

CITY OF ALEXANDRIA, KENTUCKY

June 30, 2018

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



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**CITY OF ALEXANDRIA, KENTUCKY
CITY OFFICIALS**

MAYOR

William T. Rachford, Jr.

COUNCIL MEMBERS

Stacey Graus

Scott Fleckinger

Susan Vanlandingham

Andrew Schabell

Robert Simon

Sue Neltner

DEPARTMENT HEADS

City Clerk/Treasurer

Karen Barto

City Attorney

Michael A. Duncan

Zoning Administrator

Carol Hofstetter

Public Works Superintendent

Sam Trapp

Chief of Police

J. Michael Ward II

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of City Council
City of Alexandria, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

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

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

Opinions

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

Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2017 has been restated for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that 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 - 9, budgetary comparison information on pages 41 - 44, the City's pension schedules on pages 45 - 46, and the OPEB schedules on pages 47 - 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 18, 2018, on our consideration of the City of Alexandria, Kentucky 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alexandria, Kentucky's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 18, 2018

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED**

Our discussion and analysis of the City of Alexandria, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the City's basic financial statements that begin on page 10.

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 10 - 11) 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 12. 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 2018 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2,655,308 (net position).
- The City's total net position decreased by \$103,754.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$2,827,418, an increase of \$707,112. \$2,396,082 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,396,082 or 55% of the total general fund expenditures.
- The City's total debt decreased by \$25,953 (3%), including compensated absences but excluding net pension liability and net other postemployment benefit liability, during the current year.
- The City's cash and cash equivalents increased by \$767,097, from \$1,496,123 at June 30, 2017 to \$2,263,220 at June 30, 2018.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

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 10 - 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City 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, Charlie Battery Fund, and Sewer Fund.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Fund Financial Statements (Continued)

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 12 and 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 16 - 40 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 2018 compared to 2017:

**Table 1
Net Position**

	Governmental Activities	
	2018	2017 (As Restated)
Assets		
Current and Other Assets	\$ 3,160,825	\$ 2,307,141
Noncurrent Assets, Net	5,416,948	5,545,533
Total Assets	<u>8,577,773</u>	<u>7,852,674</u>
Deferred Outflows of Resources	<u>2,676,767</u>	<u>1,142,581</u>
Liabilities		
Current and Other Liabilities	401,916	195,150
Noncurrent Liabilities	7,615,818	5,833,735
Total Liabilities	<u>8,017,734</u>	<u>6,028,885</u>
Deferred Inflows of Resources	<u>581,498</u>	<u>207,308</u>
Net Position		
Invested in Capital Assets Net of Related Debt	4,779,583	4,805,702
Restricted for		
Municipal Road Aid	156,072	198,596
Charlie Battery	4,069	4,059
Sewer Fund	418,397	448,635
Unrestricted	<u>(2,702,813)</u>	<u>(2,697,930)</u>
Total Net Position	<u>\$ 2,655,308</u>	<u>\$ 2,759,062</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Government-Wide Financial Analysis (Continued)

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 of resources exceeded liabilities and deferred inflows of resources by approximately \$2.7 million as of June 30, 2018.

The largest portion of the City's net position (approximately \$4.8 million) reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles, equipment, and furniture and fixtures); less any related debt used to acquire those assets that are still outstanding. These assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Total assets and deferred outflows of resources increased by approximately \$2.3 million. Equity in cash and cash equivalents, prepaid expenses, and receivables increased by approximately \$854,000. Capital assets and noncurrent receivables decreased by approximately \$129,000. Deferred outflows of resources increased by approximately \$1.5 million. This activity is partially offset by an increase in accounts payable and other current liabilities of approximately \$207,000, and an increase in long-term liabilities of approximately \$1.8 million. Additionally, deferred inflows of resources increased by approximately \$374,000. This resulted in a decrease in net position of approximately \$104,000.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Government-Wide Financial Analysis (Continued)

Table 2 reflects the change in net position for fiscal years 2018 and 2017 (2017 does not include the effect of the prior period adjustment).

**Table 2
Change in Net Position**

	Governmental Activities	
	Years Ended June 30,	
	2018	2017
Revenues		
General Revenues		
Taxes	\$ 4,333,729	\$ 3,787,962
Licenses and Permits	30,691	33,170
Fines and Forfeitures	12,379	21,020
Earnings on Investments	4,306	4,297
Gain (Loss) on Sale of Capital Assets	4,940	(110)
Miscellaneous	36,639	32,109
Total General Revenues	<u>4,422,684</u>	<u>3,878,448</u>
Program Revenues		
Charges for Service	606,978	607,596
Operating Grants and Contributions	76,457	92,006
Capital Grants and Contributions	35,000	-
Total Program Revenues	<u>718,435</u>	<u>699,602</u>
Total Revenues	<u>5,141,119</u>	<u>4,578,050</u>
Program Expenses		
General Government	831,497	846,127
Police	1,706,819	1,711,153
Public Works	709,880	575,144
Waste Collection	541,937	540,425
Planning and Inspection	67,216	72,934
Park and Recreation	8,677	9,295
Miscellaneous	690	1,064
Interest on Long-Term Debt	6,203	6,629
Pension Expense	860,889	255,652
Other Postemployment Benefit Expense	269,493	-
Depreciation	241,572	243,774
Total Program Expenses	<u>5,244,873</u>	<u>4,262,197</u>
(Decrease) Increase in Net Position	<u>\$ (103,754)</u>	<u>\$ 315,853</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities decreased the City's net position by \$103,754. Key elements of this decrease are as follows:

- Effective January 1, 2017, the City enacted a gross receipts tax which resulted in an increase of tax revenue of approximately \$365,000.
- The City recognized pension expense of \$860,889 and other postemployment benefit expense of \$269,493.

