u></u>

General Bond Obligation

General Obligation Refunding Bonds, Series 2011 - On January 6, 2011, the City issued General Obligation Refunding Bonds, Series 2011 to refund existing debt for both the general fund and the sewer fund. The bond issue calls for semiannual interest payments at interest rates ranging from 2% to 3% and varying annual principal payments with the final payment due in 2020. The issue is backed by the full faith and credit of the City. The bonds were issued in the amount of \$2,850,000. The principal balance of the bond obligations at June 30, 2018, was \$670,000 of which \$330,000 is due in one year.

Proprietary Leases

Branch Banking and Trust Company

The City entered into a leasing agreement on February 1, 2018, with Branch Banking and Trust Company to refund and redeem the outstanding Water Revenue Bonds, Series 1966A and 1996B issued to finance improvements to the City's water system. The aggregate principal amount is \$1,100,000 and bears an interest rate of 2.45%. The lease calls for semi-annual principal and interest payments with the final payment being due February 1, 2027. The City is required to maintain the sinking fund and depreciation fund created under the provisions of the 1996 Bond Legislation. The principal balance of the lease obligation at June 30, 2018, was \$1,001,658 of which \$100,767 is due in one year.

Proprietary Notes Payable

Kentucky Infrastructure Authority (KIA) Fund F Loan - The City entered into a loan with Kentucky Infrastructure Authority to finance the construction of a new raw water line and a new water storage tank. The total principal amount of the loan was \$1,563,625. Terms of the loan call for semi-annual interest and principal payments of \$52,267. These payments include interest at 3% per annum with a principal repayment period of twenty years. The loan is backed by the full faith and credit of the City. The loan also includes a loan servicing fee of .025% of annual outstanding loan balance and an establishment of a replacement reserve account requiring annual deposits of \$16,500. Principal payments began on June 1, 2006. The principal balance at June 30, 2018 was \$696,213 of which \$84,239 is due in one year.

Kentucky Infrastructure Authority (KIA) Revolving Loan Fund A

On January 1, 2016, the City entered into a financial agreement with Kentucky Infrastructure Authority for sewer improvements not to exceed \$1,400,000. The funds were provided through the Federally Assisted Wastewater Revolving Loan Fund Program Fund A. The total project was completed and draws totaled \$1,398,134, of which 10% (\$139,813) of the principal was forgiven. The loan is to be repaid over 20 years with an interest rate of .75% and an administrative fee of .20%. The loan requires semiannual principal and interest payments. The City is required to establish a Maintenance and Replacement Reserve where the City is to deposit \$3,500 per year until the account reaches \$35,000. The balance of \$35,000 is to be maintained for the life of the loan. Principal payments began June 1, 2018. The principal balance at June 30, 2018 was \$1,171,337 of which \$61,233 is due in one year.

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10. CHANGES IN GOVERNMENT-WIDE ACTIVITIES DEBT

A summary of changes in government-wide activities debt for the year ended June 30, 2018 follows:

	<u>Balance June 30, 2017</u>	<u>Issuance/ (Reductions)</u>	<u>Balance June 30, 2018</u>	<u>Due in One Year</u>
<i><u>Governmental Activities</u></i>				
Bonds payable:				
Refunding Bonds, Series 2011	\$ 995,000	\$ (325,000)	\$ 670,000	\$ 330,000
Total Governmental Activities	<u>995,000</u>	<u>(325,000)</u>	<u>670,000</u>	<u>330,000</u>
<i><u>Business Type Activities</u></i>				
Leases payable:				
BB&T Governmental	\$ 1,100,000	\$ (98,342)	\$ 1,001,658	\$ 100,767
Notes Payable				
KIA Fund F Loan	779,184	(82,971)	696,213	84,239
KIA Fund A Loan	<u>1,230,149</u>	<u>(58,812)</u>	<u>1,171,337</u>	<u>61,233</u>
Total Business-Type Activities	<u>3,109,333</u>	<u>(240,125)</u>	<u>2,869,208</u>	<u>246,239</u>
Total Primary Government	<u>\$ 4,104,333</u>	<u>\$ (565,125)</u>	<u>\$ 3,539,208</u>	<u>\$ 576,239</u>

