

CITY OF TAYLORSVILLE, KENTUCKY

June 30, 2019

AUDITED FINANCIAL STATEMENTS



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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City of Taylorsville, Kentucky

Governmental Directory

June 30, 2019

Mayor Matt Douglas
Commissioner Kathy Spears
Commissioner Beverly Ingram
Commissioner Ellen Shelburne
Commissioner Abbi Nation

City Clerk Steve Biven
Comptroller Randy McConnell
Co-treasurer Jan Merzweiler
Co-treasurer Kim Forrest
Public Works Director Harold Compton
Police Chief..... Brian Sumner

INDEPENDENT AUDITORS' REPORT

City of Taylorsville, Kentucky
70 Taylorsville Road
Taylorsville, KY 40071

To the City Commission

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, the City adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and Statement 85, *Omnibus 2017*. 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, budgetary schedules, and pension schedules, as listed in the table of contents, 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 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the schedules of fund activity are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, on our consideration of the City'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's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 13, 2019

As financial management of the City of Taylorsville, Kentucky, (City) we offer readers of these financial statements this narrative overview and analysis of the financial activities of the for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights:

- The assets of the City exceeded liabilities at June 30, 2019, by \$19,285,009 compared to June 30, 2018 of \$19,388,038.
- At June 30, 2019, the governmental funds reported combined fund balances of \$1,367,464.

Overview of the Financial Statements:

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

Government-wide financial statements:

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

- The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities presents information showing how a government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.
- Government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The City's governmental activities include police, contracted fire protection, streets, sanitation, and general government. The City has one business-type activity, water and sewer service.

Fund Financial Statements:

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

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements.

- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.
- The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Municipal Road Aid funds.
- The City adopts an annual appropriated budget for all of the governmental funds. A budgetary comparison statement for these funds is included in the Audit Report.
- The basic governmental fund financial statements are included in this report.

Proprietary Fund:

Proprietary funds provide the same type of information as the government-wide financial statements' business-type activities, only in more detail. The City maintains one proprietary fund to account for its water and sewer services.

- The basic proprietary fund financial statements are included in this report.

Notes to the Financial Statements:

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

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning funding progress for the City's employee pension obligation.

Government-wide Financial Analysis:

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The largest part of the City net position reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The increase or decrease reported in the business-type activities cannot be used to make up a difference reported in governmental activities. The City generally can only use the net position to finance the continuing operations of the water and sewer operations.

Following is a summary statement of net position as of June 30, 2019:

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 1,388,699	\$ 5,244,949	\$ 6,633,648
Capital assets	800,520	23,295,805	24,096,325
Total assets	2,189,219	28,540,754	30,729,973
Deferred inflows	234,420	690,737	925,157
Current liabilities	20,626	713,936	734,562
Long Term liabilities	702,566	10,639,548	11,342,114
Total liabilities	723,192	11,353,484	12,076,676
Deferred outflows	135,474	257,971	393,445
Net position:			
Net investment in capital assets	900,520	15,263,954	16,164,474
Restricted	109,165	3,802,747	3,911,912
Unrestricted	655,288	(1,446,665)	(791,377)
Total net position	<u>\$ 1,664,973</u>	<u>\$ 17,620,036</u>	<u>\$ 19,285,009</u>

Revenues for the City are generated from three main sources. Occupational license tax revenue accounts for approximately 32% of revenue before contributions. Insurance premium revenue accounts for approximately 23% of revenue before contributions. Property tax revenue accounts for approximately 15% of revenue before contributions. In total these three sources account for approximately 70% of total revenue before contributions in the general fund.

Financial Analysis of the Government's Funds:

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial and legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The City's governmental funds reported combined ending fund balances of \$1,367,464 of which \$1,258,299 is unassigned.

The general fund is the primary operating fund of the City. During the year revenues exceeded expenditures in the general fund by \$105,225.

Expenses for the year on the FEMA Drainage Project were \$199,509.

The table below illustrates the breakdown of program costs as in compliance with GASB 34:

Functions/Programs	2019 Expenditures	2018 Expenditures
Governmental activities:		
Fire	\$0	\$4,414
Street	77,400	112,764
Sanitation	88,584	81,734
General government	382,508	743,282
Police	572,371	567,064
Total governmental	<u>\$1,120,863</u>	<u>\$1,509,258</u>

The municipal road aid fund had no expenditures for the year.
The municipal road aid fund balance at June 30 is \$97,734.

Financial Analysis of the Proprietary Funds:

The City's only proprietary fund is the water and sewer fund. This fund provides the same information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund is \$(1,446,665) as of June 30, 2019.

Budgetary Highlights:

Differences between the original budget and actual expenditures for all governmental funds are included in this Report.

- Water revenue of \$3,834,234 was \$52,766 under budget for the year.
- Meter sets of \$229,625 were \$40,375 under budget for the year.
- Sewer revenue of \$359,656 was \$30,344 under budget for the year.
- Contributions from the KIA sewer project were \$11,750.
- Contributions from the KYTC fund bridge project were \$152,382.
- Repairs and Maintenance Water Expense of \$89,624 was \$14,264 over Budget due to backhoe and skidster repair.
- Repairs and Maintenance Sewer Expense of \$73,729 was \$58,729 over Budget due to degreaser to clean pump stations and various repairs on Sewer Pump Stations.
- Louisville Water Purchased of \$1,358,309 was \$18,309 over budget for the year.
- Sewer net income before contributions of \$(216,080) was \$84,495 under budget for the year.
- Water net Income before contributions of \$91,960 was \$114,375 under budget for the year.
- Total net income before contributions of \$(124,120) was \$29,880 over budget for the year.
- Total net income after contributions of \$40,012 was \$194,042 over budget for the year.

Capital Asset Administration:

The City's investment in capital assets includes land, buildings and improvements, equipment, water systems, sewer systems, streets, lighting systems, traffic signals, and other infrastructure. This investment in capital assets as of June 30, 2019, was \$24,196,324 (net of accumulated depreciation). Major capital asset events during the year were:

- Additions of \$2,278,627 to the water and sewer fund and \$28,183 to the general fund for a total of \$2,301,810 in capital asset additions.
- Deletions were \$0 in the water and sewer fund and \$31,032 in the general fund for total deletions of \$31,032.
- Depreciation expense of \$67,621 was charged to governmental activities. \$901,299 was charged to the business-type activities.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 75,416	\$ 75,416	\$ 471,118	\$ 371,118	\$ 546,534	\$ 446,534
Building and improvements	712,387	737,741	225,343	238,910	937,730	976,651
Equipment and vehicles	112,719	131,802	151,299	185,220	264,018	317,022
Water and sewer System			22,448,045	21,123,228	22,448,045	21,123,228
Net capital assets	<u>\$900,522</u>	<u>\$944,959</u>	<u>\$23,295,805</u>	<u>\$21,918,476</u>	<u>\$ 24,196,327</u>	<u>\$ 22,863,435</u>

Additional information on capital assets can be found in Note 3 in the Notes to Financial Statements.

Debt Administration:

The City had total outstanding debt of \$8,031,851 at June 30, 2019. Following is a comparative statement of outstanding debt:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special revenue bonds	-	-	8,031,851	6,785,034	8,031,851	6,785,034
Compensated absences	25,484	22,821	67,127	67,895	92,611	90,716
Total	<u>\$25,484</u>	<u>\$22,821</u>	<u>\$ 8,098,978</u>	<u>\$ 6,852,929</u>	<u>\$ 8,124,462</u>	<u>\$ 6,875,750</u>

During the year, \$218,656 of debt was retired.

