

City of Horse Cave, Kentucky
Report on Audited Financial Statements
For the year ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Horse Cave, Kentucky

We have audited the accompanying financial statements of the governmental activities, and the aggregate remaining fund information of the City of Horse Cave, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements. We did not audit the financial statements of the proprietary fund, which is both a major fund and 100 percent, respectively of the assets, net position, and revenues of the business type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Horse Cave Water Commission, which represent 35 percent, 35 percent, and 33 percent, respectively, of the assets, net position, and revenues of the of City of Horse Cave, Kentucky. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Horse Cave Water Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Change in Accounting Principle

As discussed in Notes 11 and 14 to the financial statements, during the fiscal year the City adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and page 39 and the pension and OPEB liability schedules on pages 40-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 January 8, 2019, on our consideration of the City of Horse Cave, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Horse Cave, Kentucky's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

January 8, 2019

City of Horse Cave, Kentucky
P.O. Box 326
Horse Cave, KY 42749
270 – 786-2680

The financial management team of the City of Horse Cave, Kentucky, Mayor Randall Curry, City Clerk Kenny Russell and City Treasurer Annette L. Brown, presents this narrative to help those who review these financial statements to better understand them, their schedules and notes. It is our intent that this discussion will provide all parties interested in the City's financial condition, especially the citizens of Horse Cave, a better understanding of the City's operations and financial status.

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

Should any reader of these statements have questions or desire additional information, please contact the City Treasurer Annette H. Lang at the address and/or phone number above.

Financial Highlights

- As of June 30, 2018, the City's assets, \$7,180,978 and deferred outflows \$422,342, exceeded liabilities (\$2,604,549) and deferred inflows (\$149,185) by \$4,849,586.
- Unrestricted cash and investment balances as of June 30, 2018 were \$1,054,280 and current liabilities payable from those funds were \$113,382.
- Total net position decreased this year by \$45,808. Net position of the governmental activities decreased by \$86,739 and those of the City's business type activities (utilities) increased by \$40,931.
- Fund balances, a measure of current financial resources, increased in the governmental funds by \$90,946 to a June 30, 2018 balance of \$1,050,676.

Overview of the Financial Statements

The City provides two major categories of services and thus reports on two major activities: 1) Governmental activities, which are primarily funded by taxes and intergovernmental revenues, and 2) Business-type activities, which are funded with user fees and charges. Governmental activities include services such as police, fire, streets and street lighting, prevention of drug and alcohol abuse, and maintenance, industrial development, and the administrative and oversight functions necessary to provide all of the above. Business-type activities include water, sewer and garbage services.

The first two financial statements report on both service categories combined. Subsequent statements report separately on governmental services and business-type activities. The financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The first two statements, the government-wide statement of net position and government-wide statement of activities present an overview of the City's governmental and business-type services. The former reports the financial condition of the city as of June 30. It reports all of the City's short-term and long-term assets and liabilities. The latter statement reports how the City's net position changed during the fiscal year. It summarizes the revenues and expenditures of the past year.

Analysis of the City as a Whole

The following two statements, Summary of Government Wide Net Position and Summary of the Statement of Activities – Government Wide, are presented for comparative purposes to prior year information.

**Summary of Government Wide Net Position
June 30, 2018 and 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current and other assets	\$ 1,881,443	\$ 1,422,305
Capital assets	<u>5,299,535</u>	<u>5,679,250</u>
Total assets	<u>\$ 7,180,978</u>	<u>\$ 7,101,555</u>
Deferred Outflows	<u>422,342</u>	<u>281,311</u>
Current liabilities	\$ 223,545	\$ 258,856
Noncurrent liabilities	<u>2,381,004</u>	<u>2,146,569</u>
Total liabilities	<u>2,604,549</u>	<u>2,405,425</u>
Deferred Inflows	<u>149,185</u>	<u>82,047</u>
Net position		
Invested in capital assets net of related debt	4,295,562	4,266,644
Restricted	562,115	465,118
Unrestricted	<u>(8,091)</u>	<u>163,632</u>
Total net position	<u>\$ 4,849,586</u>	<u>\$ 4,895,394</u>

The net position of the City's governmental and business-type activities is approximately \$4.9 million at June 30, 2018, an increase of \$45,808 from prior year. Of this net position, \$4.3 million or 89% is invested in capital assets and the remaining net position of about \$562,000 are restricted and about (\$8,000) are unrestricted.

The City participates in the County Employees' Retirement System of Kentucky (CERS). This Retirement Plan is managed and administered by the Kentucky Retirement System which also recorded and reported in the past the necessary and required numbers and disclosures on their books.

The City to is required to report its portion of the projected pension obligation. As a result, the City is showing pension and OPEB liabilities of \$1,420,627, Deferred Outflows of Resources of \$422,342 and Deferred Inflows of Resources of \$149,185. Please also see "Note 11 - Pension Plan" beginning on page 29.

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 989,053	\$ 957,674
Grants and contributions	43,386	11,000
General revenues:		
Property taxes	1,141,526	1,083,690
License fee and permits	424,503	401,201
Other revenues	<u>217,215</u>	<u>142,280</u>
Total revenues	<u>2,815,683</u>	<u>2,595,845</u>
Program expenses		
General government	412,580	312,897
Fire department	176,088	122,970
Police department	429,560	367,485
Street maintenance	418,162	369,174
Parks and recreation	3,444	4,985
Library expenses	55,913	46,282
Cemetery expenses	7,938	5,361
Depreciation (unallocated)	213,616	183,945
Pension and OPEB expense	259,734	-
Water commission	<u>898,513</u>	<u>841,241</u>
Total expenses	<u>2,875,548</u>	<u>2,254,340</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(59,865)	341,505
Other income/(expense)		
Interest	<u>14,057</u>	<u>4,325</u>
Total other income/(expense)	<u>14,057</u>	<u>4,325</u>
Increase (decrease) in net position	(45,808)	345,830
Net position, beginning of year, restated	<u>4,895,394</u>	<u>4,549,564</u>
Net position, end of year	<u>\$ 4,849,586</u>	<u>\$ 4,895,394</u>

Current year revenues increased by approximately \$229,570 mainly due to collection of tangible taxes on manufacturers finished goods inventory.

Furthermore, total expenses increased by \$621,208. Approximately 42% of the increase is due to pension and OPEB expense. Therefore, about \$80,000 have been set aside for police, maintenance and fire vehicles, response gear and equipment.