The annual debt service requirements to maturity for long-term debt as of June 30, 2018, are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 576,239	\$ 68,047	\$ 644,286
2020	589,735	52,521	642,256
2021	255,352	41,805	297,157
2022	261,114	36,042	297,156
2023	267,026	30,131	297,157
2024-2028	1,034,569	65,184	1,099,753
2029-2033	324,134	15,506	339,640
2034-2037	<u>231,040</u>	<u>3,526</u>	<u>234,566</u>
Total	<u>\$ 3,539,209</u>	<u>\$ 312,762</u>	<u>\$ 3,851,971</u>

Total interest expensed for the year ended June 30, 2018:

Governmental activities	\$ 28,323
Business-type activities	<u>54,252</u>
	<u>\$ 82,575</u>

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

11. LITIGATION AND CONTINGENCIES

Litigation

The City is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

Contingencies

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2018 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date.

12. COMMITMENTS

Kentucky Law Enforcement Foundation Program (KLEFP) funds are provided by the Commonwealth of Kentucky for police training incentives. The funds are made available to supplement police salaries under certain defined requirements for qualifications.

The City entered into a contract with Freedom Waste Service, LLC (Contractor) beginning October 14, 2014. The City is responsible for billing and collecting fees. Amounts collected for services, less a 10% franchise fee, and a 10% collection fee will be forwarded to the Contractor. Collections are remitted monthly.

13. TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE BALANCES

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

Primary government operating transfers at June 30, 2018 were:

	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Net</u>
<u>General Fund</u>	\$ -	\$ 9,892	\$ (9,892)
<u>Special Revenue Funds</u>			
Fire Protection	-	267	(267)
Cemetery fund	-	6,065	(6,065)
Alcohol Beverage Fund	-	10,028	(10,028)
<u>Business-type funds</u>			
Water Fund	79,815	-	79,815
Sewer Fund	-	21,156	(21,156)
Park Board	-	32,407	(32,407)
Total	<u>\$ 79,815</u>	<u>\$ 79,815</u>	<u>\$ -</u>

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14. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan description. The City of Eddyville, Kentucky is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the Kentucky Retirement Systems (Board). All City employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Benefits provided. CERS provides retirement, health insurance, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years service. For retirement purposes, nonhazardous and hazardous employees are grouped into three tiers, based on hire date.

Nonhazardous members:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 and December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Hazardous members:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	20 years of service an any age Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 2	Participation date	September 1, 2008 and December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Not available

CITY OF EDDYVILLE, KENTUCKY
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Contributions. State statute requires active members to contribute a percentage of creditable compensation based on the tier.

	<u>Nonhazardous</u>		<u>Hazardous</u>
	<u>Required Contributions</u>		<u>Required Contributions</u>
Tier 1	5%	Tier 1	8%
Tier 2	5% plus 1% for insurance	Tier 2	8% plus 1% for insurance
Tier 3	5% plus 1% for insurance	Tier 3	8% plus 1% for insurance

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended June 30, 2018 the employer contribution rate was 14.48% and 22.00%, respectively, of member's nonhazardous and hazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. City employer CERS contributions for the year ended June 30, 2018 were \$107,581 which was 100% funded. The requirement consisted of \$55,487 and \$52,094 for nonhazardous and hazardous classified employees, respectively.

Refunds of contributions. Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For Tier 1 employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for Tier 2 employees participating on or after September 1, 2008, but before January 1, 2014, interest will be credited at a rate of 2.5%. For Tier 3 employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2018, the City reported a liability of \$2,387,522 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward from the valuation date to June 30, 2017, using generally accepted actuarial principles. The City's proportion of the net pension liability was determined using the City's actual contributions for the plan year ended June 30, 2017. This method is expected to be reflective of the City's long-term contribution effort. At June 30, 2017, the City's proportion was .015887% for nonhazardous classified employees and .043182% for hazardous classified employees.