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 \$2,827,418, an increase of \$707,112, in comparison to the prior year. This total consists of: General Fund, \$2,518,679; Municipal Road Aid Fund, \$156,072; Charlie Battery Fund, \$4,069; and Sewer Fund, \$148,598.

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, \$2,396,082. The total fund balance increased by \$747,480. A large portion of this increase, approximately \$365,000, is the result of enacting a gross receipts tax effective January 1, 2017.

The Municipal Road Aid Fund fund balance decreased by \$42,524. This decrease was the result of an increase in road projects during the year.

The Charlie Battery Fund fund balance increased \$10 from donations.

The Sewer Fund fund balance increased \$2,146 as a result of interest earned on assessments due.

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 beginning fund balance for the fiscal year was approximately \$1.8 million.

For the general fund, budgeted revenues were budgeted at \$4.5 million. Actual revenues were approximately \$5.1 million. Actual revenues exceeded budgeted revenues largely due to the implementation of the gross receipts tax as well as growth in property values.

Expenditures were budgeted at approximately \$4.9 million, while actual expenditures were approximately \$4.4 million. Actual expenditures were less than budgeted largely due to overbudgeting for health insurance and public works infrastructure.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the City had approximately \$5.2 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2018 balances compared to fiscal year 2017.

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

	Governmental Activities	
	2018	2017
Land	\$ 1,239,000	\$ 1,239,000
Construction in Progress	55,637	55,637
Buildings	379,741	395,554
Improvements	205,521	223,727
Infrastructure	2,953,928	3,007,103
Vehicles	283,275	270,478
Equipment	64,230	85,908
Furniture and Fixtures	2,767	518
	\$ 5,184,099	\$ 5,277,925

The current year capital asset activity included the following activity:

	2018
Addition of Infrastructure	\$ 43,616
Addition of Vehicles	86,885
Addition of Equipment	14,595
Addition of Furniture and Fixtures	2,650
Disposal of Vehicles	(65,987)
Accumulated Depreciation on Disposal of Vehicles	65,987
Depreciation	(241,572)
Change	\$ (93,826)

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Debt

At June 30, 2018, the City had approximately \$405,000 in outstanding notes payable.

The following is a summary of the City's debt transactions during 2018.

	June 30, 2017	Additions	Repayments	June 30, 2018
Notes Payable Obligations	\$ 472,223	-	\$ 67,707	\$ 404,516

Economic Factors in Next Year's Budget

The City remains in a solid financial position and is experiencing a positive turn in the economic conditions for Alexandria.

Due to the economic improvements over the last couple of years, the City has seen a decline in the number of foreclosures and bankruptcies. Current tax delinquencies are less than .003% and the City's total revenue has improved slightly due to current growth.

For the 2018 fiscal year, property tax rate remains at .174% per \$100 of valuation. With some change in assessment values, and the growth in new development, the City anticipates a slight increase in tax revenue. The City will continue to monitor the budget and follow safe planning and management for the 2018-19 fiscal year. The City works hard to keep property tax rates as low as possible, but as the City grows, so do operating expenses. In order to increase revenue for operating expenses, the City enacted a \$.075% Gross Receipts Tax on businesses operating in the city limits. By doing this, the City has been able to keep the burden off homeowners by not increasing property taxes.

As the City manages the budget for the upcoming year, there is the realization that some items will increase in cost. The City has only two options: either increase revenues, or reduce expenditures in some areas to the degree sufficient to cover necessary expenditures. Due to efforts to contain expenses over the past several years, it appears highly unlikely the City will be able to continue to find areas to offset all expenditure increases. The City revisited revenue options, and as stated above, adopted a gross receipts tax on businesses which became effective January 1, 2017. As the City grows in population, expenses need to be controlled in order to be responsible to citizens' needs and wants.

As in previous years, the regular maintenance, upkeep and reconstruction of various city streets and sidewalks will continue to be a major focus of our budget. In fiscal year 2017-18 the City spent approximately \$400,000 on the city street and sidewalk programs, and in excess of \$100,000 at the Alexandria Community Park maintaining its beauty and functionality.

The City continues to be poised for growth as the economy improves and population continues to increase. The Arcadia Development currently has approximately 308 living units, which is about 28% of the development completion, and will be opening a second entrance on Tollgate Road. Additionally, the Eagle Ridge development on Poplar Ridge is nearly completed, and the Baptist Life Community (The Seasons @ Alexandria) is open and currently operating at capacity.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

The City is the first to create the full-time position of Police Social Worker in the Police Department to increase services for citizens. This year the Police Department, along with all other police, fire, public works, etc. in Northern Kentucky, will utilize a new radio communications system partially funded through the County, which will link all first responders for the first time.

The City will continue to see growth and is committed to managing that growth to best suit the Community, and as the City's logo states, "Where the City meets the Country".