Current revenues include fire district dues passed by the fiscal court. The dues were levied with county tax on property owners in the Horse Cave Fire District, but outside the City limits. This resulted in \$46,265 of revenue. The Horse Cave Fire Department uses these funds for debt service on the loan for the 2015 Pumper truck as well as to pay extra principal on the loan which is currently down to approximately \$89,000.

The next two financial statements report on governmental services. They are the balance sheet/governmental funds and the statement of revenues, expenditures, and changes in fund balances/governmental funds.

The balance sheet lists the resources available as of June 30, 2018, to pay current liabilities and to continue governmental operations in to the following fiscal year. Capital assets are not included in this report, because it is already in the government-wide statement of net position. The balance sheet is intended to demonstrate current, as opposed to long-term, financial strength and/or weakness.

The statement of revenues, expenditures and changes in fund balances provides some of the most important data necessary to choose the level of governmental service. It also provides insight into the level of taxation needed for those services.

Management has reviewed the balance sheet and the statement of revenues, expenditures, and changes in fund balance and presents the following observations, primarily related to the governmental funds.

- The June 30, 2018 fund balance was \$1,050,676. The total fund balance was broken down into restricted, assigned, and unassigned. The restricted balance increased by \$133,790 from the prior year to a balance of \$423,942 at June 30, 2018. The assigned balance increased by \$14,243 to a June 30, 2018 balance of \$83,954. The unassigned balance increased by \$56,432 to a June 30, 2018 balance of \$542,780.
- The statement of revenues and expenditures shows that the general fund expenses exceeded revenues by \$61,114.

Proprietary Fund Statements

The three primary statements reporting on the proprietary or business-type activities are:

- Statement of net position – proprietary funds,
- Statement of revenues, expenses, and changes in fund net position – proprietary funds,
- Statement of cash flows – proprietary funds

The three proprietary fund statements demonstrate that the utility operations continue to grow and to be financially sound.

The proprietary fund net position exceeds liabilities by \$1,208,445. The increase in net position of \$40,931 is result of an increase in total assets of \$50,727 and a increase of total liabilities in the amount of \$9,796.

The proprietary fund operations are producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, minor on-going expansions to the infrastructure, and a portion of the governmental services.

Capital Assets

At June 30, 2018, the City had invested \$5,299,535 in capital assets, net of depreciation. The change in capital assets represents purchases of equipment, disposal of facilities, and other improvements for a net decrease of \$58,677 and depreciation expense of \$213,616 for the year ended June 30, 2018.

OTHER FUNDS

The City audit contains two additional funds which are operated by commissions appointed by the mayor and ratified by the City Council.

Library Fund

The Horse Cave Free Public Library Fund shows receipts of \$102,857 received primarily from a special municipal tax ("library tax") levied by ordinance and miscellaneous revenues such as donations, copies and computer usage. Expenses total \$55,913 primarily for salaries, books and subscriptions. The fund balance is \$101,476, an increase of \$46,944 compared to the previous year. The increase is a result of a changed employee structure and conscious savings efforts.

Water Fund

The Horse Cave Water Commission Fund shows operating revenues of \$939,125, up by \$27,319 compared to 2017; operating expenses of \$887,784, \$57,492 more than in 2017; and an operating income of \$51,341, a \$30,173 decrease over 2017. The operating income of \$51,341 plus \$319 (2017: \$254) interest income and less \$10,729 (2016: \$10,949) interest expense, increased the net position by \$40,931. The Net position as of June 30, 2018 totaled \$1,869,302.

Separate financial statements for the Horse Cave Water Commission are available by contacting the Horse Cave Water Commission.

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 402,790	\$ 651,490	\$ 1,054,280
Accounts receivable, net	251,888	82,493	334,381
Prepaid insurance	10,534	4,087	14,621
Total current assets	665,212	738,070	1,403,282
Non-current assets:			
Restricted cash	423,942	54,219	478,161
Capital assets, net of accumulated depreciation	3,634,050	1,665,485	5,299,535
Total non-current assets	4,057,992	1,719,704	5,777,696
TOTAL ASSETS	4,723,204	2,457,774	7,180,978
DEFERRED OUTFLOWS OF RESOURCES			
Outflows related to net pension and OPEB liability	339,323	83,019	422,342
LIABILITIES			
Current liabilities:			
Accounts payable	12,796	100,536	113,332
Accrued wages	-	4,424	4,424
Accrued vacation pay	11,789	-	11,789
Accrued interest payable	1,621	5,308	6,929
Current portion, long-term debt	62,606	9,500	72,106
Current portion of capital lease obligations	2,693	-	2,693
Payroll taxes payable	12,272	-	12,272
Total current liabilities	103,777	119,768	223,545
Non-current liabilities:			
Deposits held	-	31,204	31,204
Net OPEB liability	368,792	-	368,792
Net pension liability	979,450	72,385	1,051,835
Non-current portion of capital lease obligations	2,802	-	2,802
Non-current portion long-term debt	488,871	437,500	926,371
Total non-current liabilities	1,839,915	541,089	2,381,004
TOTAL LIABILITIES	1,943,692	660,857	2,604,549
DEFERRED INFLOWS OF RESOURCES			
Inflows related to net pension and OPEB liability	138,551	10,634	149,185
NET POSITION			
Invested in capital assets, net of debt	3,077,078	1,218,484	4,295,562
Restricted for:			
Bond and interest	-	14,808	14,808
Replacement and additions	-	39,411	39,411
Municipal Road Aid and other miscellaneous	203,568	-	203,568
Fire	127,128	-	127,128
Library	10,546	-	10,546
Cemetery perpetual care	166,654	-	166,654
Unrestricted	(604,690)	596,599	(8,091)
TOTAL NET POSITION	\$ 2,980,284	\$ 1,869,302	\$ 4,849,586

See accompanying notes to financial statements.