Interim financing on the Phase V water improvement project increased debt by \$1,465,472.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Comptroller
City of Taylorville, Kentucky
Post Office Box 279
Taylorsville, KY 40071

CITY OF TAYLORSVILLE, KENTUCKY
Water and Sewer Enterprise Fund
Water Production Report

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gallons Purchased	578,402,500	598,233,000	577,121,000	552,812,000	562,416,230
Gallons Sold	<u>396,372,954</u>	<u>413,483,422</u>	<u>392,164,594</u>	<u>391,905,579</u>	<u>396,439,374</u>
Gallons to Account For	182,029,546	184,749,578	184,956,406	160,906,421	165,976,856
Gallons used by City And Returns to Louisville	50,999,148	58,387,464	48,627,460	40,377,430	53,173,962
Gallons Available For Sale	527,403,352	539,845,536	528,493,540	512,434,570	509,242,268
Gallons Sold	<u>396,372,954</u>	<u>413,483,422</u>	<u>392,164,594</u>	<u>391,905,579</u>	<u>396,439,374</u>
System Loss	131,030,398	126,362,114	136,328,946	120,528,991	112,802,894
% Loss to Gallons Purchased	22.65	21.12	23.62	21.80	20.06
% Loss to Gallons Available	24.84	23.41	25.80	23.52	22.15
<u>Number of Connections in Use</u>					
City	689	676	663	636	637
County	7,017	6,804	6,689	6,514	6,402
Total	7,706	7,480	7,352	7,150	7,039
<u>Water Connections by Account Classification</u>					
Apartments	55	53	48	48	51
Bulk	3	3	3	3	3
Commercial	148	125	128	124	123
Educations Inst.	13	15	14	14	15
Farmstead	50	50	50	51	51
Government	29	30	31	31	30
Industrial	3	3	3	3	3
Miscellaneous	38	37	40	36	32
Trailer Park	2	2	2	2	2
Residential	7,365	7,162	7,033	6,838	6,729
Total	7,706	7,480	7,352	7,150	7,039

City of Taylorsville, Kentucky
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents - unrestricted	\$ 1,101,718	\$ 992,334	\$ 2,094,052
Cash and cash equivalents - restricted	109,165	3,802,747	3,911,912
Receivables	173,617	192,451	366,068
Intergovernmental receivables	4,199		4,199
Inventories	0	257,417	257,417
Nondepreciable capital assets	75,416	471,118	546,534
Depreciable capital assets	825,104	22,824,687	23,649,791
Total assets	2,289,219	28,540,754	30,829,973
Deferred outflows of resources:			
Deferred outflows related to pensions	172,563	524,199	696,762
Deferred outflows related to OPEB	61,857	166,538	228,395
Total deferred outflows	234,420	690,737	925,157
Total assets and deferred outflows of resources	2,523,639	29,231,491	31,755,130
Liabilities:			
Accounts payable	7,090	29,213	36,303
Accrued expenses	0	28,241	28,241
Accrued wages and benefits	13,536	42,585	56,121
Customer deposits	0	487,975	487,975
Interest payable	0	125,922	125,922
Net pension liability	522,919	1,967,108	2,490,027
Net OPEB liability	154,163	573,462	727,625
Long-term liabilities:			
Due within one year	0	224,809	224,809
Due in more than one year	0	7,807,042	7,807,042
Compensated absences	25,484	67,127	92,611
Total liabilities	723,192	11,353,484	12,076,676
Deferred inflows of resources:			
Deferred inflows related to pensions	87,930	149,120	237,050
Deferred inflows related to OPEB	47,544	108,851	156,395
Total deferred inflows	135,474	257,971	393,445
Total liabilities and deferred inflows of resources	858,666	11,611,455	12,470,121
Net position:			
Net investment in capital assets	900,520	15,263,954	16,164,474
Restricted	109,165	3,802,747	3,911,912
Unrestricted	655,288	(1,446,665)	(791,377)
Total net position	\$ 1,664,973	\$ 17,620,036	\$ 19,285,009

The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Statement of Activities
Year Ended June 30, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges	Operating	Capital	Governmental	Business-Type	
	Expenses	for Services	Grants and Contributions	Grants and Contributions	Activities	Activities	Total
Governmental activities:							
General government	\$ 401,989	\$	\$	\$ 150,445	\$ (251,544)	\$	\$ (251,544)
Public safety - police	614,855	31,595	32,296		(550,964)		(550,964)
Public safety - fire	0				-		-
Sanitation	88,584	86,055			(2,529)		(2,529)
Streets	78,960		15,594		(63,366)		(63,366)
Total governmental activities	1,184,388	117,650	47,890	150,445	(868,403)	0	(868,403)
Business-type activities:							
Water services	4,382,824	4,139,716		164,132		(78,976)	(78,976)
Sewer services	679,546	546,410				(133,136)	(133,136)
Total business-type activities	5,062,370	4,686,126	0	164,132	0	(212,112)	(212,112)
Total city	\$ 6,246,758	\$ 4,803,776	\$ 47,890	\$ 314,577	(868,403)	(212,112)	(1,080,515)
General revenues:							
Property tax					193,388		193,388
Licenses and permits					294,466		294,466
Occupational license tax					350,873		350,873
Franchise fees					71,850		71,850
ABC license fee					7,300		7,300
Interest					903	13,461	14,364
Other revenues					3,012	38,233	41,245
Gain on sale of assets					4,000		4,000
Total general revenues					925,792	51,694	977,486
Change in net position					57,389	(160,418)	(103,029)
Net position - beginning, as restated					1,607,584	17,780,454	19,388,038
Net position - ending					\$ 1,664,973	\$ 17,620,036	\$ 19,285,009

City of Taylorsville, Kentucky
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Special Revenue	Total Governmental Funds
Assets:			
Cash and cash equivalents - unrestricted	\$ 1,101,718	\$ 0	\$ 1,101,718
Cash and cash equivalents - restricted	11,431	97,734	109,165
Taxes receivable	173,617	0	173,617
Intergovernmental receivable	4,199	0	4,199
Total assets	<u>\$ 1,290,965</u>	<u>\$ 97,734</u>	<u>\$ 1,388,699</u>
Liabilities:			
Accounts payable	\$ 7,090	\$ 0	\$ 7,090
Payroll related liabilities	13,536	0	13,536
Total liabilities	<u>20,626</u>	<u>0</u>	<u>20,626</u>
Deferred inflows of resources			
Unavailable revenue	<u>609</u>	<u>0</u>	<u>609</u>
Fund balances:			
Nonspendable	0	0	0
Restricted	11,431	97,734	109,165
Committed	0	0	0
Assigned	0	0	0
Unassigned	1,258,299	0	1,258,299
Total fund balances	<u>1,269,730</u>	<u>97,734</u>	<u>1,367,464</u>
Total liabilities and fund balances	<u>\$ 1,290,965</u>	<u>\$ 97,734</u>	<u>\$ 1,388,699</u>

The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2019

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

Total governmental fund balances	\$	1,367,464
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.		900,520
Some assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds		609
Deferred outflows and inflow or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows related to pensions		172,563
Deferred outflows related to OPEB		61,857
Deferred inflows related to pensions		(87,930)
Deferred inflows related to OPEB		(47,544)
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.		
Net pension liability		(522,919)
Net OPEB liability		(154,163)
Compensated absences		(25,484)
Net position of governmental activities	\$	<u>1,664,973</u>

The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Statement of Revenues, Expenditure, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	General Fund	Special Revenue	Total Governmental Funds
Revenues:			
Property tax	\$ 193,387	\$ 0	\$ 193,387
Licenses and permits	301,766	0	301,766
Occupational license tax	350,873	0	350,873
Intergovernmental	32,296	15,594	47,890
Franchise fees	71,850	0	71,850
Charges for services	86,055	0	86,055
School resource officer	31,200	0	31,200
Grant proceeds	150,445	0	150,445
Interest	811	92	903
Other	3,405	0	3,405
Total revenues	<u>1,222,088</u>	<u>15,686</u>	<u>1,237,774</u>
Expenditures:			
Current			
General government	379,318	0	379,318
Public safety -police	552,378	0	552,378
Public safety - fire	0	0	0
Sanitation	88,584	0	88,584
Streets	77,400	0	77,400
Capital outlay			
General government	3,190	0	3,190
Public safety -police	19,993	0	19,993
Total expenditures	<u>1,120,863</u>	<u>0</u>	<u>1,120,863</u>
Net change in fund balances	101,225	15,686	116,911
Other financing sources (uses):			
Sale of assets	4,000	0	4,000
Total other financing sources (uses)	<u>4,000</u>	<u>0</u>	<u>4,000</u>
Net change in fund balances	105,225	15,686	120,911
Beginning fund balances	<u>1,164,505</u>	<u>82,048</u>	<u>1,246,553</u>
Ending fund balances	<u>\$ 1,269,730</u>	<u>\$ 97,734</u>	<u>\$ 1,367,464</u>

