# CITY OF TAYLOR MILL, KENTUCKY

**June 30, 2019**

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTARY INFORMATION*

**CITY OF TAYLOR MILL, KENTUCKY**
**TABLE OF CONTENTS**

**PAGE**

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and
Members of the City Commission
City of Taylor Mill, Kentucky
Taylor Mill, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Taylor Mill, Kentucky (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Managements' 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.

**Auditors' 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 auditors' 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 auditors consider 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Taylor Mill, Kentucky, as of June 30, 2019, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2018 have been restated for the correction of a material misstatement. Our opinion is not modified with respect to this matter.

Additionally, as discussed in the notes to the financial statements, the City changed their accounting policy for capitalizing capital assets resulting in a change in estimate in the current year. 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 on pages 1 - 8, budgetary comparison information on pages 37 - 39, the City's pension schedules on pages 40 - 41, and the OPEB schedules on pages 42 - 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with managements' 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 11, 2019, on our consideration of the City of Taylor Mill, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Taylor Mill, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Taylor Mill, Kentucky's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
December 11, 2019

**CITY OF TAYLOR MILL, KENTUCKY**
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**
**UNAUDITED**

Our discussion and analysis of the City of Taylor Mill, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the City's basic financial statements that begin on page 9.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities on pages 9 and 10, respectively, provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 11. For government activities these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

## FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2019 are as follows:

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources by $2,122,500 (net position) at June 30, 2019. The City's total net position decreased by $626,389.
- As of June 30, 2019, the City's governmental funds reported combined ending fund balances of $4,609,190; an increase of $406,421.
- As of June 30, 2019, unassigned fund balance for the General Fund was $1,365,749.
- The City's cash and cash equivalents increased by $547,680 from $2,680,607 at June 30, 2018 to $3,228,287 at June 30, 2019.

## OVERVIEW OF 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### Government-Wide Financial Statements

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

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and 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 will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, parks and recreation. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are 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, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of 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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Municipal Road Aid Fund, and Capital Improvement Fund.

The City adopts an annual budget for each of its funds. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 11 - 14 of this report.

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to 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 15 - 36 of this report.

## Government-Wide Financial Analysis

The perspective of the statement of net position is of the City as a whole. Table 1 provides a summary of the City's net position for 2019 compared to 2018.

**Table 1**
**Net Position**

| | Governmental Activities | |
|---|---|---|
| | 2019 | 2018 |
| **Assets** | | |
| Current and Other Assets | $ 5,296,177 | $ 4,906,729 |
| Capital Assets, Net | 3,716,826 | 4,207,581 |
| Total Assets | 9,013,003 | 9,114,310 |
| **Deferred Outflows of Resources** | 1,943,946 | 3,027,759 |
| **Liabilities** | | |
| Current and Other Liabilities | 257,010 | 272,000 |
| Long-Term Liabilities | 7,441,023 | 8,271,830 |
| Total Liabilities | 7,698,033 | 8,543,830 |
| **Deferred Inflows of Resources** | 1,136,416 | 849,350 |
| **Net Position** | | |
| Net Investment in Capital Assets | 3,716,826 | 4,207,581 |
| Restricted for Municipal Aid | 363,893 | 187,300 |
| Unrestricted | (1,958,219) | (1,645,992) |
| **Total Net Position** | $ 2,122,500 | $ 2,748,889 |

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by approximately $2.1 million as of June 30, 2019.

A large portion of the City's net position (approximately $3.7 million) reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (approximately $364,000) represents resources that are subject to restrictions on how they may be used. Restricted assets are composed of funds held for road aid purposes.

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

The following points explain the major changes impacting net position as shown on the previous page.

1. Cash and cash equivalents increased $547,680 from the previous year primarily due to the cash receipts exceeding cash disbursements.

2. Capital assets decreased $490,755. The City increased its capitalization policy from $500 to $5,000 in the current fiscal year. As a result, all assets under this threshold were disposed of resulting in an overall decrease in capital assets. Major additions for the City include a new roof for the firehouse of approximately $71,000, a new backhoe of approximately $96,000, and two police cruisers of approximately $74,000. Total depreciation expense in the current year was approximately $482,000.

3. Deferred outflows of resources decreased by $1,083,813 largely due to a decrease in the changes in assumptions for both the pension and OPEB in the current year. The pension changes in assumptions decreased from $1,181,591 in the prior year to $596,222 in the current year. Changes in assumptions related to OPEB decreased from $744,422 in the prior year to $474,446 in the current year.

4. Long-term liabilities decreased $830,807 primarily due to a decrease in both the net pension liability and the net OPEB liability.

5. Deferred inflows of resources increased $287,066 primarily due to an increase in the changes in proportion and difference between employer contributions and proportionate share contributions for both the pension and OPEB in the current year. The pension changes increased from $326,487 in the prior year to $558,993 in the current year. Changes in related to OPEB increased from $1,328 in the prior year to $149,641 in the current year.

6. Net investment in capital assets decreased $490,755 due to the capital asset activity noted above.

7. The City has $1,958,219 of unrestricted net deficit as of June 30, 2019.

Table 2 reflects the change in net position for fiscal years 2019 and 2018.

**Table 2**
**Change in Net Position**

| | Governmental Activities Years Ended June 30, 2019 | 2018 |
|---|---|---|
| **Revenues** | | |
| General Revenues | | |
| Property Taxes | $ 2,097,417 | $ 2,088,265 |
| Payroll Taxes | 1,100,898 | 998,355 |
| Insurance Taxes | 734,957 | 705,646 |
| Utility Tax | 206,296 | 189,440 |
| Other Licenses and Permits | 444,273 | 489,543 |
| Fines and Forfeitures | 19,730 | 16,674 |
| Interest | 70,813 | 36,177 |
| Miscellaneous | 121,353 | 242,968 |
| Loss on Disposal of Capital Assets | (341,478) | (1,368) |
| Total General Revenues | 4,454,259 | 4,765,700 |
| Program Revenues | | |
| Charges for Service | 558,429 | 538,362 |
| Operating Grants and Contributions | 155,972 | 140,783 |
| Capital Grants and Contributions | 130,747 | 222,223 |
| Total Program Revenues | 845,148 | 901,368 |
| Total Revenues | 5,299,407 | 5,667,068 |
| **Program Expenses** | | |
| General Government | 1,420,604 | 1,003,263 |
| Police | 1,154,770 | 1,208,661 |
| Fire | 1,244,092 | 1,127,803 |
| Public Works | 574,612 | 396,967 |
| Streets | 359,788 | 450,195 |
| Recreation | 186,779 | 233,861 |
| Pension Expense | 745,487 | 850,277 |
| Other Postemployment Benefits Expense | 239,664 | 330,580 |
| Total Program Expenses | 5,925,796 | 5,601,607 |
| Change in Net Position | $ (626,389) | $ 65,461 |

### Governmental Activities

Governmental activities decreased the City's net position by $626,389. Key changes during the year are as follows:

- Payroll Taxes increased by $102,543 largely due to continued construction occurring within the city.
- Miscellaneous revenue decreased $121,615. This decrease is largely due to the City receiving approximately $160,000 of revenue for a reimbursement for Pride Parkway and Honey Drive from the state and from the Oxford Hills Assessment in the prior fiscal year.
- The City recognized a loss on disposal of capital assets of $341,478 due to disposing of all assets under the new $5,000 capitalization policy threshold as well as previously capitalized construction in progress of approximately $196,000.

### Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,609,190, an increase of $406,421, in comparison to the prior year. This total consists of: General Fund, $2,477,509; Municipal Road Aid Fund, $363,893; and Capital Improvement Fund, $1,767,788.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,365,749. The total fund balance increased by $603,340. A large portion of this is due to the City budgeting for a change in net assets of $527,867.

The fund balance of the Municipal Road Aid Fund increased by $176,593. This increase was the result of an interfund transfer to the Municipal Road Aid fund and the decrease in expenses in the current fiscal year.

The fund balance of the Capital Improvement Fund decreased $373,512 as a result of a large decrease in revenue compared to the prior year. Additionally, the Capital Improvement Fund had a decrease in transfers in from the General Fund of approximately $532,000.

### General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on the modified accrual basis of accounting. The General Fund's restated beginning fund balance for the beginning of the fiscal year was $1,874,169.

For the General Fund, actual revenues, in the amount of approximately $5.5 million were slightly higher than budgeted revenues of approximately $5.4 million.

Expenditures were budgeted at approximately $4.4 million which approximated actual expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2019, the City had approximately $3.7 million net investment in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2019 balances compared to fiscal year 2018.

**Table 3**
**Capital Assets at June 30**
(Net of Depreciation)

| | Governmental Activities | |
|---|---|---|
| | 2019 | 2018 |
| Land | $ 924,751 | $ 924,751 |
| Construction in Progress | 119,960 | 315,650 |
| Buildings and Improvements | 565,922 | 523,656 |
| Infrastructure | 1,640,885 | 1,841,518 |
| Equipment | 203,604 | 300,151 |
| Vehicles | 261,704 | 301,855 |
| | $ 3,716,826 | $ 4,207,581 |

Major capital asset events during the current fiscal year included the following:

- Disposal of approximately $1.7 Million in assets due to disposing of all assets under the new $5,000 capitalization policy. The disposals also included approximately $196,000 of Construction in Progress that was determined to not be applicable anymore. This resulted in a loss of approximately $341,000.
- Additions of new capital assets totaling approximately $360,000 including two new police cruisers, a new roof for the firehouse, a backhoe, and a dump truck.

### Outstanding Debt

At June 30, 2019, the City had an obligation for unpaid sick time to employees totaling $73,849.

### Economic Factors and Next Year's Budget

Taylor Mill is a residential community with a minor contingent of small businesses. The City offers all the amenities of cities with a much larger retail and/or manufacturing base. Therefore, the City's primary source of revenue used to provide these services are real estate taxes. The City does not have a separate fire district tax, road tax, or recreation tax. Therefore, property tax rates are a little higher than those cities that do. It has been the goal of this and prior commissions to expand the City's small business district and to ultimately move some of the tax burden away from real estate taxes and rely more heavily on gross receipts taxes and payroll taxes from businesses.

## Economic Factors and Next Year's Budget (Continued)

The City is expected to continue to see minor business growth during fiscal year 2020. The restaurants in the Remke Plaza are experiencing substantial success and growth. Kenton County School District continues to expand the campus of Scott High School so the City will continue to reap the benefits of additional payroll taxes from that project for several months into the next fiscal year. The City continues to work on property in the area of the Districts to attract businesses.

The City took the compensating tax rate plus two percent this year to attempt to counter the rising costs of providing services. This increase, while small, will help the City to keep up with the rising costs of both health care and retirement which are both growing much faster than the rate of inflation.

Earlier this year the City took the pro-active measure of expanding the existing industrial zone to include more types of industry and manufacturing. The City has had a few inquiries regarding the zone since that change was made. The City anticipates one if not two new businesses in that area in this upcoming year.

Fiscal responsibility remains the direction of the staff. Only through careful stewardship of the City's resources can the City provide the quality and level of services that the citizens deserve. This is the charge of each of the City's departments in the coming year.

## Requests for Information

This financial report is designed to provide a general overview of the City's financial condition for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator's office, City of Taylor Mill, 5225 Taylor Mill Road, Taylor Mill, Kentucky 41015.

# CITY OF TAYLOR MILL, KENTUCKY
## STATEMENT OF NET POSITION
## JUNE 30, 2019

| | | Governmental Activities |
|---|---|---|
| **Assets and Deferred Outflows of Resources** | | |
| **Current Assets** | | |
| Cash and Cash Equivalents | $ | 3,228,287 |
| Short Term Investments | | 1,266,752 |
| Accounts Receivable - Current Portion | | 649,014 |
| Total Current Assets | | 5,144,053 |
| **Noncurrent Assets** | | |
| Accounts Receivable - Long-Term Portion | | 152,124 |
| Capital Assets | | |
| Land | | 924,751 |
| Construction in Progress | | 119,960 |
| Buildings and Improvements | | 1,410,386 |
| Infrastructure | | 8,299,854 |
| Equipment | | 1,396,565 |
| Vehicles | | 1,799,713 |
| Less Accumulated Depreciation | | (10,234,403) |
| Total Capital Assets | | 3,716,826 |
| Total Noncurrent Assets | | 3,868,950 |
| Total Assets | | 9,013,003 |
| **Deferred Outflows of Resources** | | |
| Deferred Outflows Related to Pension | | 1,341,626 |
| Deferred Outflows Related to Other Postemployment Benefits | | 602,320 |
| Total Deferred Outflows of Resources | | 1,943,946 |
| Total Assets and Deferred Outflows of Resources | | 10,956,949 |
| **Liabilities and Deferred Inflows of Resources** | | |
| **Current Liabilities** | | |
| Accounts Payable | | 107,662 |
| Accrued Liabilities | | 130,511 |
| Compensated Absences | | 18,837 |
| Total Current Liabilities | | 257,010 |
| **Noncurrent Liabilities** | | |
| Compensated Absences | | 55,012 |
| Net Pension Liability | | 5,707,602 |
| Net Other Postemployment Benefits Liability | | 1,678,409 |
| Total Noncurrent Liabilities | | 7,441,023 |
| Total Liabilities | | 7,698,033 |
| **Deferred Inflows of Resources** | | |
| Deferred Inflows Related to Pension | | 643,326 |
| Deferred Inflows Related to Other Postemployment Benefits | | 493,090 |
| Total Deferred Inflows of Resources | | 1,136,416 |
| Total Liabilities and Deferred Inflows of Resources | | 8,834,449 |
| **Net Position** | | |
| Net Investment in Capital Assets | | 3,716,826 |
| Restricted for Municipal Aid | | 363,893 |
| Unrestricted | | (1,958,219) |
| **Total Net Position** | $ | 2,122,500 |

See accompanying notes.