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 Treasurer, effective September 29, 2018 following the retirement of Karen Barto, JoAnn Hackworth will be taking the role as City Treasurer, at the City of Alexandria, 8236 West Main Street, Alexandria, Kentucky, 41001.

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

	<u>Governmental Activities</u>
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	\$ 2,263,220
Accounts Receivable	
Property Taxes	29,359
Insurance Taxes	352,343
Payroll and Occupational Taxes	394,029
Other Receivables - Current Portion	95,342
Prepaid Expenses	<u>26,532</u>
Total Current Assets	<u>3,160,825</u>
Noncurrent Assets	
Other Receivables	<u>232,849</u>
Capital Assets	
Land	1,239,000
Construction in Progress	55,637
Depreciable Capital Assets	6,694,275
Less Accumulated Depreciation	<u>(2,804,813)</u>
Total Capital Assets	<u>5,184,099</u>
Total Noncurrent Assets	<u>5,416,948</u>
Total Assets	<u>8,577,773</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	1,957,733
Deferred Outflows Related to Other Postemployment Benefits	<u>719,034</u>
Total Deferred Outflows of Resources	<u>2,676,767</u>
Total Assets and Deferred Outflows of Resources	<u>11,254,540</u>
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts Payable and Accrued Expenses	203,781
Accrued Payroll and Withholdings	63,317
Compensated Absences	65,876
Notes Payable	<u>68,942</u>
Total Current Liabilities	<u>401,916</u>
Noncurrent Liabilities (Less Current Portion)	
Compensated Absences	398,522
Notes Payable	335,574
Net Pension Liability	5,051,630
Net Other Postemployment Benefit Liability	<u>1,830,092</u>
Total Noncurrent Liabilities	<u>7,615,818</u>
Total Liabilities	<u>8,017,734</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	468,258
Deferred Inflows Related to Other Postemployment Benefits	<u>113,240</u>
Total Deferred Inflows of Resources	<u>581,498</u>
Total Liabilities and Deferred Inflows of Resources	<u>8,599,232</u>
Net Position	
Net Investment in Capital Assets	4,779,583
Restricted for	
Municipal Road Aid	156,072
Charlie Battery	4,069
Sewer Fund	418,397
Unrestricted	<u>(2,702,813)</u>
Total Net Position	<u>\$ 2,655,308</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Total Governmental Activities
Primary Government					
Governmental Activities					
General Government	\$ 831,497	\$ 13,233	\$ -	\$ -	\$ (818,264)
Police	1,706,819	2,001	76,457	-	(1,628,361)
Public Works	709,880	-	-	-	(709,880)
Waste Collection	541,937	563,122	-	-	21,185
Planning and Inspection	67,216	26,598	-	-	(40,618)
Park and Recreation	8,677	2,024	-	35,000	28,347
Miscellaneous	690	-	-	-	(690)
Interest on Long-Term Debt	6,203	-	-	-	(6,203)
Pension Expense	860,889	-	-	-	(860,889)
Other Postemployment Benefit Expense	269,493	-	-	-	(269,493)
Depreciation	241,572	-	-	-	(241,572)
Total Primary Government	\$ 5,244,873	\$ 606,978	\$ 76,457	\$ 35,000	(4,526,438)
General Revenues					
Taxes					4,333,729
Licenses and Permits					30,691
Fines and Forfeitures					12,379
Earnings on Investments					4,306
Gain on Sale of Capital Assets					4,940
Miscellaneous					36,639
Total General Revenues					<u>4,422,684</u>
Change in Net Position					(103,754)
Net Position July 1, 2017 (As Restated)					<u>2,759,062</u>
Net Position June 30, 2018					\$ <u>2,655,308</u>

See accompanying notes.

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

	General Fund	Municipal Road Aid Fund	Charlie Battery Fund	Sewer Fund	Total Govern- mental Funds
Assets					
Cash and Cash Equivalents	\$ 1,974,471	\$ 136,082	\$ 4,069	\$ 148,598	\$ 2,263,220
Accounts Receivable					
Property Taxes	29,359	-	-	-	29,359
Insurance Taxes	352,343	-	-	-	352,343
Payroll and Occupational Taxes	394,029	-	-	-	394,029
Other Receivables	38,402	19,990	-	269,799	328,191
Prepaid Expenses	26,532	-	-	-	26,532
	\$ 2,815,136	\$ 156,072	\$ 4,069	\$ 418,397	\$ 3,393,674
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 203,781	\$ -	\$ -	\$ -	\$ 203,781
Deferred Revenues	29,359	-	-	269,799	299,158
Other Accrued Expenses	63,317	-	-	-	63,317
	296,457	-	-	269,799	566,256
Fund Balances					
Non-Spendable					
Prepaid Expenses	26,532	-	-	-	26,532
Restricted for					
Municipal Road Aid					
Fund Balance	-	156,072	-	-	156,072
Sewer Fund Balance	-	-	-	148,598	148,598
Police Forfeiture Cash	1,781	-	-	-	1,781
Committed for					
Charley Battery Fund Balance	-	-	4,069	-	4,069
Planning and Zoning Cash	15,542	-	-	-	15,542
Assigned					
Insurance Fund Cash	78,742	-	-	-	78,742
Unassigned	2,396,082	-	-	-	2,396,082
	2,518,679	156,072	4,069	148,598	2,827,418
Total Liabilities and Fund Balances	\$ 2,815,136	\$ 156,072	\$ 4,069	\$ 418,397	\$ 3,393,674

See accompanying notes.