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Program Activities	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	Primary Government		
						Governmental Activities	Business-Type Activities	Total
Governmental Activities								
General government	\$ 412,580	\$ 23,368	\$ 15,000	\$ -	\$ (374,212)	\$ (374,212)	\$ -	\$ (374,212)
Fire Department	176,088	-	11,000	17,386	(147,702)	(147,702)	-	(147,702)
Police Department	429,560	-	-	-	(429,560)	(429,560)	-	(429,560)
Street Maintenance	418,162	-	-	-	(418,162)	(418,162)	-	(418,162)
Parks and recreation	3,444	-	-	-	(3,444)	(3,444)	-	(3,444)
Library expenses	55,913	-	-	-	(55,913)	(55,913)	-	(55,913)
Cemetery expenses	7,938	26,560	-	-	18,622	18,622	-	18,622
Pension and OPEB expense	259,734	-	-	-	(259,734)	(259,734)	-	(259,734)
Depreciation (unallocated)	213,616	-	-	-	(213,616)	(213,616)	-	(213,616)
Total Governmental Activities	<u>1,977,035</u>	<u>49,928</u>	<u>26,000</u>	<u>17,386</u>	<u>(1,883,721)</u>	<u>(1,883,721)</u>	<u>-</u>	<u>(1,883,721)</u>
Business-Type Activities								
Water commission	898,513	939,125	-	-	40,612	-	40,612	40,612
Total Business-Type Activities	<u>898,513</u>	<u>939,125</u>	<u>-</u>	<u>-</u>	<u>40,612</u>	<u>-</u>	<u>40,612</u>	<u>40,612</u>
Total Government	<u>2,875,548</u>	<u>989,053</u>	<u>26,000</u>	<u>17,386</u>	<u>(1,843,109)</u>	<u>(1,883,721)</u>	<u>40,612</u>	<u>(1,843,109)</u>
General Revenues:								
Taxes						1,141,526	-	1,141,526
Licenses and permits						424,503	-	424,503
Other revenues						217,215	-	217,215
Investment Income						13,738	319	14,057
Total General Revenues						<u>1,796,982</u>	<u>319</u>	<u>1,797,301</u>
Change in Net Position						(86,739)	40,931	(45,808)
Net Position, Beginning of Year, restated						3,067,023	1,828,371	4,895,394
Net Position, End of Year						<u>\$ 2,980,284</u>	<u>\$ 1,869,302</u>	<u>\$ 4,849,586</u>

CITY OF HORSE CAVE, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Municipal Road Aid	Library	Fire Dept.	Cemetery	Total Governmental Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 226,938	\$ -	\$ 83,399	\$ 85,575	\$ 6,878	\$ 402,790
Accounts receivable, net	244,357	-	7,531	-	-	251,888
Prepays	10,534	-	-	-	-	10,534
Total current assets	<u>481,829</u>	<u>-</u>	<u>90,930</u>	<u>85,575</u>	<u>6,878</u>	<u>665,212</u>
Restricted assets:						
Cash and cash equivalents	91,296	112,272	10,546	43,174	166,654	423,942
Total restricted assets	<u>91,296</u>	<u>112,272</u>	<u>10,546</u>	<u>43,174</u>	<u>166,654</u>	<u>423,942</u>
TOTAL ASSETS	<u>\$ 573,125</u>	<u>\$ 112,272</u>	<u>\$ 101,476</u>	<u>\$ 128,749</u>	<u>\$ 173,532</u>	<u>\$ 1,089,154</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 12,796	\$ -	\$ -	\$ -	\$ -	\$ 12,796
Accrued interest	-	-	-	1,621	-	1,621
Accrued vacation pay	11,789	-	-	-	-	11,789
Accrued payroll taxes	12,272	-	-	-	-	12,272
Total liabilities	<u>36,857</u>	<u>-</u>	<u>-</u>	<u>1,621</u>	<u>-</u>	<u>38,478</u>
Fund Balances:						
Restricted	91,296	112,272	10,546	43,174	166,654	423,942
Assigned	-	-	-	83,954	-	83,954
Unassigned	444,972	-	90,930	-	6,878	542,780
Total fund balances	<u>536,268</u>	<u>112,272</u>	<u>101,476</u>	<u>127,128</u>	<u>173,532</u>	<u>1,050,676</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 573,125</u>	<u>\$ 112,272</u>	<u>\$ 101,476</u>	<u>\$ 128,749</u>	<u>\$ 173,532</u>	<u>\$ 1,089,154</u>

See accompanying notes to financial statements.

**CITY OF HORSE CAVE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2018**

Total fund balance - total governmental fund \$ 1,050,676

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

Capital assets of \$6,155,581, net of accumulated depreciation of \$2,521,531 are not financial resources and are not reported in the funds. 3,634,050

Net pension and OPEB liabilities and deferred inflows of resources are not due and payable in the current period and therefore not recorded in the funds. (1,486,793)

Deferred outflows of resources are not current financial resources and not reported in the funds. 339,323

Long-term debt is not due and payable in the current period and is not reported in the funds. (556,972)

Net position of governmental activities \$ 2,980,284

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General	Municipal Road Aid	Library	Fire	Cemetery	Governmental Funds
Revenues:						
Taxes	\$ 997,742	\$ -	\$ 78,723	\$ 65,061	\$ -	\$ 1,141,526
Licenses and permits	424,503	-	-	-	-	424,503
Intergovernmental revenues	99,114	46,618	-	11,000	-	156,732
Charges for services	23,368	-	-	-	26,560	49,928
Volunteer Fire Department	-	-	-	3,860	-	3,860
Other	47,280	-	4,315	-	16,028	67,623
Total Revenues	<u>1,592,007</u>	<u>46,618</u>	<u>83,038</u>	<u>79,921</u>	<u>42,588</u>	<u>1,844,172</u>
Expenditures:						
General governmental	417,955	-	55,913	-	7,938	481,806
Police department	572,651	-	-	-	-	572,651
Fire department	208,932	-	-	38,799	-	247,731
Street maintenance	444,387	5,875	-	-	-	450,262
Parks and recreation	8,569	-	-	-	-	8,569
Debt service principal	18,743	-	-	59,353	-	78,096
Total expenditures	<u>1,671,237</u>	<u>5,875</u>	<u>55,913</u>	<u>98,152</u>	<u>7,938</u>	<u>1,839,115</u>
Excess (deficiency) of revenues over (under) expenditures	(79,230)	40,743	27,125	(18,231)	34,650	5,057
Other Financing Sources (Uses):						
Grant Revenue	-	-	15,000	-	-	15,000
Investment income	2,059	124	-	6	11,549	13,738
Interest expense	(17,553)	-	-	-	-	(17,553)
Donated assets	-	-	-	17,386	-	17,386
Operating transfers in	33,610	-	4,819	8,971	-	47,400
Operating transfers out	-	-	-	-	(47,400)	(47,400)
Special item:						
Debt write-off	-	-	-	57,318	-	57,318
Total other financing sources	<u>18,116</u>	<u>124</u>	<u>19,819</u>	<u>83,681</u>	<u>(35,851)</u>	<u>85,889</u>
Net change in fund balances	(61,114)	40,867	46,944	65,450	(1,201)	90,946
Fund Balances, July 1, 2017	<u>597,382</u>	<u>71,405</u>	<u>54,532</u>	<u>61,678</u>	<u>174,733</u>	<u>959,730</u>
Fund Balances, June 30, 2018	<u>\$ 536,268</u>	<u>\$ 112,272</u>	<u>\$ 101,476</u>	<u>\$ 127,128</u>	<u>\$ 173,532</u>	<u>\$ 1,050,676</u>

See accompanying notes to financial statements.