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

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets — Primary Government: Total Governmental Activities |
|---|---|---|---|---|---|
| **Primary Government** | | | | | |
| **Governmental Activities** | | | | | |
| General Government | $ 1,420,604 | $ 389,658 | $ - | $ - | $ (1,030,946) |
| Police | 1,154,770 | - | 148,696 | - | (1,006,074) |
| Fire | 1,244,092 | 133,417 | 7,276 | - | (1,103,399) |
| Public Works | 574,612 | - | - | - | (574,612) |
| Streets | 359,788 | - | - | 130,747 | (229,041) |
| Recreation | 186,779 | 35,354 | - | - | (151,425) |
| Pension Expense | 745,487 | - | - | - | (745,487) |
| Other Postemployment Benefits Expense | 239,664 | - | - | - | (239,664) |
| **Total Primary Government** | $ 5,925,796 | $ 558,429 | $ 155,972 | $ 130,747 | (5,080,648) |
| **General Revenues** | | | | | |
| Property Taxes | | | | | 2,097,417 |
| Payroll Taxes | | | | | 1,100,898 |
| Insurance Tax | | | | | 734,957 |
| Utility Tax | | | | | 206,296 |
| Other Licenses and Permits | | | | | 444,273 |
| Fines and Forfeitures | | | | | 19,730 |
| Interest | | | | | 70,813 |
| Loss on Disposal of Capital Assets | | | | | (341,478) |
| Miscellaneous | | | | | 121,353 |
| Total General Revenues | | | | | 4,454,259 |
| Change in Net Position | | | | | (626,389) |
| **Net Position as of July 1, 2018** | | | | | 2,748,889 |
| **Net Position as of June 30, 2019** | | | | | $ 2,122,500 |

See accompanying notes.

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

| | General Fund | Municipal Road Aid Fund | Capital Improvement Fund | Total Governmental Fund |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Cash Equivalents | $ 1,128,183 | $ 332,316 | $ 1,767,788 | $ 3,228,287 |
| Short Term Investments | 1,266,752 | - | - | 1,266,752 |
| Receivables | | | | |
| Property Taxes | 68,613 | - | - | 68,613 |
| Waste Assessments | 13,983 | - | - | 13,983 |
| Accounts | 485,250 | - | 201,872 | 687,122 |
| Other Receivables | 15,942 | 15,478 | - | 31,420 |
| Due From Other Funds | - | 16,099 | - | 16,099 |
| **Total Assets** | $ 2,978,723 | $ 363,893 | $ 1,969,660 | $ 5,312,276 |
| **Liabilities, Deferred Inflows of Resources and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Accounts Payable | $ 107,662 | $ - | $ - | $ 107,662 |
| Accrued Liabilities | 130,511 | - | - | 130,511 |
| Due to Other Funds | 16,099 | - | - | 16,099 |
| Total Liabilities | 254,272 | - | - | 254,272 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable Revenue - Taxes | 246,942 | - | - | 246,942 |
| Unavailable Revenue - Assessments | - | - | 201,872 | 201,872 |
| Total Deferred Inflows of Resources | 246,942 | - | 201,872 | 448,814 |
| **Fund Balances** | | | | |
| Restricted | | | | |
| Municipal Aid | - | 363,893 | - | 363,893 |
| Committed | | | | |
| Emergency | 679,500 | - | - | 679,500 |
| Capital Improvement | - | - | 1,767,788 | 1,767,788 |
| Assigned | | | | |
| Recreation | 341,195 | - | - | 341,195 |
| Community Events | 79,812 | - | - | 79,812 |
| Senior Services | 11,253 | - | - | 11,253 |
| Unassigned | | | | |
| General | 1,365,749 | - | - | 1,365,749 |
| Total Fund Balances | 2,477,509 | 363,893 | 1,767,788 | 4,609,190 |
| **Total Liabilities, Deferred Inflows of Resources and Fund Balances** | $ 2,978,723 | $ 363,893 | $ 1,969,660 | $ 5,312,276 |

See accompanying notes.

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

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds** | | $ 4,609,190 |
| 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 as assets in the governmental funds. | | |
| Cost of Capital Assets | $ 13,951,229 | |
| Accumulated Depreciation | 10,234,403 | |
| | | 3,716,826 |
| Other long-term assets are not available to pay for current period expenditures and therefore are unearned in the governmental funds. | | |
| Assessment Receivable | 201,872 | |
| Property Tax Receivable | 68,613 | |
| Waste Assessments Receivable | 13,983 | |
| Occupational and Net Profit Tax Receivable | 164,346 | |
| | | 448,814 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. | | |
| Compensated Absences | | (73,849) |
| Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred Outflows of Resources Related to Pension | 1,341,626 | |
| Deferred Outflows of Resources Related to Other Postemployment Benefits | 602,320 | |
| Deferred Inflows of Resources Related to Pension | (643,326) | |
| Deferred Inflows of Resources Related to Other Postemployment Benefits | (493,090) | |
| | | 807,530 |
| Long-term liabilities, including net pension obligations and net other postemployment benefit obligations, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds. | | |
| Net Pension Liability | (5,707,602) | |
| Net Other Postemployment Benefits Liability | (1,678,409) | |
| | | (7,386,011) |
| **Net Position of Governmental Activities in the Statement of Net Position** | | $ 2,122,500 |

See accompanying notes.

## CITY OF TAYLOR MILL, KENTUCKY
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
## GOVERNMENTAL FUNDS
## YEAR ENDED JUNE 30, 2019