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

Total Fund Balance - Governmental Funds		\$	2,827,418
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>			
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.</p>			
Cost of Capital Assets	\$	7,988,912	
Accumulated Depreciation		<u>(2,804,813)</u>	5,184,099
<p>Other assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.</p>			
			299,158
<p>Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.</p>			
			(464,398)
<p>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.</p>			
Deferred Outflows of Resources Related to Pension		1,957,733	
Deferred Outflows of Resources Related to Other Postemployment Benefits		719,034	
Deferred Inflows of Resources Related to Pension		(468,258)	
Deferred Inflows of Resources Related to Other Postemployment Benefits		<u>(113,240)</u>	2,095,269
<p>Long-term liabilities, including net pension obligations, net other postemployment benefit obligations, and notes payable, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds.</p>			
Notes Payable			(404,516)
Net Pension Liability			(5,051,630)
Net Other Postemployment Benefit Liability			<u>(1,830,092)</u>
Net Assets of Governmental Activities in the Statement of Net Position			\$ <u>2,655,308</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Charlie Battery Fund</u>	<u>Sewer Fund</u>	<u>Total Govern- mental Funds</u>
Revenues					
Taxes	\$ 4,329,187	\$ -	\$ -	\$ -	\$ 4,329,187
Licenses and Permits	30,691	-	-	-	30,691
Fines and Forfeitures	12,379	-	-	-	12,379
Other Revenue	38,569	-	10	-	38,579
Earnings on Investments	-	-	-	4,306	4,306
Intergovernmental Revenue	115,457	166,203	-	-	281,660
Charges for Services	606,978	-	-	32,328	639,306
	<u>5,133,261</u>	<u>166,203</u>	<u>10</u>	<u>36,634</u>	<u>5,336,108</u>
Total Revenues					
	<u>5,133,261</u>	<u>166,203</u>	<u>10</u>	<u>36,634</u>	<u>5,336,108</u>
Expenditures					
Current					
General Government	861,496	-	-	-	861,496
Police	1,995,737	-	-	-	1,995,737
Public Works	716,696	208,727	-	-	925,423
Waste Collection	541,937	-	-	-	541,937
Planning and Inspection	72,867	-	-	-	72,867
Park and Recreation	9,246	-	-	-	9,246
Miscellaneous	-	-	-	634	634
Debt Service					
Principal	37,022	-	-	30,685	67,707
Interest	3,034	-	-	3,169	6,203
Capital Outlay	147,746	-	-	-	147,746
	<u>4,385,781</u>	<u>208,727</u>	<u>-</u>	<u>34,488</u>	<u>4,628,996</u>
Total Expenditures					
	<u>4,385,781</u>	<u>208,727</u>	<u>-</u>	<u>34,488</u>	<u>4,628,996</u>
Excess (Deficit) of Revenues Over Expenditures	747,480	(42,524)	10	2,146	707,112
Fund Balance July 1, 2017	<u>1,771,199</u>	<u>198,596</u>	<u>4,059</u>	<u>146,452</u>	<u>2,120,306</u>
Fund Balance June 30, 2018	<u>\$ 2,518,679</u>	<u>\$ 156,072</u>	<u>\$ 4,069</u>	<u>\$ 148,598</u>	<u>\$ 2,827,418</u>

See accompanying notes.

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

Change in Fund Balances - Total Governmental Funds \$ 707,112

Amounts reported for governmental activities in the statement of net position 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 exceeds capital outlays

Depreciation Expense	\$	(241,572)	
Capital Outlays		<u>147,746</u>	(93,826)

Repayment of notes payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

67,707

Compensated absences not expected to be paid within the next fiscal year are not reported as liabilities in the fund, but are reported as liabilities in the statement of net position. This is the net change in compensated absences for the year.

(41,754)

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 pension expense exceeded pension contributions.

City Other Postemployment Benefit Contributions - June 30, 2017	(111,863)		
City Other Postemployment Benefit Contributions - June 30, 2018	116,756		
Change in Other Postemployment Benefit Liability		<u>(157,630)</u>	(152,737)

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, 2017	(277,083)		
City Pension Contributions - June 30, 2018	298,475		
Cost of Benefits Earned Net of Employee Contributions		<u>(583,806)</u>	(562,414)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

(27,842)

Change in Net Position - Governmental Activities **\$ (103,754)**

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Kentucky Revised Statutes and Ordinances of the City Council of the City of Alexandria, Kentucky (the City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund, the Municipal Road Aid Fund, the Charlie Battery Fund, and the Sewer Fund.

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

The City of Alexandria, Kentucky is a charter city, in which citizens elect the mayor at large and six council members. 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

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 financial 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 financial 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. Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of Presentation (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. These are major funds of the City. The City has two special revenue funds; Municipal Road Aid Fund and Charlie Battery Fund.
- C) The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. This is a major fund of the City. The City has one debt service fund; Sewer Fund.

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.

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.

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.