**CITY OF HORSE CAVE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$ 90,946
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$213,616) exceeds capital outlay of \$274,232.</p>	
	61,271
Excess of pension benefits paid over pension expense reported in governmental activities	(259,734)
Debt write-off	(57,318)
Debt service payments	<u>78,096</u>
Change in net position of governmental activities	<u>\$ (86,739)</u>

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUND
HORSE CAVE WATER COMMISSION
June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 651,490
Restricted cash	54,219
Accounts receivable, net	82,493
Prepaid insurance	<u>4,087</u>
Total current assets	<u>792,289</u>

Non-current assets:

Fixed assets, net	<u>1,665,485</u>
Total non-current assets	<u>1,665,485</u>

TOTAL ASSETS

2,457,774

DEFERRED OUTFLOWS OF RESOURCES

83,019

LIABILITIES

Current liabilities:

Accounts payable	100,536
Accrued wages	4,424
Accrued interest	5,308
Bonds payable - current	<u>9,500</u>
Total current liabilities	<u>119,768</u>

Non-current liabilities:

Customer deposits	31,204
Bond payable - long-term	437,500
Net pension liability	<u>72,385</u>
Total non-current liabilities	<u>541,089</u>

TOTAL LIABILITIES

660,857

DEFERRED INFLOWS OF RESOURCES

10,634

NET POSITION

Invested in capital assets, net of debt	1,218,484
Restricted for:	
Bond and interest	14,808
Replacement and additions	39,411
Unrestricted	<u>596,599</u>

TOTAL NET POSITION

\$ 1,869,302

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUND
HORSE CAVE WATER COMMISSION
For The Year Ended June 30, 2018

Operating revenues:	
Water sales	\$ 939,125
Total operating revenues	<u>939,125</u>
Operating expenses:	
Water purchase	551,575
Water line loss	120,457
Repairs and maintenance	44,628
Depreciation	65,354
Personal services	68,078
Insurance	8,364
Professional and contractual services	20,740
Administrative costs	6,398
Bad debts	525
Truck expenses	<u>1,665</u>
Total operating expenses	<u>887,784</u>
Operating income (loss)	51,341
Non-operating revenues (expenses)	
Interest income	319
Interest expense	<u>(10,729)</u>
Total non-operating revenues (expenses)	<u>(10,410)</u>
Change in net position	40,931
Net position, beginning of year, July 1, 2017	<u>1,828,371</u>
Net position, end of year, June 30, 2018	<u>\$ 1,869,302</u>

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
HORSE CAVE WATER COMMISSION
For the year ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 935,646
Water purchases	(554,416)
Water line loss	(124,355)
Personal services	(68,078)
Other supplies and expenses	(60,378)
Net cash provided by operating activities	<u>128,419</u>
Cash flows from capital and related financing activities:	
Interest paid on bonds	(10,842)
Principal paid on bonds	(9,500)
Capital outlay	(3,379)
Net cash used from capital and related financing activities	<u>(23,721)</u>
Cash flows from investing activities:	
Interest on investments	319
Net cash provided by investing activities	<u>319</u>
Net increase (decrease) in cash and cash equivalents	105,017
Cash and cash equivalents, beginning of year, July 1, 2017	600,692
Cash and cash equivalents, end of year, June 30, 2018	<u>\$ 705,709</u>
Reconciliation of operating income to net cash:	
Provided by operating activities	
Operating income	\$ 51,341
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	65,354
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,526)
(Increase) decrease in prepaid insurance	(119)
Increase (decrease) in accounts payable	11,086
Increase (decrease) in accrued wages	4,236
Increase (decrease) in customer deposits	1,047
Net cash provided (used) by operating activities	<u>\$ 128,419</u>

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1 - Description of Entity and Summary of Significant Accounting Policies

Organization

The City of Horse Cave, Kentucky, operates under a Mayor-Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, public improvements, planning and zoning, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City of Horse Cave, Kentucky and its component units. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Financial Statement Presentation

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial principles. The City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

On July 1, 2003, the City adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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 statement of net position presents the financial condition of the governmental and business-type activities of the City. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1- Description of Entity and Summary of Significant Accounting Policies, Continued

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City has two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Municipal Road Aid Fund - The Municipal Road Aid Fund is used to account for financial resources to be used for future construction and repairs of roadways.

Fire, Library, Cemetery – These funds are used to account for the receipt and disbursements of the fire, library, and cemetery operations of the City.

Proprietary Funds – Proprietary fund reporting focuses on changes in net position, financial position and cash flows. The City's proprietary funds are classified as enterprise funds. The City's enterprise fund includes the Horse Cave Water Commission, a department of the City that provides water service, to the residents of the City of Horse Cave.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements – The government-wide and proprietary fund financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operations of the City are included in the Statement of Net Position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources and uses of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1- Description of Entity and Summary of Significant Accounting Policies, Continued

Like the government-wide statements, all proprietary funds are accounted for on the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues expenses and changes in net position presents increases and decreases in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the City's financial statements. The government-wide and proprietary fund financial statements are prepared on the accrual basis of accounting. The governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Fund Balance Classification: The City adopted GASB Statement No. 54. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City had no nonspendable resources as of June 30, 2018.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the other resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City had restricted resources as of June 30, 2018, in the Municipal Road Aid Fund for future repair and reconstruction of roadways. The City also had restricted resources in Municipal Road Aid, General, Cemetery, Fire and Library Funds for future repairs.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City had no committed resources as of June 30, 2018.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1- Description of Entity and Summary of Significant Accounting Policies, Continued

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City had assigned resources as of June 30, 2018 for the Fire Department.
- Unassigned: This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding which represents the portion of the General Fund balance that has been established by Ordinance 1120, as amended by Ordinance 1312 and Ordinance 1472, to be used for debt service or in emergency situations. A 4/5 vote of the City Council is required to authorize the spending of any of these funds for any reason. The Unassigned Classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use "Restricted" fund balances first, followed by "Committed" resources, and then "Assigned" resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Net Position

Net position classifications are defined as follows:

- *Invested in capital assets, net of related debt* - Net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash and Investments

The City considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Receivables

The city uses the direct-write-off method for bad debts. No allowance for bad debts has been provided as no material amounts are expected to be written off as of June 30, 2018. The direct write-off method does not significantly depart from generally accepted accounting principles.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1- Description of Entity and Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The cost of additions to capital assets and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method.