The following is a summary of the City's CERS net pension liability:

City's nonhazardous proportionate share of the CERS net pension liability	\$ 929,915
City's hazardous proportionate share of the CERS net pension liability	<u>966,102</u>
Total CERS net pension liability associated with the City	<u>\$ 1,896,017</u>

CITY OF EDDYVILLE, KENTUCKY
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Pension expense. As a result of its requirement to contribute to CERS, the City recognized pension expenses of \$418,450 (\$93,120 nonhazardous and \$325,330 hazardous) for the year ended June 30, 2018. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Non-hazardous Employees</u>		<u>Hazardous Employees</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>
Net differences between expected and actual experience	\$ 1,153	\$ 23,605	\$ 35,435	\$ -
Net differences between projected and actual investment earnings	73,648	62,146	63,368	54,926
Change of assumption	171,595	-	192,715	-
Changes in proportion and differences between employer contributions and share of contributions	2,335	64,513	262,112	-
Contributions subsequent to the measurement date	<u>55,489</u>	<u>-</u>	<u>52,094</u>	<u>-</u>
Totals	<u>\$ 304,220</u>	<u>\$ 150,264</u>	<u>\$ 605,724</u>	<u>\$ 54,926</u>

The \$107,583 (\$55,489 nonhazardous and \$52,094 hazardous) reported as deferred outflows of resources related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending</u>	<u>Non-Hazardous</u>	<u>Hazardous</u>
June 30, 2019	\$ 17,874	\$ 246,208
June 30, 2020	60,871	207,388
June 30, 2021	31,662	55,651
June 30, 2022	<u>(11,940)</u>	<u>(10,543)</u>
Total	<u>\$ 98,467</u>	<u>\$ 498,704</u>

CITY OF EDDYVILLE, KENTUCKY
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Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.05% average
Investment rate of return,	6.25%
Healthcare Trend Rates	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Pre-65	
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumption used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for the use with the June 30, 2017 valuation.

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The target allocation and best estimates of arithmetic real rates of return for each major class at June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100%</u>	

Discount Rate. The discount rate used to measure the total pension liability as of the measurement date was 6.25% for both nonhazardous and hazardous employees. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount determination does not use a municipal bond rate.

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

The City's proportionate share of the net pension liability	<u>1% Decrease 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1% Increase 7.25%</u>
Non-Hazardous	\$ 1,172,824	\$ 929,915	\$ 726,724
Hazardous	\$ 1,214,698	\$ 966,102	\$ 760,798

Payables to the pension plan. At June 30, 2018, the financial statements include \$11,118 in contractually required employee and employer contributions primarily for the month ended June 30, 2018. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

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Other Post-Employment Benefit Plans (OPEB)

Plan description. Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). The City is a participating member of the CERS. The plan issues publicly available financial statements which may be found at <https://kyret.ky.gov>.

The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members receiving benefits from the KERS, CERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous and Hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit OPEB plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous and Hazardous Insurance Fund consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Membership Status	Nonhazardous	Hazardous
Inactive plan members currently receiving benefits	32,161	6,053
Inactive plan members entitled to but not yet receiving benefits	8,946	500
Active plan members	80,409	9,078
Total plan members	121,516	15,631

Benefits provided. For members participating prior to July 1, 2003, the Insurance Fund pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

Service Period	% paid by Insurance Fund
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004) Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008, are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. Nonhazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits for each year of the deceased employee's unearned hazardous service. Upon the death of a hazardous employee, the employee's spouse

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received \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. The monthly health insurance contribution is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) prior to July 1, 2009, and by 1.5% annually from July 1, 2009. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. As of June 30, 2018, the employer contribution rate was 4.70% and 9.35%, respectively of members' non-hazardous and hazardous salaries. City employer insurance contributions for the year ended June 30, 2018, were \$39,951, which consisted of \$18,006 and \$21,945 for nonhazardous and hazardous classified employees, respectively.

Employees hired after September 1, 2008, are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited into an account created for the payment of health insurance benefits under 26 USC Section 104(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to the 401(h) account is non-refundable.

Implicit Subsidy The fully-insured premiums KRS pays for the KERS, CERS, and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after measurement date. The City's implicit subsidy for the year ended June 30, 2018 was \$2,004 for nonhazardous employees and \$(3,114) for hazardous employees.

OPEB Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources At June 30, 2018, the City reported a net OPEB liability of \$676,356 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using generally accepted actuarial principles. The City's proportion of the net OPEB liability was determined using the City's actual contributions for the plan year ended June 30, 2017. This method is expected to be reflective in the City's long-term contribution effort. At June 30, 2017, the City's proportion was .015887% for nonhazardous classified employees and .043182% for hazardous classified employees.