The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ 120,911

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset additions	23,183	
Depreciation expense	<u>(67,621)</u>	(44,438)

Governmental funds report pension contributions as expenditures; however, in the statement of activities the cost of pension and OPEB benefits earned is reported as an expense

Pension and OPEB expense		(16,423)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Compensated absences		(2,662)
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Change in net position of governmental activities	<u>\$ 57,388</u>
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The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Statement of Net Position
Proprietary Fund
June 30, 2019

	Utility Fund
Assets:	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 992,334
Cash and cash equivalents - restricted	3,802,747
Customer receivables	192,451
Inventories	257,417
Total current assets	<u>5,244,949</u>
Noncurrent assets:	
Nondepreciable capital assets	471,118
Depreciable capital assets	22,824,687
Total noncurrent assets	<u>23,295,805</u>
Total assets	<u>28,540,754</u>
Deferred outflows of resources:	
Deferred outflows related to pensions	524,199
Deferred outflows related to OPEB	166,538
Total deferred outflows	<u>690,737</u>
Total assets and deferred outflows of resources	<u>\$ 29,231,491</u>
Liabilities:	
Accounts payable	\$ 29,213
Accrued expenses	28,241
Payroll and related expenses	42,585
Customer deposits	487,975
Interest payable	125,922
Compensated absences	67,127
Net pension liability	1,967,108
Net OPEB liability	573,462
Long-term liabilities:	
Due within one year	224,809
Due in more than one year	7,807,042
Total liabilities	<u>11,353,484</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	149,120
Deferred inflows related to OPEB	108,851
Total deferred inflows	<u>257,971</u>
Total liabilities and deferred inflows of resources	<u>11,611,455</u>
Net position:	
Net investment in capital assets	15,263,954
Restricted for:	
Debt service	286,093
Water/sewer operation	3,516,654
Unrestricted	(1,446,665)
Total net position	<u>17,620,036</u>
Total liabilities and net position	<u>\$ 29,231,491</u>

City of Taylorsville, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2019

Operating revenues	
Water revenue	\$ 4,139,716
Sewer revenue	<u>546,410</u>
Total operating revenues	<u>4,686,126</u>
Operating expenses	
Water services	3,525,943
Sewer services	<u>375,765</u>
Total operating expenses	<u>3,901,708</u>
Operating income before depreciation	784,418
Depreciation	<u>901,299</u>
Operating income	<u>(116,881)</u>
Non-operating income (expense)	
Grant revenue	164,132
Interest income	13,461
Other revenue	38,233
Interest expense	<u>(259,364)</u>
Total non-operating income (expense)	<u>(43,538)</u>
Change in net position	(160,419)
Net position - beginning, as restated	<u>17,780,455</u>
Net position - ending	<u><u>\$ 17,620,036</u></u>

The accompanying notes are an integral part of these financial statements.

City of Taylorsville, Kentucky
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2019

Cash flows from operating activities	
Receipts from customers	\$ 5,571,837
Payments to suppliers and service proviers	(2,426,357)
Payments to employees for salaries and benefits	(1,398,624)
Payments to general government	<u>(86,055)</u>
Net cash provided by operating activities	<u>1,660,801</u>
Cash flows from capital and related financing activities	
Acquistion of property	(2,278,628)
Principal payments on bonds	1,246,816
Interest payments on bonds	(262,535)
Cash received from grants	<u>164,132</u>
Net cash used by capital and related financing activities	<u>(1,130,215)</u>
Cash flows from investing activities	
Other cash receipts	38,232
Cash received from interest income	<u>13,461</u>
Net cash provided by investing activities	<u>51,693</u>
Net increase in cash and cash equivalents	582,279
Cash and cash equivalents, beginning of year	<u>4,212,802</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,795,081</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

These financial statements of the City of Taylorsville, Kentucky (City) were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP). The following summary of the more significant policies of the City is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The City was incorporated January 29, 1829. The City operates under a Mayor-Commission form of government consisting of the mayor and four city commission members. The City's major operations include fire and police protection, street maintenance, and general administrative services. In addition, the City operates a water and sewer system and provides solid waste collection.

The financial statements of the City include the funds for which the Mayor and Commission are financially accountable. Financial accountability, as defined by Section 2100 of the Government Account Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City's ability to significantly influence operations, select the governing body, participate in fiscal management, and the scope of public service. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Accounting/Measurement Focus/Financial Statement Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in two (2) categories: 1) charges for services, and 2) operating grants and contributions.

Certain eliminations have been made as prescribed as GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets 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. In the Statement of Activities, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all GASB Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City Applies all applicable FASB Statements and Interpretations issued after November 30th, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major Governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending of “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance revenue sources, which have been treated as susceptible to accrual by the City, are property tax, insurance premium tax, occupational tax, intergovernmental revenues and other taxes. (See Note D) Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fund Balance Classification: The Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily 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:

- Non-spendable: 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 has classified Receivables as being Non-spendable.
- Restricted: This classifications includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors,

contributors, or laws of regulations of other governments, of (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain cash accounts as being restricted because their use is restricted by Kentucky Revised Statutes and/or a City Ordinance. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission 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 did not have any committed resources as of June 30, 2019.
- 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 Commission or through the City Commission delegating this responsibility to the City Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. No funds have been assigned as of June 30, 2019.
- Unassigned: This classification includes the residual fund balance for the General Fund. 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.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are reported as non-operating expenses.

Component Units and Fiduciary Activities

There are no government component units incorporated in the basic government-wide financial statements. A component unit is a legally separate entity that is included in the primary government's financial reporting entity using the criteria of Government Standards Accounting Board Statement No. 14.

There are no fiduciary activities incorporated in the financial statements.

Budgetary Information, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with Section 91 A.030 of Kentucky Revised Statutes (KRS) for the general, enterprise fund, and the special revenue fund. Budgets for all government activities and business-type activities and adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

On or before June 30th of each year, the Mayor must present the proposed budget to the City's Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than July 1st of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted as the object level. Transfers of appropriations between departments require the approval of the governing Commission. The legal level of budgetary control is the governing Commission. Certain supplemental budgetary appropriations were made during the year, which were not considered material.

Budgeted amounts, as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance Accounting

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Investments

Kentucky Revised Statutes authorize the City to invest in obligations of the U.S Treasury, agencies, and instrumentalities; commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record; bankers' acceptances, repurchase agreements; and the state treasurer's investment pool.

Accounts Receivable

Amounts due from private individuals, business, organizations or other government entities which pertain to charges for services rendered by the City departments are reported as receivables.

Receivables are reviewed periodically to establish or update the provisions for uncollectible amounts. These provisions are estimated based on an analysis for the age of the various accounts. The City records the amount of earned but unbilled revenues for the Water and Sewer Utilities System enterprise funds.

Interfund Transactions

Interfund transactions are reflected as loans, services provided, and reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Charges for solid waste collection (garbage) are included in the monthly bills sent to customers of the Taylorsville Water Works and Sewer Department. The utility company remits the fees collected from the customers to the city of Taylorsville General Fund. During fiscal year ended June 30, 2019, \$88,584 was collected for solid waste collection and remitted to the Taylorsville General Fund.

Inventories

Inventories within the proprietary fund consists primarily of supplies valued at cost which approximates market. Cost is determined by the first-in, first-out method. The cost of inventories is recorded as an expense when consumed rather than when purchased.