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

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	20 Years
Public Domain Infrastructure	25 Years
Vehicles	7 Years
Machinery and Equipment	5 Years
Furniture and Fixtures	5 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 District recognized deferred outflows of resources related to pensions and other postemployment benefits.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. The District recognizes deferred inflows of resources related to pensions and other postemployment benefits.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for unpaid accumulated sick and vacation leave since the City does have a policy to pay specified amounts when employees separate from service with the City. All sick and vacation 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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 Council ordinance, or resolution.
- 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 (for capital projects or debt service) by City Council.
- 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 position), 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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, revenues and expenses. 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 may differ from estimated amounts.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund 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 1st and property taxes were due on October 31st.

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 Council, 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 comments.
- 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 Council explaining any variance from the approved budget.
- E) Appropriations continue in effect until a new budget is adopted.
- F) The Council may authorize supplemental appropriations during the year.

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 Council. The Council adopted two supplementary appropriation ordinances. All appropriations lapse at fiscal year-end.

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 (FDIC) 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 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, 2018, \$250,000 of the City's deposits were covered by FDIC insurance and the remaining balance was collateralized with securities held by the financial institutions on the City's behalf.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,239,000	\$ -	\$ -	\$ 1,239,000
Construction in Progress	55,637	-	-	55,637
Total Capital Assets Not Being Depreciated	1,294,637	-	-	1,294,637
Depreciable Capital Assets				
Buildings	632,530	-	-	632,530
Improvements	386,092	-	-	386,092
Infrastructure	3,871,637	43,616	-	3,915,253
Vehicles	853,334	86,885	(65,987)	874,232
Equipment	827,552	14,595	-	842,147
Furniture and Fixtures	41,371	2,650	-	44,021
Total Depreciable Capital Assets	6,612,516	147,746	(65,987)	6,694,275
Total Capital Assets at Historical Cost	7,907,153	147,746	(65,987)	7,988,912
Less Accumulated Depreciation				
Buildings	236,976	15,813	-	252,789
Improvements	162,365	18,206	-	180,571
Infrastructure	864,534	96,791	-	961,325
Vehicles	582,856	74,088	(65,987)	590,957
Equipment	741,644	36,273	-	777,917
Furniture and Fixtures	40,853	401	-	41,254
Total Accumulated Depreciation	2,629,228	241,572	(65,987)	2,804,813
Depreciable Capital Assets, Net	3,983,288	(93,826)	-	3,889,462
Governmental Activities Capital Assets - Net	\$ 5,277,925	\$ (93,826)	\$ -	\$ 5,184,099

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - LONG-TERM DEBT**Notes Payable**Kentucky League of Cities Note Payable

In July of 2004, the City entered into a note with the Kentucky League of Cities for the purchase of the city building for \$700,000 at an interest rate of 3.0%, maturing in April, 2021.

The Kentucky League of Cities note is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Fees Amount</u>	<u>Total Debt Service</u>
2019	\$ 37,949	\$ 1,868	\$ 1,580	\$ 41,397
2020	38,900	1,102	960	40,962
2021	33,787	317	316	34,420
Total	\$ <u>110,636</u>	\$ <u>3,287</u>	\$ <u>2,856</u>	\$ <u>116,779</u>

Kentucky Infrastructure Authority Loan F05-03

In June, 2007, the City entered into an agreement with the Kentucky Infrastructure Authority (KIA) for the improvement of the sewer lines on Viewpoint Drive. The full amount of allowable funds is \$426,220 at an interest rate of 1.0%, maturing in December, 2026. As of December 31, 2010, all funds had been received. This note will be repaid over a period of 20 years, with payments due on the first of both December and June of each year. The note will be repaid with funds collected from residents of Viewpoint Drive. These funds will be collected by the Sanitation District Number 1 of Northern Kentucky as an additional surcharge on owners' quarterly sewer sanitation bills, and remitted to the City quarterly.

The Kentucky Infrastructure Authority Loan F05-03 is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Fees Amount</u>	<u>Total Debt Service</u>
2019	\$ 21,705	\$ 1,862	\$ 372	\$ 23,939
2020	21,922	1,644	329	23,895
2021	22,142	1,424	285	23,851
2022	22,364	1,202	240	23,806
2023	22,588	978	196	23,762
2024 - 2027	80,856	1,625	325	82,806
Total	\$ <u>191,577</u>	\$ <u>8,735</u>	\$ <u>1,747</u>	\$ <u>202,059</u>

NOTE 5 - LONG-TERM DEBT (Continued)

Notes Payable (Continued)

Kentucky Infrastructure Authority Loan F07-05

In June, 2009, the City entered into an agreement with the Kentucky Infrastructure Authority (KIA) for the improvement of the sewer lines on Douglas James Drive. The full amount of allowable funds is \$186,073 at an interest rate of 1.0%, maturing in December, 2028. As of December 31, 2010, all funds had been received. This note will be repaid over a period of 20 years, with payments due on the first of both December and June of each year. The note will be repaid with funds collected from residents of Douglas James Drive. These funds will be collected by the Sanitation District Number 1 of Northern Kentucky as an additional surcharge on owners' quarterly sewer sanitation bills, and remitted to the City quarterly.