| | General Fund | Municipal Road Aid Fund | Capital Improvement Fund | Total Governmental Fund |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ 3,155,940 | $ - | $ - | $ 3,155,940 |
| Licenses and Permits | 1,385,957 | - | - | 1,385,957 |
| Intergovernmental | 179,106 | 130,747 | - | 309,853 |
| Charges for Services | 557,971 | - | 49,748 | 607,719 |
| Fines and Forfeitures | 21,018 | - | - | 21,018 |
| Interest | 66,738 | 4,075 | - | 70,813 |
| Miscellaneous | 124,058 | - | 210 | 124,268 |
| Total Revenues | 5,490,788 | 134,822 | 49,958 | 5,675,568 |
| **Expenditures** | | | | |
| Current | | | | |
| General Government | 1,030,548 | - | 1,356 | 1,031,904 |
| Police | 1,223,302 | - | 167,749 | 1,391,051 |
| Fire | 1,404,197 | - | - | 1,404,197 |
| Public Works | 389,836 | - | 390,260 | 780,096 |
| Streets | - | 58,229 | - | 58,229 |
| Recreation | 173,818 | - | - | 173,818 |
| Capital Outlay | 210,674 | - | 219,178 | 429,852 |
| Total Expenditures | 4,432,375 | 58,229 | 778,543 | 5,269,147 |
| **Excess (Deficit) of Revenues Over Expenditures** | 1,058,413 | 76,593 | (728,585) | 406,421 |
| **Other Financing (Uses) Sources** | | | | |
| Transfers In | - | 100,000 | 355,073 | 455,073 |
| Transfers Out | (455,073) | - | - | (455,073) |
| Total Other Financing (Uses) Sources | (455,073) | 100,000 | 355,073 | - |
| Net Change in Fund Balances | 603,340 | 176,593 | (373,512) | 406,421 |
| **Fund Balance as of July 1, 2018 (As Restated)** | 1,874,169 | 187,300 | 2,141,300 | 4,202,769 |
| **Fund Balance as of June 30, 2019** | $ 2,477,509 | $ 363,893 | $ 1,767,788 | $ 4,609,190 |

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2019**

| | | | | |
|---|---|---|---|---|
| **Change in Fund Balances - Total Governmental Funds** | | | $ | 406,421 |
| Amounts reported for governmental activities in the statement of activities are different because: | | | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays in the period. | | | | |
| Depreciation Expense | $ | (482,228) | | |
| Capital Outlays | | 360,003 | | |
| | | | | (122,225) |
| The net effect of various transactions involving capital assets is to decrease net position as follows: | | | | |
| Proceeds from Sale of Capital Assets | | (27,052) | | |
| Loss on Disposal of Capital Assets | | (341,478) | | |
| | | | | (368,530) |
| Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources. Therefore, compensated absences are not reported as expenditures in governmental funds financial statements. This is the amount of the change in the compensated absences in the current period. | | | | 16,205 |
| Governmental funds report City other postemployment benefit contributions as expenditures. However, other postemployment benefit expense is reported in the statement of activities. This is the amount by which other postemployment benefit expense exceeded contributions. | | | | |
| City Other Postemployment Benefit Contributions - June 30, 2018 | | (130,868) | | |
| City Other Postemployment Benefit Contributions - June 30, 2019 | | 123,476 | | |
| Change in Other Postemployment Benefit Liability | | (108,797) | | |
| | | | | (116,189) |
| Governmental funds report City pension contributions as expenditures However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. | | | | |
| City Pension Contributions - June 30, 2018 | | (328,302) | | |
| City Pension Contributions - June 30, 2019 | | 310,762 | | |
| Cost of Benefits Earned Net of Employee Contributions | | (417,185) | | |
| | | | | (434,725) |
| Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned. | | | | (7,346) |
| **Change in Net Position - Governmental Activities** | | | $ | (626,389) |

See accompanying notes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### The Reporting Entity

Kentucky Revised Statutes and Ordinances of the City Commission of the City of Taylor Mill, Kentucky (the City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund, Municipal Road Aid, and Capital Improvement Funds.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Taylor Mill, Kentucky.

The City of Taylor Mill, Kentucky is a Charter City, in which citizens elect the mayor at large and four commissioners whom together form the City Commission. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

### Basis of Presentation and Measurement Focus

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

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

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

Fund Financial Statements - Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total position.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation and Measurement Focus (Continued)

The City has the following funds:

Governmental Fund Types

(A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.

(B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Municipal Road Aid Fund is a major special revenue fund of the City.

(C) The Capital Project Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for capital projects. The Capital Improvement Fund is a major capital project fund of the City.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year end.

Non-exchange 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 timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

### Accounts Receivable

Accounts receivable are presented, when considered necessary, net of an allowance for doubtful accounts. There was no allowance as of June 30, 2019.

### Capital Assets

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of $5,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

| Description | Governmental Activities Estimated Lives |
|---|---|
| Buildings | 40 Years |
| Building Improvements | 10 – 20 Years |
| Public Domain Infrastructure | 25 – 40 Years |
| Equipment | 3 – 5 Years |
| Vehicles | 5 – 10 Years |

### Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period, and therefore deferred until that time. The City recognized deferred outflows of resources related to pensions and other postemployment benefits on the government-wide financial statements.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. The City recognizes deferred inflows of resources related to pensions and other postemployment benefits on the government-wide financial statements. In the governmental funds, certain revenue transactions have been reported as unavailable revenue. Revenue cannot be recognized until it has been earned as is available to finance expenditures of the current period. Revenue that is earned but not available is reported as a deferred inflow of resources until such time as the revenue becomes available.

### Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the City does have a policy to pay specified amounts when employees separate from service with the City. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### 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 (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Postemployment Benefits Other Than Pensions (OPEB)

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

### Net Position

The government-wide financial statements utilize a net position presentation. Net Position is displayed as three components:

- Net Investment in Capital Assets – Represents capital assets, net of accumulated depreciation, reduced by the outstanding balances of capital leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position – Consists of net position with constraints places on their use by external groups such as creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – Represents the net position available for future operations.

### Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Non-Spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance or resolution.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental Fund Balances (Continued)**

- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by City Commission.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

**Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, designated fund balances, revenues and expenditures. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results could differ from estimated amounts.

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “receivables/payables”. These amounts are eliminated in the governmental activities column of the statement of net position, except for the net residual amounts due between governmental and business type activities, which are presented as interfund balances.

**Property Taxes**

Property taxes include amounts levied on real property. Property values were assessed on January 1$^{st}$ and property taxes were due on December 31$^{st}$.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

a) In accordance with City ordinance, by May 31, the Mayor submits to the City Commission, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

b) A public meeting is conducted to obtain citizen comment.

c) By July 1, the budget is legally enacted through passage of an ordinance.

d) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Commission explaining any variance from the approved budget.

e) Appropriations continue in effect until a new budget is adopted.

f) The Commission may authorize supplemental appropriations during the year.

## NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Commission.

The General Fund had excess General Government expenditures over budget of $68,548, excess Fire Department expenditures over budget of $27,095, and excess Capital Outlay expenditures over budget of $60,080. These items were over budget due to the City not budgeting for additional payables and accruals that occurred at the end of the fiscal year.

The municipal road aid fund had public works expenditures over budget of $6,385. This was also due to the City not budgeting for additional payables and accruals that occurred at the end of the fiscal year.

## NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal, while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investments of public funds.

The City is authorized to invest in:

a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that, delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.

b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.

c) Obligations of any corporation of the United States government.

d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

### Deposits

*Custodial credit risk – deposits*. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2019, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

## NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

### Investments

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2019.