Restricted Assets

The use of certain assets of general governmental funds and business-type proprietary funds is restricted by specific provisions of City ordinances, Kentucky Revised Statutes and bond resolutions. Assets so designated are identified as restricted assets in the balance sheet. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed.

Restricted assets are classified as non-current if they are for the acquisition or construction of capital assets, for liquidation of long-term debt or other than current operations.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established a threshold of \$1,000 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects as constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but charged to an expense account in the current year.

Impairment Loss

General Government Activities and Business-type Activities revenues do not include impairment losses due to the elimination of equipment (net of accumulated depreciation) that was no longer of service for City use.

Infrastructure

The City has elected to use the modified approach in accounting for its street network (pavement, drainage, sidewalks, and curbs). The modified approach allows governments to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the street network are capitalized. The City uses a pavement rating system to rate street condition and quantifies the results of maintenance efforts.

The condition of street pavement is rated using the Asphalt Institute's *Asphalt Pavement Rating Form*, which bases ratings on a weighted average of thirteen defects found in pavements. The form uses a measurement scale that is based on a condition index rating from zero for failed pavement to 100 for pavement in perfect condition. The condition index is used to classify roads and streets in seven categories: very good (94-100), good (76-93), fair (64-75), poor (41-63), very poor (0-40). It is the City's policy to maintain at least 80% of its street system in good or better condition. The last time the City rated the condition of City Streets was for reporting the financial statements for June 30, 2010 and the year then ended.

Operating and Non-Operating Revenues and Expenses

The business-type proprietary fund financial statements distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses are those that result from operating revenues are charges for water and wastewater treatment services of the City's utility system. Operating expenses include the cost of sales and services, administration costs and depreciation expenses.

Non-operating revenues and expenses are all those that do not meet the criteria described previously, and include interest and tax revenues, and debt service expenses.

Compensated Absences

It is the policy of the City to permit City employees to accumulate a limited amount of earned but unused leave benefits which will be paid to City employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned. The valuation of accrued leave benefits calculated in accordance with GASB Statement No. 16, *Accounting for compensated absences*. The liability is typically liquidated with resources of the same fund that has paid the applicable employee's regular salaries and fringe benefits.

Net Position - Reserves and Designations

At June 30, 201, net position of the primary government consisted of the following:

	Governemental Activities	Business-Type Activities
Net investment in capital assets	\$ 900,520	\$ 15,263,954
Restricted for:		
Debt service	0	286,093
Water/sewer operation	0	3,516,654
Streets and roads	97,734	0
FEMA drainage project	11,431	0
Unrestricted	<u>655,288</u>	<u>(1,446,665)</u>
Total net position	<u><u>\$ 1,664,973</u></u>	<u><u>\$ 17,620,036</u></u>

None of the net position is restricted by enabling legislation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes Receivable, Property Tax Calendar and Provision for Uncollectable Real Property Taxes

Property tax (real property) rolls are prepared by the Spencer County Property Tax Assessors offices on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The due date collection for all taxes exclusive of vehicle taxes are as follows:

Description	Date per KRS 134.015
Due date for payment	Upon receipt
2% Discount	To November 30
Face value payment period	To December 31
Past due date, 10% penalty	January 1
Interest charges	1.0% per month effective January 1

Vehicle taxes are collected by the County Clerk of Spencer County. Vehicle taxes are due in the birth month of the licensee.

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Note 2 - Deposits and Investments

The City maintains the following governmental activity cash accounts:

	<u>Non-restricted</u>	<u>Restricted</u>
General fund checking	\$ 1,101,718	\$
FEMA drainage project		11,431
Municipal aid checking		<u>97,734</u>
	<u>\$ 1,101,718</u>	<u>\$ 109,165</u>

The City maintains the following business-type activity cash accounts:

	<u>Non-restricted</u>	<u>Restricted</u>
Water and sewer money market	\$ 368,408	\$
Operation and maintenance checking	622,941	
Revenue checking		2,682
Bridge projects		82
Escrow checking		466,850
Water and sewer extension checking		12,601
Bond and interest checking		286,093
Depreciation money market		3,012,276
Customer rebate checking		811
Normandy waterline relocate		82
Meter set and supplemental checking		21,125
Phase V water system checking		50
Kings Church Road checking		<u>95</u>
	991,349	3,802,747
Cash on hand	485	
Petty cash	<u>500</u>	
	<u>\$ 992,334</u>	<u>\$ 3,802,747</u>

The city reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three (3) months or less to be cash equivalents.

Concentrations of Credit Risk

The City has reduced its concentration of credit risk by depositing City funds in several federally insured financial institutions. As of June 30, 2019, City funds were deposited in three (3) area financial institutions; Citizens Union Bank 47%, Commonwealth Bank and Trust 47%, and The Peoples Bank 6%.

Credit Risk

At June 30, 2019, the carrying value of the City of Taylorsville's deposits was \$6,155,537. The Federal Deposit Insurance Corporation (FDIC) insures the first \$250,000 of the total of deposits in financial institutions. Total deposited funds in excess of the \$250,000 insured by FDIC are covered by securities pledged for the City by Citizens Union Bank, Commonwealth Bank and Trust Company, and The Peoples Bank.

Financial Institution	Deposits	FDIC Insured	Securities Market Value	Surplus
Citizens Union Bank	\$ 2,901,877	\$ 250,000	\$ 3,567,545	\$ 915,668
Commonwealth Bank	\$ 2,885,252	\$ 250,000	\$ 3,592,430	\$ 957,178
The Peoples Bank	\$ 368,408	\$ 250,000	\$ 154,006	\$ 35,598

Custodial Credit Risk

Kentucky Revised Statutes (KRS) authorizes municipalities to invest in obligations of the United States of America and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge security obligations of the United States of America government or its agencies.

The Ordinances authorizing the Waterworks and Sewer System revenue bonds require that the City of Taylorsville establish a sinking fund and a depreciation reserve fund.

The sinking fund is funded in an amount not less than the maximum annual requirements for the payment of principal and interest on all revenue bonds. The sinking fund has a balance of \$286,093 as of June 30, 2019 and is considered fully funded.

The depreciation reserve fund is to be funded monthly from the revenue fund until fully funded at \$485,440. The balance in the depreciation reserve as of June 30, 2019 is \$3,012,276 and is considered fully funded.

Note 3 - Capital Assets

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

Governmental Activities:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets :				
Land	\$ 75,416	\$ 0	\$ 0	\$ 75,416
Buildings and improvements	1,091,263	3,190	0	1,094,453
Vehicles	479,881	19,993	31,032	468,842
Equipment	113,266	0	0	113,266
Total capital assets	1,759,826	23,183	31,032	1,751,977
Less accumulated depreciation for:				
Buildings	353,522	28,544		382,066
Vehicles	356,027	36,181	31,032	361,176
Equipment	105,317	2,896		108,213
Total accumulated depreciation	814,866	67,621	31,032	851,455
Governmental activities capital assets, net	\$ 944,960	\$ (44,438)	\$ 0	\$ 900,522

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CITY OF TAYLORSVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Business-type activities:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets:				
Land	\$ 371,118	\$ 100,000	\$ 0	\$ 471,118
Buildings and improvements	667,328	4,867	0	672,195
Machinery and equipment	443,280	1,656	0	444,936
Vehicles, water	661,907	13,841	0	675,748
Vehicles, sewer	53,896	0	0	53,896
Louisville line project	3,849,395	0	0	3,849,395
Phase I water distribution system	2,575,753	0	0	2,575,753
Phase II water distribution system	4,158,606	0	0	4,158,606
Phase III water distribution system	3,336,509	0	0	3,336,509
Phase IV water distribution system	576,194	0	0	576,194
Water system	9,825,965	2,090,546	0	11,916,511
Sewer system	5,211,015	67,715	0	5,278,730
Waste water upgrade	3,901,744	0	0	3,901,744
Total capital assets being depreciated	<u>35,632,710</u>	<u>2,278,625</u>	<u>0</u>	<u>37,911,335</u>
Less accumulated depreciation for:				
Buildings and improvements	428,418	18,434		446,852
Machinery and equipment	420,802	7,073		427,875
Vehicles, water	499,165	42,346		541,511
Vehicles, sewer	53,896			53,896
Louisville line project	2,096,932	95,610		2,192,542
Phase I water distribution system	933,711	64,394		998,105
Phase II water distribution system	1,160,923	103,966		1,264,889
Phase III water distribution system	753,668	83,413		837,081
Phase IV water distribution system	112,429	14,404		126,833
Water system	3,806,873	239,240		4,046,113
Sewer system	2,816,388	134,873		2,951,261
Waster water upgrade	631,029	97,543		728,572
Total accumulated depreciation	<u>13,714,234</u>	<u>901,296</u>	<u>0</u>	<u>14,615,530</u>
Business-type activities capital assets, net	<u>\$ 21,918,476</u>	<u>\$ 1,377,329</u>	<u>\$ 0</u>	<u>\$ 23,295,805</u>