The Kentucky Infrastructure Authority Loan F07-05 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Fees Amount	Total Debt Service
2019	\$ 9,288	\$ 1,000	\$ 200	\$ 10,488
2020	9,381	907	181	10,469
2021	9,475	813	163	10,451
2022	9,570	718	144	10,432
2023	9,666	622	124	10,412
2024 - 2028	49,805	1,636	327	51,768
2029	5,118	25	5	5,148
Total	\$ 102,303	\$ 5,721	\$ 1,144	\$ 109,168

The total of the City's notes payable is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Fees Amount	Total Debt Service
2019	\$ 68,942	\$ 4,730	\$ 2,152	\$ 75,824
2020	70,203	3,653	1,470	75,326
2021	65,404	2,554	764	68,722
2022	31,934	1,920	384	34,238
2023	32,254	1,600	320	34,174
2024 - 2028	130,661	3,261	652	134,574
2029	5,118	25	5	5,148
Total	\$ 404,516	\$ 17,743	\$ 5,747	\$ 428,006

NOTE 5 - LONG-TERM DEBT (Continued)**Long-Term Liabilities**

The following is a summary of the City's long-term liability transactions (excluding the net pension liability and net OPEB liability) for the year ended June 30, 2018.

	Debt			Debt		Amounts
	Outstanding	Additions	Retirements	Outstanding	Due	Within
<u>Governmental Activities</u>	June 30,	of	and	June 30,	1 Year	
	2017	New Debt	Repayments	2018		
Compensated Absences	\$ 422,644	\$ 41,754	\$ -	\$ 464,398	\$ 65,876	
Notes Payable	<u>472,223</u>	<u>-</u>	<u>67,707</u>	<u>404,516</u>	<u>68,942</u>	
	<u>\$ 894,867</u>	<u>\$ 41,754</u>	<u>\$ 67,707</u>	<u>\$ 868,914</u>	<u>\$ 134,818</u>	

Conduit Debt Obligations

The City has issued an Industrial Building Revenue Bond to provide financial assistance to a private-sector entity for the purchase or addition of property including land and a building. The bond is secured by the property financed and is payable solely from the private-sector entity. Neither the City nor any political subdivision thereof, is obligated in any manner for repayment of the bond.

Accordingly, the bond is not reported as a liability in the accompanying financial statements. As of June 30, 2018, the outstanding principal on the Industrial Building Revenue Bond is \$2,139,451.

NOTE 6 - PENSION PLAN**General Information About the Pension 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 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 6 - PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Non-hazardous Plan

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

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	4	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**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
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**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None

NOTE 6 - PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Non-hazardous Plan (Continued)

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.		2.20% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
			Member begins participating prior to 08/01/2004.	
		2.00% if:	Member begins participating on or after 08/01/2004 and before 09/01/2008.	
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 08/01/2004 but before 01/01/2014.	

* **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%)**

Benefit Formula for Tiers 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D		Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned	Interest Rate Earned (4% + Upside)	
7.85%	4.00%	3.85%	2.89%	6.89%	\$ 2,565,000

NOTE 6 - PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Hazardous Plan

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

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
55	5	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.
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
Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
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
Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
60	5	None
Any	25	None

Benefit Formula for Tiers 1 & 2

<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the three highest if participation began before 09/01/2008.		2.50% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		Member begins participating before 09/01/2008.		
Average of the three highest complete years if participation 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 6 - PENSION PLAN (Continued)

General Information About the Pension Plan (Continued)

Hazardous Plan (Continued)

Benefit Formula for Tiers 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D	Interest Rate	Total Interest
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned	Earned (4% + Upside)	Credited to Members' Accounts
8.07%	4.00%	4.07%	3.05%	7.05%	\$ 616,000

Non-hazardous and Hazardous Plans

For Tier 3 member begins participating on or after January 1, 2014; each year that a member is an active contributing member to the System, the member and the member's employer will contribute 8.00% and 7.50% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75.00% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the current account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

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.

NOTE 6 - PENSION PLAN (Continued)**General Information About the Pension Plan (Continued)**Non-hazardous and Hazardous Plans (Continued)

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.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

Contributions: The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contributed 8%. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

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, 2018, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) for the non-hazardous system of each employee's creditable compensation and 31.55% (22.2% pension fund and 9.35% 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 \$298,475 for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability of \$5,051,630 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, using generally accepted actuarial 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, 2018, the City's proportion for the non-hazardous system was 0.02% and for the hazardous system was 0.16%, which was the same at June 30, 2017.

For the year ended June 30, 2018, the City recognized pension expense of \$860,889. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 350,404	\$ 301,175
Difference between expected and actual experience	135,651	35,554
Changes of assumptions	986,745	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	186,458	131,529
Contributions after measurement date	<u>298,475</u>	<u>-</u>
Total	<u>\$ 1,957,733</u>	<u>\$ 468,258</u>

NOTE 6 - PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The \$298,475 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, 2018. 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,	
2019	\$ 513,440
2020	516,420
2021	218,962
2022	<u>(57,822)</u>
Total	<u>\$ 1,191,000</u>

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, Average, including inflation
Investment Rate of Return	7.50% Net of pension plan investment expense, including inflation

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 (male 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.

NOTE 6 - PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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 Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Credit	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	100.00 %	

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 6 - PENSION PLAN (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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 (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 1,766,507	\$ 1,400,638	\$ 1,094,591
Hazardous	\$ 4,590,462	\$ 3,650,992	\$ 2,875,128

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total pension liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the systems, and the assumed rate of return is 6.25%.

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.