The estimated useful lives of capital assets are as follows:

Buildings	40 years
Improvements	15 - 25 years
Infrastructure	12 - 25 years
Equipment	5 - 10 years
Vehicles	5 - 20 years
Water System	18 - 50 years

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Budgets and Budgetary Accounting

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

1. The Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are held to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 1- Description of Entity and Summary of Significant Accounting Policies, Concluded

Use of Estimates

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales tax collected and held by vendors at year end on behalf of the City is also recognized as revenue if collected within 30 days after year end. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Note 2 - Cash and Investments

Deposits

At year end, the carrying amount of the City's cash deposits were \$1,532,441 and the bank balance was \$1,567,359. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank as of June 30, 2018. These amounts were covered by Federal Depository Insurance or by securities pledged by Citizens First Bank.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 2 - Cash and Investments, Concluded

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Currently the City has certificate of deposits with interest rates varying from .50% to 1.49% with maturity dates ranging from three to twelve months.

Note 3 - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied January 1, become delinquent in the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

The 2017 tax rate is \$.188 per \$100 assessed valuation for real estate and \$.183 per \$100 assessed valuation for tangible property. The City is permitted by the State Constitution to levy taxes up to \$.75 per \$100 assessed valuation; however, according to statutes, the City may not increase the tax rate on real property by more than 4% per year (exclusive of assessment growth) without obtaining consent through referendum.

Note 4 - Contingent Liabilities

At June 30, 2000, the City of Horse Cave was contingently liable for a bank note, in the amount of \$255,203 to Citizens First Bank. The City cosigned the note with the American Cave and Karst Center. The City does not make any principal or interest payments on this note. Payments are made by the American Cave and Karst Center. The balance of the note as of June 30, 2018 is \$29,268.

Note 5 – Deferred Inflows/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has \$422,342 that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has \$149,185 that qualifies for reporting in this category.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 6 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
NON-DEPRECIABLE CAPITAL ASSETS				
Land	\$ 169,777	\$ -	\$ -	\$ 169,777
Cemetery land	92,543	-	-	92,543
Other property	58,552	-	-	58,552
Total non-depreciable capital assets	<u>320,872</u>	<u>-</u>	<u>-</u>	<u>320,872</u>
OTHER CAPITAL ASSETS				
Buildings and parking lots	2,950,002	3,460	(57,318)	2,896,144
Infrastructure	1,145,038	-	-	1,145,038
Furniture, machinery and equipment	1,582,601	270,772	(127,438)	1,725,935
Library books and equipment	57,038	-	-	57,038
Total other capital assets	<u>5,734,679</u>	<u>274,232</u>	<u>(184,756)</u>	<u>5,824,155</u>
TOTAL CAPITAL ASSETS	<u>6,055,551</u>	<u>274,232</u>	<u>(184,756)</u>	<u>6,145,027</u>
LESS ACCUMULATED DEPRECIATION				
Buildings and parking lots	607,331	69,275	-	676,606
Infrastructure	829,977	20,684	-	850,661
Furniture, machinery and equipment	943,695	123,309	(127,438)	939,566
Library books and equipment	54,350	348	-	54,698
Total accumulated depreciation	<u>2,435,353</u>	<u>213,616</u>	<u>(127,438)</u>	<u>2,521,531</u>
CAPITAL ASSETS, NET	<u>\$ 3,620,198</u>	<u>\$ 60,616</u>	<u>\$ (57,318)</u>	<u>\$ 3,623,496</u>
CONSTRUCTION IN PROCESS				
Thomas house	\$ 10,554	\$ -	\$ -	\$ 10,554
Total construction in process	<u>10,554</u>	<u>-</u>	<u>-</u>	<u>10,554</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 3,630,752</u>	<u>\$ 60,616</u>	<u>\$ (57,318)</u>	<u>\$ 3,634,050</u>
BUSINESS TYPE ACTIVITIES				
Land	\$ 11,132	\$ -	\$ -	\$ 11,132
Building	60,088	-	-	60,088
Land Improvement	5,000	-	-	5,000
Water system	2,545,818	-	-	2,545,818
Equipment	67,102	3,379	-	70,481
Total capital assets being depreciated	<u>2,689,140</u>	<u>3,379</u>	<u>-</u>	<u>2,692,519</u>
Less Accumulated Depreciation	<u>961,680</u>	<u>65,354</u>	<u>-</u>	<u>1,027,034</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 1,727,460</u>	<u>\$ (61,975)</u>	<u>\$ -</u>	<u>\$ 1,665,485</u>

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 7 - Lease Commitments

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

- 1) Lease One Magnolia for Fire Department pagers, interest is computed at 4.06% in fixed quarterly installments; balance at June 30, 2018 is \$5,495.

Year Ended <u>June 30</u>	Capital Lease <u>Payable</u>
2019	\$ 2,886
2020	2,886
2021	-
2022	-
2023	-
Thereafter	-
Total minimum lease payments	5,772
Less: Amount representing interest	<u>(277)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 5,495</u>

Note 8 - Long-Term Debt

The following is a summary of long-term obligations for the governmental fund for the fiscal year ended June 30, 2018.

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Note payable	\$ 119,630	\$ -	\$ (30,632)	\$ 88,998	\$ 22,343
Note payable -fire house	458,314	-	(28,721)	429,593	30,067
Note payable	49,044	-	(16,158)	32,886	10,196
	<u>\$ 626,988</u>	<u>\$ -</u>	<u>\$ (75,511)</u>	<u>\$ 551,477</u>	<u>\$ 62,606</u>

Note payable to Citizens First Bank of \$219,000, originating April 2013, maturing April 2023 with annual installments of \$2,217.27, including 3.50% interest; collateralized by equipment.

\$ 88,998

Note payable to Citizens First Bank of \$49,044, originating November 2016, maturing November 2017 with an annual installment of \$49,044, including 3.80% interest.

32,886

Note payable to Citizens First Bank of \$519,098, originating March 2015, maturing March 2030, including interest of 3.80%; collateralized by building. Note is expected to be refinanced.