The following is a summary of the City's CERS net OPEB liability:

City's nonhazardous proportionate share of the CERS net OPEB liability	\$ 319,383
City's hazardous proportionate share of the CERS net OPEB liability	<u>356,973</u>
Total CERS net OPEB liability associated with the City	<u><u>\$ 676,356</u></u>

For the year ended June 30, 2018, the City recognized OPEB expense of \$101,184 (\$37,745 nonhazardous and \$63,439 hazardous). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Non-hazardous Employees</u>		<u>Hazardous Employees</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>
Net differences between expected and actual experience	\$ -	\$ 887	\$ -	\$ 832
Net differences between projected and actual investment earnings	-	15,094	-	22,397
Change of assumption	69,496	-	131,672	-
Changes in proportion and differences between employer contributions and share of contributions	-	741	-	71
Contributions subsequent to the measurement date, including implicit subsidy	<u>20,010</u>	<u>-</u>	<u>25,848</u>	<u>-</u>
Totals	<u>\$ 89,506</u>	<u>\$ 16,722</u>	<u>\$ 157,520</u>	<u>\$ 23,300</u>

The \$45,858 (\$20,010 nonhazardous and \$25,848 hazardous) reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date and the implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending</u>	<u>Non-Hazardous</u>	<u>Hazardous</u>
June 30, 2019	\$ 9,081	\$ 31,341
June 30, 2020	9,081	31,341
June 30, 2021	9,081	31,341
June 30, 2022	9,081	14,349
June 30, 2023	12,854	-
June 30, 2024	<u>3,596</u>	<u>-</u>
Total	<u>\$ 52,774</u>	<u>\$ 108,372</u>

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Actuarial Assumptions The total OPEB liability, net OPEB liability, and sensitivity information in the June 30, 2017 actuarial valuation was based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2013
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll Growth Rate	2.0% CERS Non-hazardous
Salary Increase	3.05% average
Investment Rate of Return	6.25%
<u>Healthcare Trend Rates</u>	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumption used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in May and July 2017, for the use with the June 30, 2017 valuation.

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The target allocation and best estimates of arithmetic nominal rates of return for each major class at June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100%</u>	

Discount Rate The single discount rate of 5.84% for nonhazardous and 5.96% for hazardous were used to measure the total OPEB liability as of June 30, 2017. For both hazardous and nonhazardous groups, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 3.56% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) of the unfunded actuarial accrued liability. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the actuarially determined contributions since any cost associated with the implicit subsidy will not be paid out of the retirement system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the nonhazardous net OPEB liability calculated using the discount rate of 5.84%, as well as what the City's proportionate share of the nonhazardous net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

The City's proportionate share of the net OPEB liability	1% Decrease 4.84%	Current Discount Rate 5.84%	1% Increase 6.84%
Non-Hazardous	\$ 406,397	\$ 319,383	\$ 246,974

CITY OF EDDYVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

The City's proportionate share of the net OPEB liability	1% Decrease <u>4.96%</u>	Current Discount Rate 5.96%	1% Increase <u>6.96%</u>
Hazardous	\$ 478,393	\$ 356,973	\$ 257,632

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the City's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

The City's proportionate share of the net pension liability	1% Decrease <u> </u>	Current Healthcare Cost Trend Rate <u> </u>	1% Increase <u> </u>
Non-Hazardous	\$ 244,983	\$ 319,383	\$ 416,098
Hazardous	\$ 252,696	\$ 356,973	\$ 486,032

Payables to the pension plan. At June 30, 2018, the financial statements include \$4,135 in contractually required employee and employer OPEB contributions primarily for the month ended June 30, 2018. The obligation was paid within prescribed time limits.