401(k) Plan and 457 Plan

The City also permits employees to participate in a 401(k) or 457 plan sponsored by the Commonwealth of Kentucky.

NOTE 7 - 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.

NOTE 7 - OPEB PLAN (Continued)

General Information About the 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%

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.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

Contributions: The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

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, 2018, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) for the non-hazardous system and 31.55% (22.20% pension fund and 9.35% 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 \$116,756 for the year ended June 30, 2018.

NOTE 7 - OPEB PLAN (Continued)

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

At June 30, 2018, the City reported a liability of \$1,830,092 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, 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, 2018, the City's proportion for the non-hazardous system was 0.02% and for the hazardous system was 0.16%.

For the year ended June 30, 2018, the City recognized OPEB expense of \$269,493. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 4,480
Net difference between projected and actual earnings on OPEB plan investments	-	107,375
Changes of assumptions	602,278	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,385
City contributions subsequent to the measurement date	<u>116,756</u>	<u>-</u>
Total	<u>\$ 719,034</u>	<u>\$ 113,240</u>

NOTE 7 - OPEB PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$116,756 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,		
2019	\$	132,119
2020		132,119
2021		132,119
2022		67,902
2023		19,361
Thereafter		<u>5,418</u>
Total	\$	<u><u>489,038</u></u>

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
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 (male 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 7 - OPEB PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

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

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% 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 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and 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.

NOTE 7 - OPEB PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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 (4.84% for non-hazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

	<u>1% Decrease</u> <u>(4.84% for Non-hazardous)</u> <u>(4.96% for Hazardous)</u>	<u>Current Discount</u> <u>(5.84% for Non-hazardous)</u> <u>(5.96% for Hazardous)</u>	<u>1% Increase</u> <u>(6.84% for Non-hazardous)</u> <u>(6.96% for Hazardous)</u>
Non-hazardous	\$ 612,115	\$ 481,055	\$ 371,992
Hazardous	\$ 1,807,895	\$ 1,349,037	\$ 973,616

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:

	<u>1% Decrease</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
Non-hazardous	\$ 368,994	\$ 481,055	\$ 626,727
Hazardous	\$ 954,963	\$ 1,349,037	\$ 1,836,764

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB 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 8 - OPERATING LEASES

The City leases equipment under operating leases expiring at various times through February, 2027. Expenditures for equipment under operating leases totaled \$31,928 for the year ended June 30, 2018. Future minimum rental payments under these leases are as follows:

Years Ending June 30,		
2019	\$	27,580
2020		18,441
2021		11,583
2022		6,046
2023		4,200
Thereafter		<u>15,400</u>
Total	\$	<u>83,250</u>

NOTE 9 - 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.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2018 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 10 - 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 11 - CONTINGENT LIABILITIES

The City is, from time to time, a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows for resources, deferred inflows of resources, and expenses/expenditures. For defined benefit other postemployment benefit plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. This Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the plans that are within its scope.

The implementation of GASB Statement No. 75 had the following effect:

Net Position, June 30, 2017	\$ 3,830,623
Recognition of Contributions after Measurement Date	111,863
Recognition of Net OPEB Liability	<u>(1,183,424)</u>
Restated Net Position, June 30, 2017	<u>\$ 2,759,062</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,638,970	\$ 3,638,970	\$ 4,329,187	\$ 690,217
Licenses and Permits	57,450	57,450	30,691	(26,759)
Fines and Forfeitures	17,500	17,500	12,379	(5,121)
Other Revenues	30,000	30,000	38,569	8,569
Earnings on Investments	1,000	1,000	-	(1,000)
Intergovernmental Revenue	135,000	135,000	115,457	(19,543)
Charges for Services	635,350	635,350	606,978	(28,372)
Total Revenues	<u>4,515,270</u>	<u>4,515,270</u>	<u>5,133,261</u>	<u>617,991</u>
Expenditures				
General Government	897,300	920,452	861,496	58,956
Police	2,047,700	2,123,463	1,995,737	127,726
Public Works	875,750	911,514	716,696	194,818
Waste Collection	566,000	566,000	541,937	24,063
Planning and Inspection	110,000	119,611	72,867	46,744
Park and Recreation	11,220	11,295	9,246	2,049
Debt Service				
Principal	37,000	37,022	37,022	-
Interest	3,300	3,300	3,034	266
Capital Outlay	132,000	179,815	147,746	32,069
Total Expenditures	<u>4,680,270</u>	<u>4,872,472</u>	<u>4,385,781</u>	<u>486,691</u>
(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures	(165,000)	(357,202)	747,480	1,104,682
Fund Balance July 1, 2017	<u>1,771,199</u>	<u>1,771,199</u>	<u>1,771,199</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 1,606,199</u>	<u>\$ 1,413,997</u>	<u>\$ 2,518,679</u>	<u>\$ 1,104,682</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL ROAD AID FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental Revenue	\$ 165,000	165,000	\$ 166,203	\$ 1,203
Expenditures				
Public Works	<u>165,000</u>	<u>165,000</u>	<u>208,727</u>	<u>(43,727)</u>
Deficit of Revenues Over Expenditures	-	-	(42,524)	(42,524)
Fund Balance July 1, 2017	<u>198,596</u>	<u>198,596</u>	<u>198,596</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 198,596</u>	<u>\$ 198,596</u>	<u>\$ 156,072</u>	<u>\$ (42,524)</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CHARLIE BATTERY FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other Revenue	\$ 50	\$ 50	\$ 10	\$ (40)
Fund Balance July 1, 2017	<u>4,059</u>	<u>4,059</u>	<u>4,059</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 4,109</u>	<u>\$ 4,109</u>	<u>\$ 4,069</u>	<u>\$ (40)</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
SEWER FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Earnings on Investments	\$ 25	\$ 25	\$ 4,306	\$ 4,281
Assessment Revenue	<u>35,600</u>	<u>35,600</u>	<u>32,328</u>	<u>(3,272)</u>
Total Revenues	<u>35,625</u>	<u>35,625</u>	<u>36,634</u>	<u>1,009</u>
Expenditures				
Miscellaneous	800	800	634	166
Debt Service				
Principal	31,200	31,200	30,685	515
Interest	<u>3,625</u>	<u>3,625</u>	<u>3,169</u>	<u>456</u>
Total Expenditures	<u>35,625</u>	<u>35,625</u>	<u>34,488</u>	<u>1,137</u>
Excess of Revenues and Other Financing Uses Over Expenditures				
	-	-	2,146	2,146
Fund Balance July 1, 2017	<u>146,452</u>	<u>146,452</u>	<u>146,452</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 146,452</u>	<u>\$ 146,452</u>	<u>\$ 148,598</u>	<u>\$ 2,146</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2018