429,593

Total debt
Less current portion
Long-term portion

551,477
(62,606)
\$ 488,871

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 8 - Long-Term Debt, Concluded

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 62,606	\$ 21,058	\$ 83,664
2020	64,004	18,948	82,952
2021	66,598	16,361	82,959
2022	54,472	14,239	68,711
2023	34,460	11,102	45,562
2023-2027	193,616	34,189	227,805
2028-2030	<u>75,721</u>	<u>2,662</u>	<u>78,383</u>
	<u>\$ 551,477</u>	<u>\$ 118,559</u>	<u>\$ 670,036</u>

Note 9 – Revenue Bonds Payable

The following is a summary of bond transactions for the proprietary fund for the fiscal year ended June 30, 2018.

<u>Balance</u> <u>July 1, 2017</u>	<u>Bond</u> <u>Issuance</u>	<u>Bond</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 456,500	\$ -	\$ (9,500)	\$ 447,000
	Current Portion		<u>(9,500)</u>
	Long - Term Portion		<u>\$ 437,500</u>

The revenue bonds of 1988 maturing on or after January 1, 1999, are subject to redemption prior to maturity, in whole or in part, in inverse order of their maturities, on any interest payment date on or after January 1, 1998, without redemption premium.

The above bonds bear interest at 4.125% and mature on January 1. Interest payments are due July 1 and January 1.

The revenue bonds of 2007 are collateralized by income and revenues from the operations of the Water System and a statutory mortgage lien upon the system, together with all future additions and improvements thereto and extensions thereof is created by Section 96.4 of the Kentucky Revised Statutes and by the aforesaid Bond-authorizing Ordinance to and in favor of the holders of this bond and outstanding parity bonds, and the same is hereby recognized as being effective and shall remain in effect until payment in full of the principal of and interest on this bond and net standing parity bonds.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 9 – Revenue Bonds Payable, Continued

The Commission, at their option shall have the right to prepay, on any interest payment date on or after July 1, 2017, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof in multiples of One Hundred Dollars (\$100) as the Commission may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered holder of this Bond at least thirty (30) days prior to the date fixed for prepayment. Provided, however, that so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, this Bond may be prepaid at any time, in whole or in part, at par or face value and without notice or prepayment premium.

The above bonds bear interest at 2.375% and mature on January 1. Interest payments are due on July 1 and January 1.

The bonds will be payable from and secured by a pledge of the gross revenues of the System, and a sufficient portion of said gross revenues has been set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Bonds and the Current Bonds as the same become due.

The Bond is issued under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 82 of the Kentucky Revised Statutes and pursuant to a duly enacted Bond Ordinance authorizing the same. The purpose of the bond was for financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing water system.

The Bond ranks on a parity as to security and source of payment with certain outstanding (i) City of Horse Cave Water System Revenue Bonds, Series 1988, dated June 14, 1988 (the “1988 Bonds”) authorized by an ordinance enacted by the City Council of the City on May 16, 1988 (the “1988 Bond Ordinance”); and (ii) City of Horse Cave Water System Revenue Bonds, Series 2007, dated November 20, 2007 (the “2007 Bonds”). Accordingly, this Bond, together with any bonds ranking on parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

The Bond has been issued in full compliance with the Current Bond Ordinance and the prior Bond Ordinance; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Ordinance and Prior Bond Ordinance, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the “City of Horse Cave Water System Bond and Interest Sinking Fund”, created in the Prior Bond Ordinance.

The Bond does not constitute an indebtedness of the City of Horse Cave within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System.

**CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018**

Note 9 - Revenue Bonds Payable, Concluded:

As provided in the Current Bond Ordinance, the City covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the City as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and the City will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues there from sufficient to pay promptly the principal of and interest on the Prior bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the City to provide for the depreciation thereof.

The City reserved the right to issue additional bonds ranking on parity as to source of payment with this Bond, if necessary in order to complete the aforesaid additions and improvements to the System and to finance future extensions, additional improvements to the System, provided the City has met the requirements of the current Ordinance.

The City, at its option, shall have the right to prepay, on any interest payment date on or after January 1, 2020, in inverse chronological order of the installments due on this Bond, the entire principal amount of the Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the City may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without prepayment premium. Notice of such prepayment shall be given by certified mail to the registered owner of the Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the City to comply with any other provision of this Bond or with any provision of the Current Bond Ordinance, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Ordinance.

Total revenue bonds service requirements are as follows:

Future Long-Term Debt Service Requirements

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2019	\$ 9,500	\$ 10,616	\$ 20,116
June 30, 2020	9,500	10,391	19,891
June 30, 2021	10,000	10,165	20,165
June 30, 2022	10,000	9,928	19,928
June 30, 2023	10,500	9,690	20,190
June 30, 2024-2028	55,500	44,627	100,127
June 30, 2029-2033	63,000	37,681	100,681
June 30, 2034-2038	71,000	29,842	100,842
June 30, 2039-2043	79,500	21,020	100,520
June 30, 2044-2048	90,000	11,104	101,104
June 30, 2049-2053	<u>38,500</u>	<u>1,377</u>	<u>39,877</u>
	<u>\$ 447,000</u>	<u>\$ 196,441</u>	<u>\$ 643,441</u>

**CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018**

Note 10 - Pension Plan

Effective July 1, 2014, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the City, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The City participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching five years of service and are established by the state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.com

**CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018**

Note 10 – Pension Plan, Continued

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Required contributions by the employee are based on the tier:

	<u>Non-Hazardous Required Contribution</u>	<u>Hazardous Required Contribution</u>
Tier 1	5%	8%
Tier 2	5% + 1% for insurance	8% + 1% for insurance
Tier 3	5% + 1% for insurance	8% + 1% for insurance

At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability for CERS.

City's proportionate share of the CERS net pension liability	\$	1,051,835
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The net pension liability for each plan 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 that date.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportion was .013027% for non-hazardous and .012932% for hazardous.