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

15. CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year ended June 30, 2018, the City implemented GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). GASB Statement No. 75 changed how governments measure and report long-term obligations and annual costs associated with other post-employment benefits they provide. Under the new standard, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Cumulative effect of change in accounting principle:		
Net OPEB liability	\$ (327,941)	\$ (135,879)
Deferred outflows of resources related to OPEB	<u>42,754</u>	<u>12,691</u>
Cumulative effect of change in accounting principle	<u>\$ (285,187)</u>	<u>\$ (123,188)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EDDYVILLE, KENTUCKY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Budgeted</u>	<u>Budgeted</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
<u>Revenues</u>				
Taxes				
Occupational	\$ 600,000	\$ 600,000	\$ 656,678	\$ 56,678
Property	455,000	455,000	397,632	(57,368)
Restaurant	136,800	136,800	136,428	(372)
Franchise	88,500	88,500	121,756	33,256
Insurance premiums	70,000	70,000	74,286	4,286
Other	58,600	58,600	65,129	6,529
Charges for services	263,700	263,700	256,349	(7,351)
Intergovernmental	127,560	127,560	80,667	(46,893)
License and permits	131,400	131,400	35,495	(95,905)
Miscellaneous	17,100	17,100	17,365	265
Interest income	2,000	2,000	5,445	3,445
Total revenues	<u>1,950,660</u>	<u>1,950,660</u>	<u>1,847,230</u>	<u>(103,430)</u>
<u>Expenditures</u>				
General government	772,313	772,313	743,169	29,144
Public works	318,606	318,606	367,554	(48,948)
Public safety	407,947	407,947	374,805	33,142
Debt service	350,100	350,100	354,038	(3,938)
Capital outlay	120,975	120,975	265,183	(144,208)
Total expenditures	<u>1,969,941</u>	<u>1,969,941</u>	<u>2,104,749</u>	<u>(134,808)</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>(19,281)</u>	<u>(19,281)</u>	<u>(257,519)</u>	<u>(238,238)</u>
<u>Other Financing Sources (Uses)</u>				
Insurance proceeds	-	-	118,608	118,608
Contributed capital	-	-	117,000	117,000
Proceeds from sale of capital assets	-	-	13,287	13,287
Lease Revenue	44,000	44,000	48,735	4,735
Transfers in(out)	-	-	9,892	9,892
Total other financing sources (uses)	<u>44,000</u>	<u>44,000</u>	<u>307,522</u>	<u>263,522</u>
<u>Net Change in Fund Balances</u>	<u>\$ 24,719</u>	<u>\$ 24,719</u>	50,003	<u>\$ 25,284</u>
<u>Fund Balances at Beginning of Year</u>			1,665,486	
<u>Fund Balances at End of Year</u>			<u>\$ 1,715,489</u>	

CITY OF EDDYVILLE, KENTUCKY
FIRE PROTECTION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budgeted</u>	<u>Final Budgeted</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Insurance license tax	\$ 165,000	\$ 165,000	\$ 142,794	\$ (22,206)
Intergovernmental	39,500	39,500	34,500	(5,000)
Charges for services	-	-	5,125	5,125
Investment income	-	-	7	7
Total revenues	<u>204,500</u>	<u>204,500</u>	<u>182,426</u>	<u>(22,074)</u>
<u>Expenditures</u>				
Public safety	101,529	101,529	110,662	(9,133)
Capital outlay	25,000	25,000	7,840	17,160
Total expenditures	<u>126,529</u>	<u>126,529</u>	<u>118,502</u>	<u>8,027</u>
<u>Excess (Deficiency) of Revenues Over</u>				
<u>Expenditures</u>	77,971	77,971	63,924	(14,047)
<u>Other Financing Sources (Uses)</u>				
Proceeds from the sale of assets	-	-	20,851	20,851
Transfers in	-	-	267	267
<u>Net Change in Fund Balances</u>	<u>\$ 77,971</u>	<u>\$ 77,971</u>	85,042	<u>\$ 7,071</u>
<u>Fund Balances at Beginning of Year</u>			<u>101,295</u>	
<u>Fund Balances at End of Year</u>			<u>\$ 186,337</u>	

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FIVE MEASUREMENT DATES (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Non-Hazardous</u>					
City's proportion of the net pension liability (asset)	.015887%	.015830%	.018110%	.023610%	.023610%
City's proportionate share of the net pension liability (asset)	\$ 929,915	\$ 779,504	\$ 778,544	\$ 766,000	\$ 867,000
City's covered-employee payroll	\$ 383,198	\$ 388,498	\$ 373,842	\$ 564,297	\$ 590,367
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	223.5% ⁷	200.64%	208.25%	135.74%	146.86%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%	61.22%
<u>Hazardous</u>					
City's proportion of the net pension liability (asset)	.043182%	.035460%	.022480%		
City's proportionate share of the net pension liability (asset)	\$ 966,102	\$ 608,422	\$ 345,038		
City's covered-employee payroll	\$ 238,375	\$ 237,046	\$ 184,311		
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	405.29%	256.67%	187.20%		
Plan fiduciary net position as a percentage of the total pension liability (2)	49.80%	53.95%	57.52%		

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) The amounts presented for the measurement dates used by CERS which differ from the City's current fiscal year end.