County Employees Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability (Asset) - Non-hazardous	0.02%	0.02%	0.02%	0.02%
City's Proportion of the Net Pension Liability (Asset) - Hazardous	0.16%	0.16%	0.15%	0.17%
City's Proportionate Share of the Net Pension Liability (Asset) - Non-hazardous	\$ 1,400,638	\$ 1,038,734	\$ 997,060	\$ 737,836
City's Proportionate Share of the Net Pension Liability (Asset) - Hazardous	<u>3,650,992</u>	<u>2,784,417</u>	<u>2,238,031</u>	<u>1,985,439</u>
Total City's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 5,051,630</u>	<u>\$ 3,823,151</u>	<u>\$ 3,235,091</u>	<u>\$ 2,723,275</u>
City's Covered - Employee Payroll	\$ 1,486,245	\$ 1,395,020	\$ 1,328,926	\$ 1,316,816
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	339.89%	274.06%	243.44%	206.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-hazardous	53.00%	56.00%	60.00%	67.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous	50.00%	54.00%	58.00%	64.00%

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
June 30, 2018

County Employees Retirement System
Last 5 Fiscal Years

<u>Non-hazardous</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 92,693	\$ 81,549	\$ 66,780	\$ 69,047	\$ 72,458
Contributions in Relation to the Contractually Required Contribution	<u>(92,693)</u>	<u>(81,549)</u>	<u>(66,780)</u>	<u>(69,047)</u>	<u>(72,458)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
City's Covered-Employee Payroll	\$ 640,149	\$ 585,582	\$ 537,679	\$ 541,546	\$ 527,356
Contributions as a Percentage of Covered-Employee Payroll	14.48%	13.93%	12.42%	12.75%	13.74%
<u>Hazardous</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 205,782	\$ 195,534	173,697	\$ 163,224	\$ 171,865
Contributions in Relation to the Contractually Required Contribution	<u>(205,782)</u>	<u>(195,534)</u>	<u>(173,697)</u>	<u>(163,224)</u>	<u>(171,865)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
City's Covered-Employee Payroll	\$ 926,944	\$ 900,663	\$ 857,341	\$ 787,380	\$ 789,460
Contributions as a Percentage of Covered-Employee Payroll	22.20%	21.71%	20.26%	20.73%	21.77%

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2018

County Employees Retirement System

	2018
City's Proportion of the Net OPEB Liability (Asset) - Non-hazardous	0.02%
City's Proportion of the Net OPEB Liability (Asset) - Hazardous	0.16%
City's Proportionate Share of the Net OPEB Liability (Asset) - Non-hazardous	\$ 481,055
City's Proportionate Share of the Net OPEB Liability (Asset) - Hazardous	<u>1,349,037</u>
Total City's Proportionate Share of the Net OPEB Liability (Asset)	<u>\$ 1,830,092</u>
City's Covered - Employee Payroll	\$ 1,486,245
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	123.14%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-hazardous	52.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Hazardous	59.00%

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
June 30, 2018**

County Employees Retirement System

Non-hazardous	2018
Contractually Required Contribution	\$ 30,087
Contributions in Relation to the Contractually Required Contribution	<u>(30,087)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 City's Covered-Employee Payroll	 \$ 640,149
Contributions as a Percentage of Covered-Employee Payroll	4.70%
Hazardous	2017
Contractually Required Contribution	\$ 86,669
Contributions in Relation to the Contractually Required Contribution	<u>(86,669)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 City's Covered-Employee Payroll	 \$ 926,944
Contributions as a Percentage of Covered-Employee Payroll	9.35%

See accompanying notes.

OTHER SUPPLEMENTARY 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
Members of City Council
City of Alexandria, 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, each major fund, and the aggregate remaining fund information of the City of Alexandria, Kentucky (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Alexandria, Kentucky's basic financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

Honorable Mayor
Members of City Council
City of Alexandria, Kentucky
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 18, 2018