During the fiscal year ending June 30, 2019 depreciation expense was charged to the funds as follows:

Governmental activities:

General government	\$ 22,671
Public safety - police	43,390
Streets	<u>1,560</u>
	<u>\$ 67,621</u>

Business-type activities:

Water	\$ 668,882
Sewer	<u>232,417</u>
	<u>\$ 901,299</u>

Depreciation is computed using the straight-line method. The estimated service life of each class of capital asset is based upon guidelines established by the Internal Revenue Service. Donated capital assets are recorded at estimated fair value at the date of donation.

Note 4 – Receivables

As of June 30, 2019, the receivables due the City consist of the following:

	Governmental Activities	Business-Type Activities
Property taxes	\$ 2,828	\$
Insurance tax	41,680	
Occupational tax	60,673	
FEMA	66,571	
Other	1,865	
Customer accounts		<u>192,451</u>
Receivables	<u>\$ 173,617</u>	<u>\$ 192,451</u>
KLEFPF	\$ 4,198	\$
Intergovernmental receivables	<u>\$ 4,198</u>	<u>\$ 0</u>

The City uses the specific charge-off method to recognize bad debt expense.

Note 5 - Long Term Debt

Changes in the City's long-term liabilities for the year ended June 30, 2019 are as follows:

	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019	Amounts Due Within One Year
Business-type activities:					
Revenue bonds					
Kentucky Infrastructure Authority					
F02-03	\$ 366,534	\$ 0	\$ (65,155)	\$ 301,379	\$ 65,808
Rural Development Agency					
Series 1994 A 92-07	425,000	0	(18,000)	407,000	19,000
Series 1998 91-10	1,368,000	0	(41,000)	1,327,000	42,000
Series 2001 92-12	540,000	0	(14,000)	526,000	15,000
Series 2004 91-13	1,403,000	0	(30,500)	1,372,500	32,000
Series 2008 County	1,215,500	0	(20,500)	1,195,000	21,000
Series 2008 City	180,000	0	(3,000)	177,000	3,000
Series 2011 A	784,000	0	(16,500)	767,500	16,500
Series 2011 B	503,000	0	(10,000)	493,000	10,500
Series 2019 County		998,103		998,103	
Series 2019 City		467,369		467,369	
	<u>\$ 6,785,034</u>	<u>\$ 1,465,472</u>	<u>\$ (218,655)</u>	<u>\$ 8,031,851</u>	<u>\$ 224,808</u>

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Business - Type Activities

\$1,241,766 Series 2003 Phase I Water Distribution System Bonds due to Kentucky Infrastructure Authority, semi-annual installments approximate \$35,000 and are due December 1, 2023, interest rate is fixed at 1.000%.	\$ 301,379
\$666,000 Series A 1994 Waterworks and Sewer System Revenue Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$7,000 to \$37,000 throughout the term of the bond, and are due January 1, mature January 1, 2034, interest rate is fixed at 4.500%.	407,000
\$1,844,000 Series 1998 Waterworks and Sewer System Revenue Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$19,000 to \$95,000 throughout the term of the bond, and are due January 1, mature January 1, 2039, interest rate is fixed at 4.500%.	1,327,000
\$690,000 Series 2001 Sewer Rehabilitation Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$7,000 to \$36,0000 throughout the term of the bond, and are due January 1, mature January 1, 2041, interest rate is fixed at 4.500%.	526,000
\$1,692,000 Series 2004 phase II Water Distribution System Bonds Due to United States Department of Agriculture, Rural Development, annual installments range from \$16,500 to \$93,500 throughout the term of the bond, and are due January 1, mature January 1, 2043, interest rate is fixed at 4.500%.	1,372,500
\$1,350,000 Series 2008 Phase III Water Distribution System Bonds (in county project)(Formerly Kentucky Rural Water Financing Corporation interim financing), due to United States Department of Agriculture, Rural Development, annual installments range from \$14,500 to \$71,500 throughout the term of bond, and are due beginning January 1, mature January 1, 2048, interest rate is 4.375%.	1,195,000
\$200,000 Series 2008 Phase III Water Distribution System Bonds (in city project)(Formerly Kentucky Rural Water Financing Corporation interim financing), due to United States Department of Agriculture, Rural Development, annual installments range from \$2,000 to \$12,000 throughout the term of the bond, and are due January 1, mature January 1, 2048, interest rate is 4.375%.	177,000
\$860,000 Series 2011 Revenue Bond Series A 92-19, due to United States Department of Agriculture, Rural Development, mature January 1, 2051, interest rate is 2.250% semi annual payments due January 1 and July 1, secured by revenue.	767,500
\$550,000 Series 2011 Revenue Bond Series A 92-21, due to United States Department of Agriculture, Rural Development, mature January 1, 2051, interest rate is 2.250%, semi annual payments due January 1 and July 1, secured by revenue.	493,000
\$1,290,000 Series 2019 Revenue Bond, due to United States Department of Agriculture, Rural Development, mature January 1, 2059, interest rate is 2.250%, semi annual payments due January 1 and July 1, secured by revenue.	998,103
\$512,000 Series 2019 Revenue Bond, due to United States Department of Agriculture, Rural Development, mature January 1, 2059, interest rate is 2.250%, semi annual payments due January 1 and July 1, secured by revenue.	467,369
	\$ 8,031,851

Depreciation Fund- All of the United States Department of Agriculture and Rural Development bonds loan requirements are in compliance.

Required Depreciation Reserve Fund Balance, June 30, 2019	\$ 485,440
Depreciation Reserve Account Balance	\$3,012,276

In addition to the above from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same is sold on order of the City. Any fees that may be levied and collected by the City for the privilege of connecting to the System (excluding initial deposits received in aid of the project, if any) shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the City, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses, and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a high degree of service. This Fund shall also be available for transfer to the Bond and Interest Sinking Fund in order to avoid a default in connection with any bonds payable from the Sinking Fund.

Operation and Maintenance Fund- This Fund receives on a monthly basis, the remaining balance in the Revenue Fund after the above transfer has been made. This Fund is used to pay operating expenses. Any funds remaining after meeting these expenses in excess of two (2) months operating expense reserve shall be transferred into the Depreciation Fund.

Note 6 - Risk Management

The City of Taylorsville is exposed to various risk of loss to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, natural disasters. In order to minimize its loss due to these various risks, the City has insurance with the Kentucky League of Cities Insurance Services for general liability insurance, property insurance and commercial risk insurance for all risk of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) years.

General Liability Coverage, L5539-011140

General liability	\$ 2,000,000	per occurrence
Public officials liability	\$ 2,000,000	per occurrence
Law enforcement liability	\$ 2,000,000	per occurrence
Automobile liability	\$ 2,000,000	per occurrence
Automobile physical damage	Actual	per occurrence

Property Coverage, P5539-011090

Building and personal property	\$ 7,337,676	per occurrence
Scheduled equipment	\$ 247,639	per occurrence
Flood	\$ 5,000,000	per occurrence
Flood zones B, C, X only	\$ 50,000,000	per occurrence
Earth movement	\$ 7,585,315	per occurrence

Workers' Compensation Coverage, W5539-011080

Per occurrence	\$ 247,639	
Bodily injury by accident	\$ 4,000,000	each employee
Bodily injury by disease	\$ 4,000,000	each employee

Note 7 - Related Parties Transactions

In a governmental entity, related parties include members of the governing body (city commissioners, etc.). Board members, administrative officials (mayor, city clerk, etc.), immediate family members of the preceding individuals, and affiliated governmental units that are not included in the financial statements as part of the reporting entity such as water sewer systems. There are no related party transactions to be disclosed.