(2) This will be the same percentage for all participant employers in the CERS plan.

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Non-Hazardous</u>					
Contractually required contribution	\$ 55,487	\$ 69,013	\$ 65,123	\$ 102,318	111,447
Contributions in relation to the contractually required contribution	<u>55,487</u>	<u>69,013</u>	<u>65,123</u>	<u>102,318</u>	<u>111,447</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 383,198	\$ 388,498	\$ 373,842	\$ 564,297	\$ 590,367
Contribution as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%
<u>Hazardous</u>					
Contractually required contribution	\$ 74,039	\$ 74,408	\$ 52,086		
Contributions in relation to the contractually required contribution	<u>74,039</u>	<u>74,408</u>	<u>52,086</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 238,375	\$ 237,046	\$ 184,311		
Contribution as a percentage of covered-employee payroll	22.20%	21.71%	20.26%		

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Contractually required contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2018

Changes of benefit terms:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which include the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

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

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

Valuation date	June 30, 2015
Experience study	July 1, 2001 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.0%, average
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM OPEB PLAN
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
LAST MEASUREMENT DATE (1)

	2018
<u>Nonhazardous</u>	
City's proportion share of the net OPEB liability (asset)	0.015887%
City's proportion share of the net OPEB liability (asset)	\$ 319,383
City's covered employee payroll	\$ 383,198
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	119.98%
Plan fiduciary net position as a percentage of the total OPEB liability (2)	52.40%
<u>Hazardous</u>	
City's proportion share of the net OPEB liability (asset)	0.043182%
City's proportion share of the net OPEB liability (asset)	\$ 356,973
City's covered employee payroll	\$ 238,375
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	149.75%
Plan fiduciary net position as a percentage of the total OPEB liability (2)	59.00%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) The amounts presented for the measurement dates used by CERS which differ from the City's current fiscal year end.

(2) This will be the same percentage for all participant employers in the CERS plan.

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM OPEB PLAN
SCHEDULE OF CITY'S CONTRIBUTIONS
LAST FISCAL YEAR

	<u>2018</u>
<u>Nonhazardous</u>	
Statutorily required contributions	\$ 18,006
Contributions in relation to the contractually required contributions	<u>18,006</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Service's covered employee payroll	\$ 383,198
Contributions as a percentage of covered employee payroll	4.70%
 <u>Hazardous</u>	
Statutorily required contributions	\$ 21,945
Contributions in relation to the contractually required contributions	<u>21,945</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Service's covered employee payroll	\$ 238,375
Contributions as a percentage of covered employee payroll	9.35%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Contractually required contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

CITY OF EDDYVILLE, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM OPEB PLAN
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2018

Change of Assumptions

2017

The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017. Specifically, a 2.30% price inflation assumption and an assumed rate of return 6.25%

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF EDDYVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds			Total Non-Major Governmental Funds
	Municipal Aid	Alcohol Beverage Fund	Cemetery Fund	
<u>Assets</u>				
Investments	\$ -	\$ -	\$ 16,480	\$ 16,480
Receivables	-	10,134	68	10,202
Intergovernmental receivables	6,023	-	-	6,023
Restricted assets:				
Cash equivalents	-	-	15,844	15,844
Investments	-	-	42,304	42,304
<u>Total Assets</u>	<u>\$ 6,023</u>	<u>\$ 10,134</u>	<u>\$ 74,696</u>	<u>\$ 90,853</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Total Liabilities	\$ -	\$ -	\$ -	\$ -
<u>Fund Balances</u>				
Restricted for:				
Cemetery fund	-	-	58,148	58,148
Assigned for:				
Cemetery fund - Rolling Hills	-	-	16,548	16,548
Public safety	-	10,134	-	10,134
Public works	6,023	-	-	6,023
Total Fund Balances	6,023	10,134	74,696	90,853
<u>Total Liabilities and Fund Balances</u>	<u>\$ 6,023</u>	<u>\$ 10,134</u>	<u>\$ 74,696</u>	<u>\$ 90,853</u>

