

CITY OF NEW HAVEN, KENTUCKY

FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND REPORTS OF
INDEPENDENT AUDITORS

JUNE 30, 2014

CITY OF NEW HAVEN, KENTUCKY

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REPORT OF INDEPENDENT AUDITORS

To the Mayor and
City Commission Members
City of New Haven
New Haven, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Haven, Kentucky (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the City of New Haven, Kentucky as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 9 and 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated as of the date of this report, 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 of New Haven, Kentucky's internal control over financial reporting and compliance.



Bardstown, Kentucky
December 18, 2014

CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

As management of the City of New Haven, Kentucky (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the City was \$359,603.
- The overall net position of the City increased approximately \$37,000.
- General governmental revenues for taxes and licenses totaled approximately \$228,000.
- Charges for services related to the water service and treatment were approximately \$437,000.
- The City received capital donations estimated at \$160,000 for real property within the City limits.
- The Board of Commissioners approved a 5% rate increase for water and sewer rates in April of 2014.

Overview of Financial Statements

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

Basis of Accounting/Measurement Focus

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.

A. Government-Wide Financial Statements

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

The statement of net position presents information on all of the City of New Haven's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

flows. Thus, revenues and expenses are reported in this statement for some that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements of the City of New Haven are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City of New Haven include general government, police, fire, streets, and recreation.

The government-wide financial statements report on only the City of New Haven.

B. 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 and non-major funds aggregated. The only non-major fund is the Municipal Aid Fund. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-wide financial statements. The City has presented all major funds that met those qualifications.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

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 of New Haven, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of New Haven are governmental and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2014

The City reports the following major governmental fund:

The general fund is the City of New Haven, Kentucky's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

All governmental funds are accounted for on 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 expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

C. Proprietary Fund Financial Statements

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Fund which is considered a major fund of the City of New Haven. The Water and Wastewater Fund accounts for the activities of the water and sewer services provided by the City of New Haven, Kentucky's business, residents, schools, and churches. The City operates the sewer treatment plant, water distribution systems, sewer collection systems, and pump stations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Wastewater Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed Financial Information Statements of Net Position June 30, 2014 and 2013 (Table 1)

| | Governmental activities | | Business-type activities | | Total | |
|----------------------------------|-------------------------|------------|--------------------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | \$ 437,455 | \$ 445,598 | \$ 348,747 | \$ 309,949 | \$ 786,202 | \$ 755,547 |
| Capital assets | 665,828 | 536,084 | 3,182,131 | 3,331,065 | 3,847,959 | 3,867,149 |
| Total assets | 1,103,283 | 981,682 | 3,530,878 | 3,641,014 | 4,634,161 | 4,622,696 |
| Long-term liabilities | 73,523 | 89,974 | 256,745 | 262,145 | 330,268 | 352,119 |
| Other liabilities | 52,642 | 52,201 | 46,122 | 50,344 | 98,764 | 102,545 |
| Total liabilities | 126,165 | 142,175 | 302,867 | 312,489 | 429,032 | 454,664 |
| Net position: | | | | | | |
| Net investment in capital assets | 575,854 | 429,846 | 2,919,986 | 3,063,570 | 3,495,840 | 3,493,416 |
| Restricted | 19,388 | 16,805 | 234,573 | 181,349 | 253,961 | 198,154 |
| Unrestricted | 381,876 | 392,856 | 73,452 | 83,606 | 455,328 | 476,462 |
| Total net position | \$ 977,118 | \$ 839,507 | \$ 3,228,011 | \$ 3,328,525 | \$ 4,205,129 | \$ 4,168,032 |

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$4,205,000 which is an increase from the previous year of approximately \$37,000 primarily due to capital contributions of real property, reduced by current year depreciation.

Total liabilities decreased approximately \$26,000, primarily due to schedule principal payments on long-term debt.

The City's programs for governmental activities include General Government, Fire, Police, Parks and Recreation, and municipal aid. The programs for the business type activities include the water and wastewater utilities. A comparison of each program's revenues and expenses for the current year and prior year is presented in Table 2.