*Credit risk - investments*. The City's investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

At June 30, 2019, the City's investment balances were as follows:

| Investment Type | Fair Value | Maturity |
|---|---|---|
| Certificate of Deposit | $ 1,266,752 | April 17, 2020 |

## NOTE 4 - SALE OF UTILITY SYSTEM

The City entered into an agreement dated November 10, 2003 for the sale of the utility system to the Northern Kentucky Water District. The system officially transferred on March 31, 2004. Based on the terms of the agreement, the Northern Kentucky Water District will pay the City the sum of $3,000,000 according to an installment plan set out in the agreement. The City received $125,000 at the closing, and the final payment of $50,000 was received in the current fiscal year. There is no receivable outstanding on this sale.

## NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

| | Balance June 30, 2018 | Additions | Deductions | Balance June 30, 2019 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 924,751 | $ - | $ - | $ 924,751 |
| Construction in Progress | 315,650 | - | 195,690 | 119,960 |
| Total Capital Assets Not Being Depreciated | 1,240,401 | - | 195,690 | 1,044,711 |
| Depreciable Capital Assets | | | | |
| Buildings and Improvements | 1,344,899 | 71,240 | 5,753 | 1,410,386 |
| Infrastructure | 8,285,861 | 76,527 | 62,534 | 8,299,854 |
| Equipment | 2,477,726 | 126,371 | 1,207,532 | 1,396,565 |
| Vehicles | 1,926,075 | 85,865 | 212,227 | 1,799,713 |
| Total Depreciable Capital Assets | 14,034,561 | 360,003 | 1,488,046 | 12,906,518 |
| Total Capital Assets at Historical Cost | 15,274,962 | 360,003 | 1,683,736 | 13,951,229 |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | 821,243 | 26,590 | 3,369 | 844,464 |
| Infrastructure | 6,444,343 | 273,448 | 58,822 | 6,658,969 |
| Equipment | 2,177,575 | 84,599 | 1,069,213 | 1,192,961 |
| Vehicles | 1,624,220 | 97,591 | 183,802 | 1,538,009 |
| Total Accumulated Depreciation | 11,067,381 | 482,228 | 1,315,206 | 10,234,403 |
| Depreciable Capital Assets, Net | 2,967,180 | (122,225) | 172,840 | 2,672,115 |
| **Governmental Activities Capital Assets - Net** | $ 4,207,581 | $ (122,225) | $ 368,530 | $ 3,716,826 |

## NOTE 5 - CAPITAL ASSETS AND DEPRECIATION (Continued)

Depreciation was charged to functions as follows for the year ended June 30, 2019:

| | |
|---|---|
| General Government | $ 26,306 |
| Police | 43,071 |
| Fire | 78,716 |
| Public Works | 40,565 |
| Streets | 268,806 |
| Recreation | 24,764 |
| Total | $ 482,228 |

## NOTE 6 - LONG-TERM LIABILITIES

### Compensated Absences

The following is a summary of the City's long-term liability transactions for the year ended June 30, 2019.

| | June 30, 2018 | Additions | Retired | June 30, 2019 | Amounts Expected to be Paid Within One Year |
|---|---|---|---|---|---|
| Compensated Absences | $ 90,054 | $ - | $ (16,205) | $ 73,849 | $ 18,837 |

## NOTE 7 - PENSION PLAN

### General Information about the Pension Plan

*Plan description:* County Employees Retirement System (CERS) consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

*Benefits provided:* These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

**NOTE 7 - PENSION PLAN (Continued)**

Non-hazardous Plan:

**Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 65 | 1 month | None |
| Any | 27 | None |
| 55 | 5 | 6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service. |
| Any | 25 | 6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service. |

**Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but Before 01/01/2014**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 65 | 5 | None |
| 57 | Rule of 87 | None |
| 60 | 10 | 6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service). |

**Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 65 | 5 | None |
| 57 | Rule of 87 | None |

**Benefit Formula for Tiers 1 & 2**

<table>
<tr><th>Final Compensation</th><th>X</th><th colspan="2">Benefit Factor</th><th>X</th><th>Years of Service</th></tr>
<tr><td rowspan="2">Average of the five highest if participation began before 09/01/2008.</td><td rowspan="3"></td><td>2.20% if:</td><td>Member begins participating prior to 08/01/2004.</td><td rowspan="3"></td><td rowspan="3">Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).</td></tr>
<tr><td>2.00% if:</td><td>Member begins participating on or after 08/01/2004 and before 09/01/2008.</td></tr>
<tr><td>Average of the last complete five if participating began on or after 09/01/2008 but before 01/01/2014.</td><td>Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:</td><td>Member begins participating on or after 09/01/2008 but before 01/01/2014.</td></tr>
</table>

* ***Service*** *(and Benefit Factor):* ***10 years or less*** *(1.10%);* ***10 - 20 years*** *(1.30%);*
***20 - 26 years*** *(1.50%)* ***; 26 - 30 years*** *(1.75%)*

**NOTE 7 - PENSION PLAN (Continued)**

**Benefit Formula for Tier 3**

**(A-B) = C X 75% = D then B+D = Interest**

| A | B | C | D | | |
|---|---|---|---|---|---|
| **5 Year Geometric Average Return** | **Less Guarantee Rate** | **Upside Sharing Interest** | **Interest Rate Earned** | **Interest Rate Earned (4% + Upside)** | **Total Interest Credited to Members' Accounts** |
| 7.39% | 4.00% | 3.39% | 2.54% | 6.54% | $ 4,786,000 |

Hazardous Plan:

**Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 55 | 1 month | None |
| Any | 20 | None |
| 50 | 15 | 6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service. |

**Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 60 | 5 | None |
| Any | 25 | None |
| 50 | 15 | 6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service. |

**Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014**

| Age | Years of Service | Allowance Reduction |
|---|---|---|
| 60 | 5 | None |
| Any | 25 | None |

**Benefit Formula for Tiers 1 & 2**

| Final Compensation | X | Benefit Factor | | X | Years of Service |
|---|---|---|---|---|---|
| Average of the five highest if participation began before 09/01/2008. | | 2.50% if: | Member begins participating prior to 09/01/2008. | | Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program). |
| Average of the last complete five if participating began on or after 09/01/2008. | | Increasing percent based on service at retirement* if: | Member begins participating on or after 09/01/2008 but before 01/01/2014. | | |

* ***Service*** *(and Benefit Factor):* ***10 years or less*** *(1.30%);* ***10 - 20 years*** *(1.50%);*
***20 - 25 years*** *(2.25%)* ***; 25 + years*** *(2.50%)*

**NOTE 7 - PENSION PLAN (Continued)**

| Benefit Formula for Tier 3 | | | | | |
|---|---|---|---|---|---|
| (A-B) = C X 75% = D then B+D = Interest | | | | | |
| A | B | C | D | | |
| 5 Year Geometric Average Return | Less Guarantee Rate | Upside Sharing Interest | Interest Rate Earned | Interest Rate Earned (4% + Upside) | Total Interest Credited to Members' Accounts |
| 7.66% | 4.00% | 3.66% | 2.75% | 6.75% | $ 1,284,000 |

Non-hazardous and Hazardous Plans:

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a $5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the higher of 20% for non-hazardous and 25% for hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% for non-hazardous and 25% for hazardous of the member’s monthly final rate of pay or the annuitized account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member’s contributions and any accumulated interest.