For the year ended June 30, 2018, the City recognized pension expense of \$308,697. 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>
Difference between expected and actual experience in the measurement of the pension liability	\$ 11,558	\$ 19,356
Net difference between projected and actual investment earnings on pension plan investments	79,367	67,408
Changes in assumptions	118,694	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,576	41,732
City contributions subsequent to measurement date	<u>69,296</u>	<u>-</u>
	<u>\$ 322,491</u>	<u>\$ 128,496</u>

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 10 – Pension Plan, Continued

The fiscal year 2018 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows related to pensions will be amortized over five years and recognized in pension expense as follows:

Year Ended	Net Deferred Outflows/ (Inflows)
2019	\$ 94,687
2020	42,960
2021	(12,948)
2022	-
Thereafter	-
Total	<u>\$ 124,699</u>

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

Inflation	2.30%
Projected salary increases	3.05%
Investment rate of return, net of investment expense and inflation	6.25%

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 10 – Pension Plan, Concluded

Asset Class	Target Allocation	Long-term expected real rate of return
U.S. 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%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

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

The following table presents the net pension liability of the City, calculated using the discount rates selected by CERS, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

CERS--	<u>Non-hazardous</u>	<u>Hazardous</u>
1% Decrease	\$ 961,690	\$ 363,774
Current Discount Rate	\$ 762,510	\$ 289,325
1% Increase	\$ 595,898	\$ 227,841

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

Non-hazardous employees are required to contribute 5% while hazardous employees contribute 8% of gross compensation to the plan. New members hired after July 1, 2008 are required to contribute an additional 1% to the plan. The Board of Trustees of KRS determines the Organization's required contribution annually, 14.48% for non-hazardous employees and 22.20% for hazardous employees for the year ended June 30, 2018. For the year ended June 30, 2018, the City's covered payroll was approximately \$482,000 and the City contributed approximately \$69,000 while employees contributed approximately \$24,000.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 11 - Other Post-Employment Benefits (OPEB)

Effective July 1, 2017, The City adopted GASB Statement 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. The objective of this Statement is to address accounting and financial reporting for Other Post-Employment Benefits (OPEB) that are provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows or resources, and expense. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Kentucky Retirement Systems provides participants their proportionate share of the OPEB unfunded liability calculated by Gabriel, Roeder, Smith & Co (GRS) to be used in financial reports. KRS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.ky.gov

Plan Description: The Kentucky Retirement Systems' Insurance Fund is a cost sharing multiple-employer defined benefit Other Post-Employment Benefit plan for members that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state departments, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

Benefits Provided: The plan was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. 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.

Contributions: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290, 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 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. See chart for current values for Dollar Contribution. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The amount of contribution paid by the Insurance Fund is based on years of service.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 11 - Other Post-Employment Benefits (OPEB), Continued

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		Dollar Contribution for Fiscal Year 2017	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>	<u>For Member participation date on or after July 1, 2003</u>	
20+ years	100.00%	<u>System</u>	(in whole dollars)
15-19 years	75.00%	KERS Non-hazardous	\$13.18
10-14 years	50.00%	KERS Hazardous	\$19.77
4-9 years	25.00%	CERS Non-hazardous	\$13.18
Less than 4 years	0.00%	CERS Hazardous	\$19.77
		SPRS	\$19.77

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. The fully insured premiums KRS pays for the CERS health insurance plans are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing it to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees.

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 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. The distributions from the retiree health insurance trust pay the employers' portion of the blended premiums, not the employers' portion of the underlying retiree claims costs. As a result, the benefit payments and contribution amounts need to include an adjustment related to the implicit subsidy. Participating employers adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB 75 purposes.

OPEB Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued KRS financial statements.

At June 30, 2018, the City reported a liability of \$368,792 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 that date. At June 30, 2017, the City's proportionate share was .012932% for hazardous and .013027% for nonhazardous.

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 11 - Other Post-Employment Benefits (OPEB), Continued

The City of Horse Cave, Kentucky is required to contribute at actuarially determined rates. The employer contribution rates for the year ended June 30, 2018 were 9.35% and 4.70% for hazardous and non-hazardous employees' annual creditable compensation, respectively. The compensation requirements of the plan members and the City of Horse Cave, Kentucky, are established and may be amended by the Board of Trustees of KRS. For the year ended June 30, 2018, the City's total covered payroll was approximately \$482,000. The City contributed approximately \$23,000

As a result of its requirement to contribute to the Plan, the City recognized OPEB expense of \$43,432 for the year ended June 30, 2018 and reported deferred inflows and deferred outflows of resources from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 976
Changes of assumptions	79,586	-
Net difference between projected and actual earnings on Plan investments	-	19,084
Change in proportion and differences between employer contribution and proportionate share of plan contribution	-	629
City contributions subsequent to the measurement date	20,265	-
	\$ 99,851	\$ 20,689

The deferred outflows resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in expense as follows:

Year Ended	Net Deferred Outflows/(Inflows)
2019	\$ 16,832
2020	16,832
2021	11,743
2022	10,540
Thereafter	2,950
	\$ 58,897

**CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018**

Note 11 - Other Post-Employment Benefits (OPEB), Continued

Actuarial Assumptions: The total OPEB liability, net OPEB liability and sensitivity information are based on an actuarial valuation performed 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 KRS Board of Trustees adopted the following updated actuarial assumptions used in performing the actuarial valuation as of June 30, 2017.

Assumed investment return	6.25%
Inflation factor	2.30%
Payroll growth	2.00%

Mortality rates were based on the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

The long-term expected rate of return was determined by using a building-block method in which the best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-term expected real rate of return
U.S. 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%	8.25%
Cash	<u>2.00%</u>	1.88%
	100.00%	

Discount Rate: The single discount rate of 5.84% for Non-hazardous and 5.96% for Hazardous was used to measure the total OPEB liability as of June 30, 2017. For both hazardous and non-hazardous groups, the single discount rate is based on the expected rate of return on 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. The following presents the City's proportionate share of the net OPEB liability if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate			
CERS--		<u>Non-hazardous</u>	<u>Hazardous</u>
1% Decrease	\$	333,237	\$ 143,268
Current Discount Rate	\$	261,887	\$ 106,905
1% Increase	\$	202,513	\$ 77,155

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2018

Note 11 - Other Post-Employment Benefits (OPEB), Concluded

Healthcare Trend Rate: The initial trend rate for participants under 65 years of age starts at 7.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 5 years. For those over 65 years of age the trend rate starts at 5.5% and gradually decreases to an ultimate trend rate of 5.0% over a period of 2 years. The following table presents 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% lower or 1% higher than the current healthcare cost trend rate:

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate				
CERS--		<u>Non-hazardous</u>		<u>Hazardous</u>
1% Decrease	\$	200,881	\$	75,677
Current Healthcare Cost	\$	261,887	\$	106,905
Trend Rate				
1% Increase	\$	341,192	\$	145,555

Note 12 – Other Information

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, job related illnesses or injuries to employees, and natural disasters. The City carries commercial insurance for all of these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 13 – Self Funded Health Insurance Plan:

The City of Horse Cave insurance plan is partially self-funded and is re-insured through GWH-Cigna PPO. The third-party administrator is American Trust Administrators, Inc. The City is protected against any individual claim in excess of \$7,500 and any aggregate claims in excess of \$127,163, by the re-insurance. The current funding levels are designed to allow for the maximum claim liability that the City could incur under the Plan. At June 30, 2018, the City held \$136,722 in cash designated for payment of claims from July 1, 2017 through June 30, 2018. The City included \$933 as a liability in accrued expenses at June 30, 2018.