Note 8 - Economic Dependency

The City is not economically dependent on one or more major taxpayers or suppliers.

Note 9 - Pending Litigation

The City of Taylorsville is a defendant in various lawsuits in the normal course of business. According to legal counsel, the outcome of the lawsuits is not determinable.

NOTE 10 – Retirement Plans

The City is a participating employer of the County Employees' Retirement System (CERS) or (Plan). Under provision of Kentucky Revised Statute 61.645, the Board of Trustees of the Kentucky Retirement System administers the CERS. The Kentucky Retirement System issues a publicly available financial reports that may be downloaded from their website.

Plan description – CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county, city, and school board and any additional eligible local agencies electing to participate in the Plan. The Plan is divided into a Pension Plan and Health Insurance Fund Plan (Other Post-Employment Benefits; OPEB) and each plan is further divided based on Nonhazardous duty and Hazardous duty covered employee classifications.

Contributions –

Employees - For the year ended June 30, 2019 nonhazardous covered employees are required to contribute 5% of wages and hazardous covered employees are required to contribute 8% of wages to the plan. Employees who begin participation on or after September 1, 2008 are required to contribute an additional 1%.

Employers - For the year ended June 30, 2019 participating employers contributed 21.48% of wages for nonhazardous covered employees, of which 16.22% was for the Pension Plan and 5.26% was for the Health Insurance Fund Plan. Employers contributed 35.34% of wages for hazardous covered employees of which 24.86% was for the Pension Plan and 10.47% was for the Health Insurance Fund Plan. The City made all required contributions for fiscal year in the amount of \$243,039 of which \$183,525 was for the Pension Plan and \$59,516 was for the Health Insurance Fund Plan.

Benefits provided—CERS provides retirement, health insurance, death, and disability benefits to employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or Age 57+ with sum of service years plus age equal 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or Age 57+ with sum of service years plus age equal 87+

Reduced retirement Not available

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

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

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability as follows:

<u>Non hazardous</u>	<u>Hazardous</u>	<u>Total Net Pension Liability</u>
\$ 1,967,108	\$ 522,919	\$ 2,490,027

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2018 was:

<u>Non hazardous</u>	<u>Hazardous</u>	<u>Proportionate Share</u>
0.022%	0.032%	0.030%

For the year ended June 30, 2019, the City recognized pension expense of \$459,891. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Nonhazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 64,162	\$ 28,794	
Change of assumptions	192,244		
Change in investment experience	91,472	115,059	
Change in proportionate share of contributions	37,659	5,267	
	385,537	<u>\$ 149,120</u>	<u>\$ 236,417</u>
Subsequent contributions	138,662		
Total	<u>\$ 524,199</u>		

	Hazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 41,616		
Change of assumptions	55,663		
Change in investment experience	19,382	25,280	
Change in proportionate share of contributions	11,039	65,553	
	127,700	<u>\$ 90,833</u>	<u>\$ 36,867</u>
Subsequent contributions	44,863		
Total	<u>\$ 172,563</u>		

	Total		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 105,778	\$ 28,794	
Change of assumptions	247,907	-	
Change in investment experience	110,854	140,339	
Change in proportionate share of contributions	48,698	70,820	
	513,237	<u>\$ 239,953</u>	<u>\$ 273,284</u>
Subsequent contributions	183,525		
Total	<u>\$ 696,762</u>		

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The contributions subsequent to the measurement date of \$183,525 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. The net deferral of \$273,284 will be recognized as pension expense as follows:

Year ending June 30	Net Deferral
2020	\$ 183,791
2021	124,450
2022	(22,039)
2023	(12,918)
	<u>\$ 273,284</u>

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

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected value of assets recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50% for CERS

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which 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 tables below.

Asset Class	Target Allocation	Long-term Expected Nominal Return
US Equity	17.50%	4.73%
Non US Equity	17.50%	6.71%
Global Bonds	10.00%	3.00%
Credit Fixed	17.00%	4.59%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	3.00%	1.50%
	<u>100.00%</u>	<u>5.13%</u>

Discount rate—The discount rate used to measure the total pension liability was 6.75%. 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 assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rate of 6.25%, 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 or 1-percentage-point higher than the current rate :

	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non hazardous	\$ 2,476,385	\$ 1,967,108	\$ 1,540,423
Hazardous	\$ 655,183	522,919	\$ 413,578
	<u>\$ 3,131,568</u>	<u>\$ 2,490,027</u>	<u>\$ 1,954,001</u>

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 10, the City participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 10, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications and 10.47% for hazardous classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	
Participation date	Before July 1, 2003
Insurance eligibility	10 years of service credit required
Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	
Participation date	Before September 1, 2008 but after July 1, 2003
Insurance eligibility	10 years of service credit required
Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 2	
Participation date	After September 1, 2008 and before December 31, 2013
Insurance eligibility	15 years of service credit required
Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 3	
Participation date	After December 31, 2013
Insurance eligibility	15 years of service credit required
Benefit	Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2019, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Non hazardous	Hazardous	Total Net OPEB Liability
\$ 573,462	\$ 154,163	\$ 727,625

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2018 was as follows:

Non hazardous	Hazardous	Proportionate Share
0.032%	0.022%	0.029%

For the year ended June 30, 2019, the City recognized OPEB expense of \$3,162. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow	Nonhazardous Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 66,829	
Change of assumptions	114,529	1,325	
Change in investment experience		39,500	
Change in proportionate share of contributions	7,042	1,197	
	121,571	\$ 108,851	\$ 12,720
Subsequent contributions	44,967		
Total	\$ 166,538		

	Hazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 17,228	
Change of assumptions	47,308	\$ 422	
Change in investment experience		14,656	
Change in proportionate share of contributions		3,261	
	47,308	\$ 35,567	\$ 11,741
Subsequent contributions	14,549		
Total	\$ 61,857		

	Total		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 84,057	
Change of assumptions	161,837	1,747	
Change in investment experience	-	54,156	
Change in proportionate share of contributions	7,042	4,458	
	168,879	\$ 144,418	\$ 24,461
Subsequent contributions	59,516		
Total	\$ 228,395		

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The amount of deferred inflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30	Net Deferral
2020	\$ 11,423
2021	11,423
2022	2,915
2023	6,012
2024	(3,937)
Thereafter	(3,375)
	<u>\$ 24,461</u>

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

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected value of assets recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50%
Mortality	RP-2000 Combined Mortality Table, Projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare trend (Post-65)	Initial trend starting at 5.50% and gradually decreasing an ultimate trend rate of 5.00% over a period of 2 years

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. 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.

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

Asset Class	Target Allocation	Long-Term Expected Nominal Return
U.S. Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%

Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	2.0%	2.69%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 4.85. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return 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, 2018. However, the cost associated with the implicit employer subsidy was not 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 trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City’s Proportionate Share of the Net OPEB Discount Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using discount rates that are 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease 4.85%	Current Rate 5.85%	1% Increase 6.85%
Non hazardous	\$ 744,836	\$ 573,462	\$ 427,484
	1% Decrease 4.97%	Current Rate 5.97%	1% Increase 6.97%
Hazardous	214,294	154,163	106,027
Total	\$ 959,130	\$ 727,625	\$ 533,511

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Non hazardous	\$ 426,948	\$ 573,462	\$ 746,160
Hazardous	104,993	154,163	215,063
Total	<u>\$ 531,941</u>	<u>\$ 727,625</u>	<u>\$ 961,223</u>

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

Note 11 – Prior Period Adjustment

The City adopted Governmental Accounting Standards Board Statement (GASB) 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB benefits to provide more comprehensive reporting and improve the comparability of the measurement of the annual OPEB costs incurred by government employers.