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments (COLAs). Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

During the 2018 legislative session, House Bill 185 was enacted, which provided increase pension benefits for the beneficiaries of active members who die in the line of duty.

**NOTE 7 - PENSION PLAN (Continued)**

Contributions: The employee contribution rate is set by state statute. For the year ended June 30, 2019 non-hazardous employees contribute 5.00% while hazardous duty members contributed 8.00% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous or 9.00% for hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous or 8.00% hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2019, participating employers contributed 21.48% (16.22% pension fund and 5.26% insurance fund) for the non-hazardous system of each employee's creditable compensation and 35.34% (24.86% pension fund and 10.48% insurance fund) for the hazardous system. The actuarially determined rates set by the Board for the fiscal years were a percentage of each employee's creditable compensation. Contributions to the pension fund from the City were $310,762 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of $5,707,602 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted accounting principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2019, the City's proportion for the non-hazardous system was 0.021346% and for the hazardous system was 0.182247%, which was an increase of 0.000417% and a decrease of 0.031862% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2018.

**NOTE 7 - PENSION PLAN (Continued)**

For the year ended June 30, 2019, the City recognized pension expense of $745,487. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Expected and Actual Experience | $ 393,171 | $ 19,030 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | - | 65,303 |
| Changes of Assumptions | 596,222 | - |
| Changes In Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions | 41,471 | 558,993 |
| Contributions After Measurement Date | 310,762 | - |
| Total | $ 1,341,626 | $ 643,326 |

The $310,762 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ending June 30, | |
|---|---|
| 2020 | $ 401,406 |
| 2021 | 110,708 |
| 2022 | (97,694) |
| 2023 | (26,882) |
| Total | $ 387,538 |

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

| | |
|---|---|
| Valuation Date | June 30, 2017 |
| Experience Study | July 1, 2008 – June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll |
| Remaining Amortization Period | 25 years |
| 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% |
| Salary Increase | 3.05%, Average, including inflation |
| Investment Rate of Return | 6.25% Net of pension plan investment expense, including inflation |

**NOTE 7 - PENSION PLAN (Continued)**

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (make mortality rates are set back four years). 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 long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| US Equity: | | |
| US Large Cap | 5.00 % | 4.50 % |
| US Mid Cap | 6.00 | 4.50 |
| US Small Cap | 6.50 | 5.50 |
| Non-US Equity: | | |
| International Developed | 12.50 | 6.50 |
| Emerging Markets | 5.00 | 7.25 |
| Global Bonds | 4.00 | 3.00 |
| Credit Fixed: | | |
| Global IG Credit | 2.00 | 3.75 |
| High Yield | 7.00 | 5.50 |
| EMD | 5.00 | 6.00 |
| Illiquid Private | 10.00 | 8.50 |
| Private Equity | 10.00 | 6.50 |
| Real Estate | 5.00 | 9.00 |
| Absolute Return | 10.00 | 5.00 |
| Real Return | 10.00 | 7.00 |
| Cash | 2.00 | 1.50 |
| Total | 100.00 % | |

*Discount rate:* The discount rate used to measure the total pension liability was 6.25%. The single discount rate was based on the expected rate of return on pension plan investments for the system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the system. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the system contributes the actuarially determined contribution rate in all future years.

**NOTE 7 - PENSION PLAN (Continued)**

*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 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:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Non-Hazardous | $ 1,636,611 | $ 1,300,037 | $ 1,018,046 |
| Hazardous | $ 5,522,391 | $ 4,407,565 | $ 3,485,953 |

*Changes of assumptions:* There have been no changes in actuarial assumptions since June 30, 2017.

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

**Deferred Compensation Plan**

The City also participates in a 401(k) plan administered by the Kentucky Employees Deferred Compensation Authority. All payments to the Authority are payroll withheld. The City does not contribute to the plan for any employee.

**NOTE 8 - OPEB PLAN**

**General Information About the OPEB Plan**

*Plan description:* County Employees Retirement System consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

*Benefits provided:* The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous 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 at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives $10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

**NOTE 8 - OPEB PLAN (Continued)**

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

| Portion Paid by Insurance Fund | |
|---|---|
| Years of Service | Paid by Insurance Fund (%) |
| 20 + Years | 100.00% |
| 15 - 19 Years | 75.00% |
| 10 - 14 Years | 50.00% |
| 4 - 9 Years | 25.00% |
| Less Than 4 Years | 0.00% |

During the 2018 legislative session, House Bill 185 was enacted, which provided increased pension benefits for the beneficiaries of active members who die in the line of duty.

*Contributions:* The employee contribution rate is set by state statute. For the year ended June 30, 2019, non-hazardous employees contribute 5.00% while hazardous duty members contribute 8.00% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous or 9.00% for hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous or 8.00% hazardous (of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2019, participating employers contributed 21.48% (16.22% pension fund and 5.26% insurance fund) for the non-hazardous system and 35.34% (24.86% pension fund and 10.48% insurance fund) for the hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the insurance fund from the City were $123,476 for the year ended June 30, 2019.

**NOTE 8 - OPEB PLAN (Continued)**

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

At June 30, 2019, the City reported a liability of $1,678,409 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2019, the City's proportion for the non-hazardous system was 0.021345% and for the hazardous system was 0.182259% which was an increase of 0.000417% and a decrease of 0.031849% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2018.

For the year ended June 30, 2019, the City recognized OPEB expense of $239,664. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Expected and Actual Experience | $ - | $ 189,380 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | - | 149,638 |
| Changes of Assumptions | 474,446 | 4,431 |
| Changes In Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions | 4,398 | 149,641 |
| Contributions After Measurement Date | 123,476 | - |
| Total | $ 602,320 | $ 493,090 |

$123,476 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Years Ending June 30, | |
|---|---|
| 2020 | $ 38,047 |
| 2021 | 38,047 |
| 2022 | (33,667) |
| 2023 | (51,775) |
| 2024 | (2,650) |
| Thereafter | (2,248) |
| Total | $ (14,246) |