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

	<u>Special Revenue Funds</u>			Total Other Governmental Funds
	<u>Municipal Aid</u>	<u>Alcohol Beverage Fund</u>	<u>Cemetery Fund</u>	
<u>Revenues</u>				
Regulatory Fee	\$ -	\$ 94,613	\$ -	\$ 94,613
Intergovernmental	50,075	-	-	50,075
Cemetery	-	-	5,800	5,800
Interest income	-	-	874	874
Total Revenues	<u>50,075</u>	<u>94,613</u>	<u>6,674</u>	<u>151,362</u>
<u>Expenditures</u>				
Public safety	-	104,725	-	104,725
Public works	50,022	-	-	50,022
Cemetery maintenance	-	-	11,729	11,729
Total Expenditures	<u>50,022</u>	<u>104,725</u>	<u>11,729</u>	<u>166,476</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	53	(10,112)	(5,055)	(15,114)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	-	10,028	6,065	16,093
<u>Net Change in Fund Balances</u>	53	(84)	1,010	979
<u>Fund Balances - Beginning of Year</u>	<u>5,970</u>	<u>10,218</u>	<u>73,686</u>	<u>89,874</u>
<u>Fund Balances - End of Year</u>	<u>\$ 6,023</u>	<u>\$ 10,134</u>	<u>\$ 74,696</u>	<u>\$ 90,853</u>

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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 John Choat
and Members of the City Council
City of Eddyville, Kentucky
Eddyville, 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 City of Eddyville, 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 Eddyville, Kentucky's basic financial statements, and have issued our report thereon dated March 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Eddyville, 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 Eddyville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (Item 2018-1 and Item 2018-2).

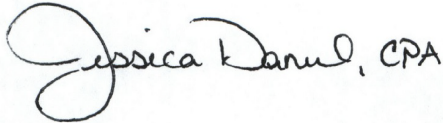
Compliance and other Matters

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

We also noted certain matters that we reported to management of the City of Eddyville, Kentucky, in a separate letter dated March 29, 2019.

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. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style with a large, looping initial "J".

Eddyville, Kentucky
March 29, 2019

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

2018-1: Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The City of Eddyville, Kentucky lacks proper segregation of duties.

Context: Due to the limited number of office personnel within the City, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the City of Eddyville, Kentucky; however, the City's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individual's is not desirable from an accounting point of view.

Cause: The City indicated that it has a limited number of employees. Due to the limited number of employees, the City cannot adequately segregate accounting duties.

Effect: Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded.

Recommendation: We recommend that the City's Council members and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible. Management should review its financial operation for opportunities to separate incompatible functions.

Response: The City of Eddyville, Kentucky's Council and management has been advised and is well aware of the lack of segregation of duties of the accounting functions of the City. The City Council will create or modify policies to ensure that duties are segregated wherever possible and reasonable.

2018-2: Audit Adjustments

Criteria: Audit adjustments were indicative of a deficiency in the internal controls over financial reporting.

Condition: During our audit, we identified material adjustments resulting in significant changes to the City's financial statements.

Context: The inability to make all necessary accrual adjustments related to GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* reporting requirements increases the likelihood that the financial statements would not be fairly presented.

Cause: During our audit, we made recommendations for journal entries that were necessary to comply with the GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, reporting requirements.

Effect: The audit adjustment to record deferred outflows of resources, net pension liability, and deferred inflows of resources related to the City's involvement with the County Employees Retirement System was reviewed and approved by the City's staff and is reflected in the financial statements.

Recommendation: We recommend that the City review the trial balances and journal entries with us to ensure they understand and are in agreement with the entries. The City should establish internal controls necessary to determine that all adjusting entries are made to ensure the City's financial statements are reported in accordance with generally accepted accounting principles.

Response: The City Clerk/Treasurer will review the trial balances and journal entries in detail. She understands the City's obligation to recognize pension expense and report deferred outflows of resources, deferred inflows of resources, and net pension liability related to their proportionate share of the County Employees Retirement System.