	Governmental Activities	Business-type Activities
Net position , as previously reported	\$ 1,735,369	\$ 18,311,457
GASB 75 adjustment	<u>(127,785)</u>	<u>(531,003)</u>
Net position, as restated	<u>\$ 1,607,584</u>	<u>\$ 17,780,454</u>

Note 12- Date of Management’s Review

Subsequent events were evaluated through November 13, 2019 which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure in the financial statements.

City of Taylorsville, Kentucky
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property taxes	\$ 177,000	\$ 177,000	\$ 194,748	\$ 17,748
Licenses and permits	235,000	235,000	283,104	48,104
Occupational license tax	330,000	330,000	331,299	1,299
Intergovernmental and HB 413	32,000	32,000	32,028	28
Franchise fees	72,000	72,000	71,850	(150)
Charges for services	87,000	92,000	86,055	(5,945)
School resource officer	31,200	31,200	31,200	0
FEMA drainage project	800,000	800,000	150,445	(649,555)
Other revenue	14,500	14,500	8,216	(6,284)
Total revenues	<u>1,778,700</u>	<u>1,783,700</u>	<u>1,188,945</u>	<u>(594,755)</u>
Expenditures				
General government	175,677	235,000	183,077	51,923
Public safety - police	618,640	618,640	574,957	43,683
Public works - streets	97,383	97,383	77,400	19,983
Public works - sanitation	87,000	92,000	88,584	3,416
FEMA Drainage Project	800,000	800,000	199,509	600,491
Total expenditures	<u>1,778,700</u>	<u>1,843,023</u>	<u>1,123,527</u>	<u>719,496</u>
Net change in fund balance	0	(59,323)	65,418	124,741
Fund balance - beginning	<u>929,583</u>	<u>1,070,057</u>	<u>1,070,057</u>	<u>0</u>
Fund balance - ending	<u>\$ 929,583</u>	<u>\$ 1,010,734</u>	<u>\$ 1,135,475</u>	<u>\$ 124,741</u>

City of Taylorsville, Kentucky
Municipal Road Aid Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Intergovernmental revenues	\$ 15,000	\$ 15,000	\$ 15,594	\$ 594
Other revenue	100	100	92	(8)
Total revenues	15,100	15,100	15,686	586
Expenditures				
Streets	50,000	50,000	0	50,000
Total expenditures	50,000	50,000	0	50,000
Net change in fund balance	(34,900)	(34,900)	15,686	50,586
Fund balance - beginning	111,147	82,049	82,049	0
Fund balance - ending	\$ 76,247	\$ 47,149	\$ 97,735	\$ 50,586

City of Taylorsville, Kentucky
Water and Sewer Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Charges for services	\$ 4,890,946	\$ 4,890,946	\$ 4,686,126	\$ (204,820)
Project revenue	2,740,000	2,740,000	164,132	(2,575,868)
Other revenue	0	0	51,694	51,694
Total revenues	<u>7,630,946</u>	<u>7,630,946</u>	<u>4,901,952</u>	<u>(2,728,994)</u>
Expenditures				
Operating	5,044,946	5,185,000	4,861,940	323,060
Project expense	<u>2,740,000</u>	<u>2,740,000</u>	<u>0</u>	<u>2,740,000</u>
Total expenditures	<u>7,784,946</u>	<u>7,925,000</u>	<u>4,861,940</u>	<u>3,063,060</u>
Net change in fund balance	(154,000)	(294,054)	40,012	334,066
Fund balance - beginning	<u>19,853,871</u>	<u>19,687,829</u>	<u>19,687,829</u>	<u>0</u>
Fund balance - ending	<u>\$ 19,699,871</u>	<u>\$ 19,393,775</u>	<u>\$ 19,727,841</u>	<u>\$ 334,066</u>

Note A- Budgetary Basis of Accounting

While the City reports financial position, results of operations, and changes in fund balance in accordance with generally accepted accounting principles (GAAP) accepted in the United States the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The statement of revenues, expenditures, and changes in fund balances - budget (non-GAAP budgetary basis) and actual is presented to provide a meaningful comparison of actual results with the budget.

Note B- Reconciling Net Change in Fund Balance Budgetary Basis to GAAP Basis

Net change in fund balance	General Fund	Municipal Road Aid Fund	Water and Sewer Fund
GAAP Basis	\$ 105,225	\$ 15,686	\$ (160,419)
Net adjustment for revenue accruals	(37,143)	0	0
Net adjustment for expenditure accruals	(2,663)	0	200,431
Budgetary basis	<u>\$ 65,419</u>	<u>\$ 15,686</u>	<u>\$ 40,012</u>

Note C- Information about Infrastructure Assets Reported Using the Modified Approach

AS allowed by GASB Statement No. 34, *Basic Financial statements- and Management's Discussion and Analysis- for State and Local Governments*, the City has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the "modified approach," infrastructure assets are not depreciated and maintenance and preservation costs are not expensed. The City capitalized costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to use the modified approach, the City is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets and the condition level established and disclose by the City.
- Document that the infrastructure assets are being preserved approximately at or above the condition level established by the City.

A government that uses the modified approach has to document that it has performed a complete condition assessment of the assets at least every three years. The City completed a condition assessment of the assets and reported the results of the assessment in the financial statements of June 30, 2010 and for the year then ended. That assessment is reported in these financial statements as of June 30, 2017 and for the year then ended.

Roads

The City applies the modified approach to the thirty-three (33) streets and roads that are owned by the City and maintained by the City's Streets Department. The goal of the City in conjunction with adopting the modified approach is the develop and provide a cost effective pavement maintenance and rehabilitation program that preserves the City's investment in its road network and enhances public transportation and safety.

Measurement Safety

The condition of road pavement is measured using the City Pavement Measurement System. This system uses a measurement scale that considers the condition of the highways and roads as denoted by a Pavement Condition Index (PCI), ranging from 0 to 100. The PCI is used to classify roads into categories.

Category	PCI Rating Range	Description
Very Good	94 – 100	New or nearly new pavement which provides a very smooth ride and is mainly free of distress (no maintenance work needed).
Good	76 – 93	Pavement which provides an adequate ride and exhibits few, if any, visible signs of distress (minor maintenance may be needed).
Fair	64 – 75	Surface defects such as cracking, rutting, and raveling are affecting the ride (major maintenance is likely needed).
Poor	41 – 63	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough (structural improvements in addition to major maintenance are likely needed).
Very Poor	0 – 40	Pavement in this category is severely deteriorate and the ride quality is unacceptable (complete road reconstruction is likely needed).

Established Condition Level

It is the City's policy to maintain at least 80% of its roads at or above the "good" condition level, and no more that 10% at a "very poor" condition. Condition assessments are performed by geographic City within the City on approximately one-third of the roads each year, achieving a complete condition assessment at least every three years.

Assessed Conditions

During the past five (5) years ended June 30, the City budgeted and spent the amounts to maintain the streets, roads and sidewalks of the City.