**NOTE 8 - OPEB PLAN (Continued)**

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

| | |
|---|---|
| Valuation Date | June 30, 2017 |
| Experience Study | July 1, 2008 – June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Pay |
| Amortization Period | 27 Years, Closed |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Payroll Growth Rate | 4.00% |
| Inflation | 3.25% |
| Salary Increases | 4.00%, Average |
| Investment Rate of Return | 7.50% |
| Healthcare Cost Trend Rates (Pre-65) | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Healthcare Cost Trend Rates (Post-65) | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (make mortality rates are set back four years). 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 long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**NOTE 8 - OPEB PLAN (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| US Equity: | | |
| US Large Cap | 5.00 % | 4.50 % |
| US Mid Cap | 6.00 | 4.50 |
| US Small Cap | 6.50 | 5.50 |
| Non-US Equity: | | |
| International Developed | 12.50 | 6.50 |
| Emerging Markets | 5.00 | 7.25 |
| Global Bonds | 4.00 | 3.00 |
| Credit Fixed: | | |
| Global IG Credit | 2.00 | 3.75 |
| High Yield | 7.00 | 5.50 |
| EMD | 5.00 | 6.00 |
| Illiquid Private | 10.00 | 8.50 |
| Private Equity | 10.00 | 6.50 |
| Real Estate | 5.00 | 9.00 |
| Absolute Return | 10.00 | 5.00 |
| Real Return | 10.00 | 7.00 |
| Cash | 2.00 | 1.50 |
| Total | 100.00 % | |

*Discount rate:* The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous and 5.99% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate:* The following present's the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85% for non-hazardous and 4.97% for hazardous) or 1-percentage-point higher (6.85% for non-hazardous and 6.97% for hazardous) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Non-Hazardous | $ 492,229 | $ 378,976 | $ 282,505 |
| Hazardous | $ 1,806,275 | $ 1,299,433 | $ 893,692 |

## NOTE 8 - OPEB PLAN (Continued)

*Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates:* The following present's the City's proportionate share of the net OPEB liability, 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 healthcare cost trend rates:

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|---|---|---|---|
| Non-Hazardous | $ 282,152 | $ 378,976 | $ 493,105 |
| Hazardous | $ 884,976 | $ 1,299,433 | $ 1,812,754 |

*Changes of assumptions:* There have been changes in actuarial assumptions since June 30, 2017.

*Other postemployment benefits plan fiduciary net position:* Detailed information about the other postemployment benefits plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

## NOTE 9 - OPERATING LEASES

The City leases a copier under an operating lease that expires in June, 2024. Expenditures for equipment under operating leases totaled $824 for the year ended June 30, 2019. Future minimum rental payments under these leases are as follows:

| Years Ending June 30, | |
|---|---|
| 2020 | $ 3,294 |
| 2021 | 3,294 |
| 2022 | 3,294 |
| 2023 | 3,294 |
| 2024 | 3,294 |
| Total | $ 16,470 |

## NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2019 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

## NOTE 11 - CLAIMS AND JUDGEMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

## NOTE 12 - TRANSFER OF FUNDS

The following transfers were made during the year.

| From Fund | To Fund | Purpose | Amount |
|---|---|---|---|
| General | Municipal Road Aid | To fund road projects | $ 100,000 |
| General | Capital Improvement | Budgeted transfer | $ 355,073 |

## NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

For the year ended June 30, 2018, the City recorded $125,495 of occupational and net profit tax revenue that was earned, but not yet available as defined in the City's accounting policies. The revenue was improperly recognized and therefore the General Fund balance was overstated by $125,495.

The item above had the following effect:

| | |
|---|---|
| General Fund Balance, June 30, 2018 | $ 1,999,664 |
| Correction of Occupation and Net Profit Tax Revenue | (125,495) |
| Restated General Fund Balance, June 30, 2018 | $ 1,874,169 |

## NOTE 14 - CHANGE IN ACCOUNTING POLICY AND ESTIMATE

For the year ended June 30, 2019, the City increased their capitalization policy for capital assets from $500 to $5,000. As a result, all assets previously capitalized that were under $5,000 were disposed of. This resulted in $1,488,046 in assets being disposed of and a loss of $145,788 on those assets.

## NOTE 15 - SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 11, 2019, which is the date the basic financial statements were available to be issued.

In November, 2019, the City passed an ordinance establishing for bid, a nonexclusive telecommunications franchise for the placement of wired telecommunications facilities that will provide for the transmission, distribution and sale of telecommunications services within the public right-of-way of the City. The franchise will have a twenty year duration with a fee of 3.00% of the franchisee's gross receipts per year. The City reserves the right to increase the stated franchise fee up to 5.00% of the franchisee's gross receipts.

# REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TAYLOR MILL, KENTUCKY**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**BUDGET AND ACTUAL (WITH VARIANCES)**
**GENERAL FUND**
**YEAR ENDED JUNE 30, 2019**

| | Budgeted Amounts | | | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| **Revenues** | $ 4,854,765 | $ 5,357,757 | $ 5,490,788 | $ 133,031 |
| **Expenditures** | | | | |
| General Government | 1,103,840 | 962,000 | 1,030,548 | (68,548) |
| Police | 1,333,140 | 1,284,700 | 1,223,302 | 61,398 |
| Fire | 1,391,115 | 1,377,102 | 1,404,197 | (27,095) |
| Public Works | 846,548 | 389,166 | 389,836 | (670) |
| Recreation | 25,750 | 211,349 | 173,912 | 37,437 |
| Capital Outlay | 150,500 | 150,500 | 210,580 | (60,080) |
| Total Expenditures | 4,850,893 | 4,374,817 | 4,432,375 | (57,558) |
| **Excess of Revenues Over Expenditures** | 3,872 | 982,940 | 1,058,413 | 75,473 |
| **Other Financing Uses** | | | | |
| Operating Transfers Out | (455,073) | (455,073) | (455,073) | - |
| Net Change in Fund Balances | (451,201) | 527,867 | 603,340 | 75,473 |
| **Fund Balance July 1, 2018 (As Restated)** | 1,874,169 | 1,874,169 | 1,874,169 | - |
| **Fund Balance June 30, 2019** | $ 1,422,968 | $ 2,402,036 | $ 2,477,509 | $ 75,473 |

**CITY OF TAYLOR MILL, KENTUCKY**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**BUDGET AND ACTUAL (WITH VARIANCES)**
**MUNICIPAL AID FUND**
**YEAR ENDED JUNE 30, 2019**

| | Budgeted Amounts | | | Variance with Final Budget (Unfavorable) |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Favorable** |
| **Revenues** | $ 126,500 | $ 154,782 | $ 134,822 | $ (19,960) |
| **Expenditures** | | | | |
| Streets | 74,000 | 51,844 | 58,229 | (6,385) |
| Capital Outlay | 200,000 | - | - | - |
| Total Expenditures | 274,000 | 51,844 | 58,229 | (6,385) |
| **Excess of Revenues Over Expenditures** | (147,500) | 102,938 | 76,593 | (26,345) |
| **Other Financing Sources** | | | | |
| Operating Transfers In | 100,000 | 100,000 | 100,000 | - |
| Net Change in Fund Balances | (47,500) | 202,938 | 176,593 | (26,345) |
| **Fund Balance July 1, 2018** | 187,300 | 187,300 | 187,300 | - |
| **Fund Balance June 30, 2019** | $ 139,800 | $ 390,238 | $ 363,893 | $ (26,345) |