Note 14 – Restatement

Governmental net position at the beginning of the year has been adjusted for a change in accounting principle to recognize the Net OPEB liability as required by GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. The changes had the following effect on governmental net position:

Net position as previously reported	\$ 3,336,320
Recognize net OPEB liability	<u>(269,297)</u>
Net position as restated	<u>\$ 3,067,023</u>

CITY OF HORSE CAVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS, CONCLUDED
For the year ended June 30, 2018

Note 15 – Debt write-off

During the 2018 fiscal year the City elected to write off retainage payable in the amount of \$57,318, related to work at the fire department which was not completed.

Note 16 - Subsequent Events

Management has evaluated subsequent events through January 8, 2019 the date which the financial statements were available to be issued.

Required Supplemental Information

CITY OF HORSE CAVE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL GENERAL FUND AND SPECIAL REVENUE (Non – GAAP Basis)
For the Year Ended June 30, 2018

	General				Special Revenue			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES:								
Taxes	\$ 955,126	\$ 1,011,056	\$ 997,742	\$ (13,314)	\$ -	\$ -	\$ -	\$ -
Licenses & permits	380,650	417,128	424,503	7,375	-	-	-	-
Intergovernmental revenues	51,444	106,036	99,114	(6,922)	45,000	46,618	46,618	-
Charges for services	17,900	23,366	23,368	2	-	-	-	-
Other	103,720	61,082	47,280	(13,802)	-	-	-	-
Total revenues	<u>1,508,840</u>	<u>1,618,668</u>	<u>1,592,007</u>	<u>(26,661)</u>	<u>45,000</u>	<u>46,618</u>	<u>46,618</u>	<u>-</u>
EXPENDITURES:								
General government	387,711	392,929	417,955	(25,026)	-	-	-	-
Police department	430,598	489,418	572,651	(83,233)	-	-	-	-
Fire department	325,298	280,059	208,932	71,127	-	-	-	-
Streets and highways	413,065	425,221	444,387	(19,166)	91,025	17,580	5,875	(11,705)
Parks and recreation	15,950	7,547	8,569	(1,022)	-	-	-	-
Debt service	-	-	18,743	(18,743)	-	-	-	-
Total expenditures	<u>1,572,622</u>	<u>1,595,174</u>	<u>1,671,237</u>	<u>(76,063)</u>	<u>91,025</u>	<u>17,580</u>	<u>5,875</u>	<u>(11,705)</u>
Investment income	-	-	2,059	2,059	25	125	124	(1)
Interest expense	-	-	(17,553)	(17,553)	-	-	-	-
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Operating transfers in	-	-	33,610	33,610	-	45,000	-	(45,000)
Operating transfers out	-	-	-	-	-	(45,000)	-	45,000
Total other financing sources	-	-	18,116	18,116	25	125	124	(1)
Excess of revenues over (under) expenditures	(63,782)	23,494	(61,114)	(84,608)	(46,025)	29,038	40,867	11,704
Fund balance - beginning	<u>395,473</u>	<u>395,473</u>	<u>597,382</u>	<u>(201,909)</u>	<u>70,803</u>	<u>70,803</u>	<u>71,405</u>	<u>-</u>
Fund balance - ending	<u>\$ 331,691</u>	<u>\$ 418,967</u>	<u>\$ 536,268</u>	<u>\$ (286,517)</u>	<u>\$ 24,778</u>	<u>\$ 99,841</u>	<u>\$ 112,272</u>	<u>\$ 11,704</u>

**CITY OF HORSE CAVE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY – CERS**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
City's portion of the net pension liability- hazardous	0.012932%	0.009664%	0.009664%
City's portion of the net pension liability- non-hazardous	0.013027%	0.013240%	0.015553%
City's proportionate share of net pension liability	\$ 1,051,835	\$ 817,703	\$ 816,045
City's covered-employee payroll	\$ 481,557	\$ 395,476	\$ 446,730
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	218.42%	206.76%	182.67%
Plan fiduciary net position as a percentage of the total pension liability-hazardous	49.80%	53.95%	57.52%
Plan fiduciary net position as a percentage of the total pension liability-non-hazardous	53.30%	55.50%	59.97%

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

CITY OF HORSE CAVE, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS - CERS

	<u>June 30, 2017</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 69,296	\$ 84,444	\$ 80,983
Contributions in relation to the contractually required contribution	<u>(69,296)</u>	<u>(84,444)</u>	<u>(80,983)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 City's covered-employee payroll	 \$ 481,557	 \$ 395,476	 \$ 458,308
Contributions as a percentage of covered-employee payroll	14.39%	21.35%	17.67%

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

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total pension liability as of June 30, 2017 was determined using a 2.3% price inflation assumption for the non-hazardous and hazardous systems, and the assumed rate of return was 6.25% for the non-hazardous and hazardous system.

CITY OF HORSE CAVE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY-
COUNTY EMPLOYEES RETIREMENT SYSTEM

June 30, 2018

City's portion of the net OPEB liability-non-hazardous	0.013027%
City's portion of the net OPEB liability-hazardous	0.012932%
City's proportionate share of net OPEB liability	\$ 368,792
City's covered-employee payroll	\$ 481,557
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	77%
Plan fiduciary net position as a percentage of the total OPEB liability-non-hazardous	52.40%
Plan fiduciary net position as a percentage of the total OPEB liability-hazardous	59.00%

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

**CITY OF HORSE CAVE, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS-
COUNTY EMPLOYEES RETIREMENT SYSTEM**

June 30, 2018

Contractually required contribution	\$	23,099
Contributions in relation to the contractually required contribution	\$	<u>(23,099)</u>
	\$	<u> -</u>
 City's covered-employee payroll	 \$	 481,557
Contributions as a percentage of covered-employee payroll		4.80%

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

Notes to the Required Supplementary Information

Changes of Benefit Terms: There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

Changes of Assumptions: Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.3% price inflation assumption for the non-hazardous and hazardous systems, and the assumed rate of return was 6.25% for the non-hazardous and hazardous system.



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

Honorable Mayor and Members of the City Council
City of Horse Cave, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Horse Cave, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Horse Cave, Kentucky's basic financial statements, and have issued our report thereon dated January 8, 2019. Our report includes a reference to other auditors who audited the financial statements of Horse Cave Water Commission, as described in our report on the City of Horse Cave, Kentucky's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 of Horse Cave, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

January 8, 2019