<u>Ended June 30</u>	<u>Budget</u>	<u>Expenditure</u>
2015	104,210	49,281
2016	33,615	26,969
2017	32,183	44,332
2018	50,033	16,101
2019	39,915	26,356

City of Taylorsville, Kentucky
Schedule of General Fund Activity
Year Ended June 30, 2019

	General Government	Police Department	Street Department	Sanitation Department	Total
ABC license fee	\$ 7,300				\$ 7,300
Automobile tax - county	11,887				11,887
Automobile tax - intercounty	2,044				2,044
Bank shares tax	21,598				21,598
Business license	31,438				31,438
Discount on taxes	(1,988)				(1,988)
Drug intervention		1,500			1,500
FEMA drainage project	149,631				149,631
FEMA drainage DLG grant	814				814
Fines, forfeitures, and penalties	2,192				2,192
Franchise fees	71,850				71,850
HB 413 court costs		7,475			7,475
Insurance premium tax	242,796				242,796
Interest income	811				811
Intergovernmental revenue		24,553			24,553
Miscellaneous revenue	1,545				1,545
Occupational license tax	331,299				331,299
Penalties and interest - BL	1,570				1,570
Police finger printing		395			395
Property tax	154,426				154,426
Returned checks	(35)				(35)
Sale of assets	4,000				4,000
Sanitation				86,055	86,055
School resource officer program		31,200			31,200
Telecommunications tax	4,589				4,589
Total revenues	<u>1,037,767</u>	<u>65,123</u>	<u>0</u>	<u>86,055</u>	<u>1,188,945</u>

City of Taylorsville, Kentucky
Schedule of General Fund Activity (continued)
Year Ended June 30, 2019

	General Government	Police Department	Street Department	Sanitation Department	Total
Bank charges	\$ 206	\$ 448	\$	\$	\$ 654
Building maintenance		105			105
Capital outlay	3,190	19,993			23,183
Contract services	1,620	365			1,985
Drug intervention		1,500			1,500
Dues and donations	130				130
Engineering services	1,237				1,237
FEMA drainage project	199,509				199,509
FICA	4,122	21,101			25,223
Floodwall recertification	12,500				12,500
Insurance	903	24,844	852		26,599
KDOT sidewalk project	7,621				7,621
Legal and audit fees	13,284	724			14,008
Life insurance		46			46
Main street manager	7,000				7,000
Main street committee	5,000				5,000
Medical allowance	45,454				45,454
Medical insurance		40,238			40,238
Medicare	964	4,935			5,899
Miscellaneous		354			354
Multipurpose CAA	5,000				5,000
Office supplies	3,239	4,306			7,545
Postage	152	74			226
Publication and printing	2,209	344	30		2,583
Repairs and maintenance	591	9,068	26,356		36,015
Retirement		59,412			59,412
Salaries	44,576	333,064			377,640
Salaries, overtime		9,946			9,946
Sanitation				88,584	88,584
Seminars and travel	2,865	1,399			4,264
Spencer youth baseball	5,000				5,000
State unemployment insurance		379			379
Supplies	253	13,313	1,654		15,220
Tax preparation	5,178				5,178
Taxes and licenses	212				212
Tourism committee	5,000				5,000
Training expense		925			925
Uniforms		4,017			4,017
Utilities	5,571	5,550	48,509		59,630
Vehicle expense		4,952			4,952
Vehicle fuel		13,554			13,554
Total expenditures	382,586	574,956	77,401	88,584	1,123,527
Change in fund balance	\$ 655,181	\$ (509,833)	\$ (77,401)	\$ (2,529)	\$ 65,418

City of Taylorsville, Kentucky
Schedule of Municipal Road Aid Fund Activity
Year Ended June 30, 2019

	Municipal Street Activities
Intergovernmental revenue	\$ 15,594
Interest income	<u>92</u>
Total revenue	15,686
Expenditures	<u>0</u>
Change in fund balance	<u><u>\$ 15,686</u></u>

City of Taylorsville, Kentucky
Schedule of Water and Sewer Fund Activity
Year Ended June 30, 2019

	Water Service	Sewer Service	Total
Activation fees	\$ 16,710	\$	\$ 16,710
Contributed capital	\$ 13,452		13,452
Impact fee		78,000	78,000
Interest income	13,461		13,461
KIA sewer Edgewood		11,750	11,750
KYTC funded bridge projects	152,382		152,382
Lease income	29,104		29,104
Meter sets	229,625		229,625
Miscellaneous revenue	8,636		8,636
Penalties	68,955		68,955
Redeposits	3,757		3,757
Return check revenue	2,425		2,425
Returned check fees	(7,900)		(7,900)
Sewer impact - Premier		1,000	1,000
Sewer revenue		359,656	359,656
Surcharge Phase I	49,959		49,959
Surcharge Phase II	38,103		38,103
Surcharge Phase III	6,240		6,240
Turn on and service trips	17,340		17,340
Vendors compensation	493		493
Water refunds and allowances	(25,430)		(25,430)
Water revenue	<u>3,834,234</u>		<u>3,834,234</u>
Total revenues	<u>4,451,546</u>	<u>450,406</u>	<u>4,901,952</u>

City of Taylorsville, Kentucky
Schedule of Water and Sewer Fund Activity (continued)
Year Ended June 30, 2019

	Water Service	Sewer Service	Total
Advertising	\$ 2,801	\$ 77	\$ 2,878
Bad debts	3,907		3,907
Bank charges	3,515		3,515
Contract labor	7,915		7,915
Cost of goods sold	60,553	6	60,559
Depreciation	668,882	232,417	901,299
Dues and subscriptions	2,436		2,436
Education and seminars	2,438	1,471	3,909
Engineering services	1,639		1,639
FICA	48,056	6,546	54,602
Fines	185		185
Freight	3,136	1,584	4,720
Inspection and lab fees	20,597	17,940	38,537
Insurance	72,457	13,050	85,507
Interest expense	187,999	71,365	259,364
Legal and audit fees	19,598	1,095	20,693
Licenses and permits	1,196	65	1,261
Life insurance	208	22	230
Louisville water purchased	1,358,309		1,358,309
Maintenance and repairs	140,527	73,789	214,316
Medical insurance	231,500	26,062	257,562
Medicare	11,239	1,531	12,770
Meter repair	160,169		160,169
Miscellaneous	45		45
Office supplies	19,200	246	19,446
Postage	33,562		33,562
Removal	6,271		6,271
Retirement	160,898	22,730	183,628
Salaries	762,248	102,480	864,728
Salaries, overtime	13,497	1,691	15,188
State unemployment	874	113	987
Supplies	16,729	3,203	19,932
Transfer to dispatch	9,600		9,600
Travel	330	375	705
Uniforms	11,706	2,344	14,050
Utilities	122,335	63,252	185,587
Vehicle expenses	16,734	6,124	22,858
Vehicle fuel	23,913	5,158	29,071
Total expenses	<u>4,207,204</u>	<u>654,736</u>	<u>4,861,940</u>
Change in fund balance	<u>\$ 244,342</u>	<u>\$ (204,330)</u>	<u>\$ 40,012</u>

City of Taylorsville, Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>United States Department of Agriculture (USDA)</u>			
<i>Passed through the Kentucky Rural Water Finance Corporation</i>			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,154,659
<u>United States Department of Homeland Security (DHS)</u>			
<i>Passed through the Commonwealth of Kentucky, Department of Military Affairs, Department of Emergency Management</i>			
Disaster Grants - Public Assistance	97.036	LDPM-PJ-04-KY 2009-0001	199,509
Total expenditure of federal awards			<u><u>\$ 1,354,168</u></u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal award activity of the City of Taylorsville, Kentucky (City), under programs of the federal government for the year ended June 30, 2019 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows for the City.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses unmodified opinions on the financial statements of the City of Taylorsville, Kentucky (City).
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City which would be required to reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor’s report on compliance for the major federal award programs for the City expresses an unmodified opinion on all major programs.
6. There were no audit findings that are required to reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs included:

<u>CFDA Number</u>	<u>Federal Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The City did not qualify as a low-risk auditee.

Section II – Financial Statement Findings

No matters were reported.

Section III – Major Federal Award Findings and Questioned Costs

No matters were reported.

City of Taylorsville, Kentucky
Schedule of Prior Year Audit Findings
Year Ended June 30, 2019

Not applicable

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

City of Taylorsville, Kentucky
70 Taylorsville Road
Taylorsville, KY 40071

To the City Commission

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, and each major fund of the City of Taylorsville, Kentucky (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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.

Maddox & Associates CPAs, Inc.

Fort Thomas, KY
November 13, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

Honorable Mayor
Members of the City Commission
City of Taylorsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Taylorsville, Kentucky's (City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maddox & Associates CPAs Inc.

November 13, 2019

Fort Thomas, Kentucky