**CITY OF TAYLOR MILL, KENTUCKY**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**BUDGET AND ACTUAL (WITH VARIANCES)**
**CAPITAL IMPROVEMENT FUND**
**YEAR ENDED JUNE 30, 2019**

| | Budgeted Amounts | | | Variance with Final Budget (Unfavorable) |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Favorable** |
| **Revenues** | $ 106,313 | $ 99,958 | $ 49,958 | $ (50,000) |
| **Expenditures** | 1,558,000 | 962,460 | 778,543 | 183,917 |
| **Deficit of Revenues Over Expenditures** | (1,451,687) | (862,502) | (728,585) | 133,917 |
| **Other Financing Sources** | | | | |
| Transfers In | 355,073 | 355,073 | 355,073 | - |
| Net Change in Fund Balance | (1,096,614) | (507,429) | (373,512) | 133,917 |
| **Fund Balance July 1, 2018** | 2,141,300 | 2,141,300 | 2,141,300 | - |
| **Fund Balance June 30, 2019** | $ 1,044,686 | $ 1,633,871 | $ 1,767,788 | $ 133,917 |

**CITY OF TAYLOR MILL, KENTUCKY**
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**JUNE 30, 2019**

**County Employees Retirement System**
**Last 10 Fiscal Years***

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| City's Proportion of the Net Pension Liability (Asset) - Non-hazardous | | | | | |
| Non-hazardous | 0.021346% | 0.020929% | 0.020230% | 0.020110% | 0.019727% |
| Hazardous | 0.182247% | 0.214109% | 0.241189% | 0.251290% | 0.245706% |
| City's Proportionate Share of the Net Pension Liability (Asset) | | | | | |
| Non-hazardous | $ 1,300,037 | $ 1,225,039 | $ 995,726 | $ 864,635 | $ 640,018 |
| Hazardous | 4,407,565 | 4,790,214 | 4,138,657 | 3,857,568 | 2,952,956 |
| Total City's Proportionate Share of the Net Pension Liability (Asset) | $ 5,707,602 | $ 6,015,253 | $ 5,134,383 | $ 4,722,203 | $ 3,592,974 |
| City's Covered - Employee Payroll | $ 1,662,183 | $ 1,688,874 | $ 1,746,950 | $ 1,754,629 | $ 1,698,952 |
| City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll | 343.38% | 356.17% | 293.91% | 269.13% | 211.48% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-hazardous | 53.54% | 53.32% | 55.50% | 59.97% | 66.80% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous | 49.26% | 49.78% | 53.95% | 57.52% | 63.46% |

**Only five years of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY**
**SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS**
**JUNE 30, 2019**

**County Employees Retirement System**
**Last 10 Fiscal Years***

| Non-hazardous | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Contractually Required Contribution | $ 77,414 | 76,645 | $ 71,084 | $ 59,918 | $ 60,048 | $ 62,302 |
| Contributions in Relation to the Contractually Required Contribution | (77,414) | (76,645) | (71,084) | (59,918) | (60,048) | (62,302) |
| Contribution Deficiency (Excess) | $ - | - | $ - | $ - | $ - | $ - |
| City's Covered-Employee Payroll | $ 477,685 | 529,054 | $ 509,565 | $ 482,433 | $ 469,244 | 453,673 |
| Contributions as a Percentage of Covered-Employee Payroll | 16.21% | 14.49% | 13.95% | 12.42% | 12.80% | 13.73% |

| Hazardous | 2019 | 2019 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Contractually Required Contribution | $ 233,348 | 251,657 | $ 256,028 | $ 256,191 | $ 271,572 | $ 270,957 |
| Contributions in Relation to the Contractually Required Contribution | (233,348) | (251,657) | (256,028) | (256,191) | (271,572) | (270,957) |
| Contribution Deficiency (Excess) | $ - | - | $ - | $ - | $ - | $ - |
| City's Covered-Employee Payroll | $ 938,650 | 1,133,129 | $ 1,179,309 | $ 1,264,517 | $ 1,285,385 | $ 1,245,279 |
| Contributions as a Percentage of Covered-Employee Payroll | 24.86% | 22.21% | 21.71% | 20.26% | 21.13% | 21.76% |

**Only six years of information available.  Additional years' information will be displayed as it becomes available.*

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY**
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**
**JUNE 30, 2019**

**County Employees Retirement System**
**Last 10 Fiscal Years***

| | 2019 | 2018 |
|---|---|---|
| City's Proportion of the Net Pension Liability (Asset) | | |
| Non-hazardous | 0.021345% | 0.020929% |
| Hazardous | 0.182259% | 0.214109% |
| City's Proportionate Share of the Net Pension Liability (Asset) | | |
| Non-hazardous | $ 378,976 | $ 420,744 |
| Hazardous | 1,299,433 | 1,769,979 |
| Total City's Proportionate Share of the Net Pension Liability (Asset) | $ 1,678,409 | $ 2,190,723 |
| City's Covered - Employee Payroll | $ 1,662,183 | $ 1,688,874 |
| City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll | 100.98% | 129.72% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-hazardous | 57.62% | 52.39% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous | 64.24% | 58.99% |

**Only two years of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY**
**SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS**
**JUNE 30, 2019**

**County Employees Retirement System**
**Last 10 Fiscal Years***

| Non-hazardous | 2019 | 2018 |
|---|---|---|
| Contractually Required Contribution | $ 25,105 | $ 24,878 |
| Contributions in Relation to the Contractually Required Contribution | (25,105) | (24,878) |
| Contribution Deficiency (Excess) | $ - | $ - |
| City's Covered-Employee Payroll | $ 477,685 | $ 529,054 |
| Contributions as a Percentage of Covered-Employee Payroll | 5.26% | 4.70% |

| Hazardous | 2019 | 2018 |
|---|---|---|
| Contractually Required Contribution | $ 98,371 | $ 105,990 |
| Contributions in Relation to the Contractually Required Contribution | (98,371) | (105,990) |
| Contribution Deficiency (Excess) | $ - | $ - |
| City's Covered-Employee Payroll | $ 938,650 | $ 1,133,129 |
| Contributions as a Percentage of Covered-Employee Payroll | 10.48% | 9.35% |

**Only two years of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

# REQUIRED REGULATORY INFORMATION

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

Honorable Mayor and
Members of City Commission
City of Taylor Mill, Kentucky
Taylor Mill, 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 and each major fund of the City of Taylor Mill, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Taylor Mill, Kentucky's basic financial statements, and have issued our report thereon dated December 11, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Taylor Mill, 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 Taylor Mill, 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.



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**Compliance and Other Matters**

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

We did note certain matters that we reported to management of the City of Taylor Mill, Kentucky, in a separate letter dated December 11, 2019.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance on 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.

VonLehman & Company Inc.

Fort Wright, Kentucky
December 11, 2019