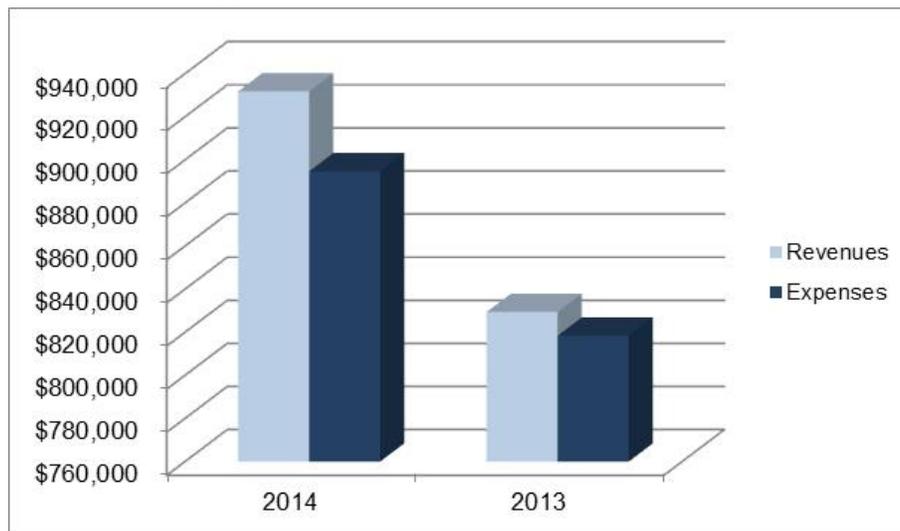
CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

Condensed Financial Information Statements of Activities For the Years Ended June 30, 2014 and 2013 (Table 2)

| | Governmental activities | | Business-type activities | | Total | |
|------------------------------------|-------------------------|------------------|--------------------------|-------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 16,598 | \$ 20,744 | \$ 437,003 | \$ 420,406 | \$ 453,601 | \$ 441,150 |
| Operating grants and contributions | 66,772 | 39,002 | - | - | 66,772 | 39,002 |
| Capital grants and contributions | 160,000 | 12,787 | - | 70,161 | 160,000 | 82,948 |
| General revenues: | | | | | | |
| Taxes | 217,917 | 231,057 | - | - | 217,917 | 231,057 |
| Licenses, permits, and fees | 10,122 | 10,564 | - | - | 10,122 | 10,564 |
| Other | 13,841 | 18,728 | 9,580 | 6,031 | 23,421 | 24,759 |
| Total revenues | <u>485,250</u> | <u>332,882</u> | <u>446,583</u> | <u>496,598</u> | <u>931,833</u> | <u>829,480</u> |
| Expenses | | | | | | |
| General government | 165,965 | 145,618 | - | - | 165,965 | 145,618 |
| Public safety - police | 79,225 | 79,075 | - | - | 79,225 | 79,075 |
| Public safety - fire | 47,686 | 43,713 | - | - | 47,686 | 43,713 |
| Public service - streets | 24,761 | 10,864 | - | - | 24,761 | 10,864 |
| Parks and recreation | 26,421 | 28,999 | - | - | 26,421 | 28,999 |
| Interest on long-term debt | 3,581 | 5,608 | - | - | 3,581 | 5,608 |
| Water & Wastewater | - | - | 547,097 | 504,599 | 547,097 | 504,599 |
| Total expenses | <u>347,639</u> | <u>313,877</u> | <u>547,097</u> | <u>504,599</u> | <u>894,736</u> | <u>818,476</u> |
| Change in net position | \$ <u>137,611</u> | \$ <u>19,005</u> | \$ <u>(100,514)</u> | \$ <u>(8,001)</u> | \$ <u>37,097</u> | \$ <u>11,004</u> |

The change in net position from the prior year increased approximately \$26,000 to an increase in net position of approximately \$37,100. The increase is primarily due to an increase in capital contribution of real property in governmental activities offset by increases in expenses for governmental and business-type activities.



CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2014

Governmental Activities

Revenues for the City's governmental activities increased 45.8% (approximately \$152,400). Primarily as a result of real property donated to the City with combined estimated value of \$160,000. Total expenses for governmental activities increased 10.8% (approximately \$33,800). Of the approximately \$347,600 of expenses for governmental activities, approximately \$228,000 were financed with taxes, licenses, permits, and fees (primarily property taxes, insurance premium tax revenues, and occupation license fees).

Business Type Activities

Revenues for the City's proprietary (business-type) activities decreased approximately \$50,000 primarily due to decreases in capital grant activity (capital expenditures) for sewer system improvements which are reimbursed under various grant agreements with the Kentucky Infrastructure Authority. The cost of all Proprietary (Business-type) activities this year increased approximately 8.4% (approximately \$42,500) when compared to the prior year, primarily due to increased wages and related expenses, additional lab tests for compliance, and additional depreciation related to capital improvements from the previous year being depreciated for a full year in fiscal year 2014. As shown in the Statement of Activities, the amounts paid by users of the systems were approximately \$437,000.

Capital Asset Administration

The following summarizes the major additions to capital assets for the year ending June 30, 2014:

Governmental funds:

| | | |
|---------------------------------------|----|---------------|
| Real property – 306 Center Street | \$ | <u>85,000</u> |
| Real property – 144 South Main Street | \$ | <u>75,000</u> |

Debt Administration

The following summarizes the changes in long-term debt for the current fiscal year:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|----------------------------------|------------------------------|------------------|------------------|---------------------------|
| <u>Governmental activities:</u> | | | | |
| Notes payable | \$ <u>106,238</u> | \$ <u>-</u> | \$ <u>16,264</u> | \$ <u>89,974</u> |
| <u>Business-type activities:</u> | | | | |
| Bonds payable | \$ <u>268,800</u> | \$ <u>-</u> | \$ <u>5,400</u> | \$ <u>263,400</u> |
| Unamortized discounts | <u>(1,305)</u> | <u>-</u> | <u>(50)</u> | <u>(1,255)</u> |
| | \$ <u>267,495</u> | \$ <u>-</u> | \$ <u>5,350</u> | \$ <u>262,145</u> |

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. The notes to the financial statements can be found on pages 20 - 36 of this report.

CITY OF NEW HAVEN, KENTUCKY

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014

Budgetary Highlights. The City budgeted for grant expenditures from the Commonwealth of Kentucky's Transportation Cabinet (passed through from the Federal Transportation Authority) for transportation enhancements in the City's incorporated limits. The City is responsible for administering the grants on behalf of the Kentucky Railway Museum. The City budgeted approximately \$633,000 in revenues and expenditures during fiscal year 2014. However, expenditures for the project were only \$13,864 for the fiscal year ending June 30, 2014.

For additional information, please contact the City Clerk, Linda Mattingly at 302 Center Street, New Haven, KY 40051 or by phone at 502-549-3177.

CITY OF NEW HAVEN, KENTUCKY

**STATEMENT OF NET POSITION
JUNE 30, 2014**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| <u>Current Assets:</u> | | | |
| Cash and cash equivalents | \$ 214,548 | \$ 145,055 | \$ 359,603 |
| Accounts receivable | 32,767 | 40,441 | 73,208 |
| Interest receivable | - | 862 | 862 |
| Investments | 190,140 | 146,904 | 337,044 |
| Inventory | - | 15,485 | 15,485 |
| Total current assets | <u>437,455</u> | <u>348,747</u> | <u>786,202</u> |
| <u>Noncurrent assets:</u> | | | |
| Capital assets, net | <u>665,828</u> | <u>3,182,131</u> | <u>3,847,959</u> |
| Total noncurrent assets | <u>665,828</u> | <u>3,182,131</u> | <u>3,847,959</u> |
| Total assets | \$ <u>1,103,283</u> | \$ <u>3,530,878</u> | \$ <u>4,634,161</u> |
| LIABILITIES AND NET POSITION | | | |
| <u>Current liabilities:</u> | | | |
| Accounts payable | \$ 9,802 | \$ 14,347 | \$ 24,149 |
| Accrued expenses | 730 | 1,936 | 2,666 |
| Interest payable | - | 6,750 | 6,750 |
| Deferred revenue | 19,908 | 17,689 | 37,597 |
| Compensated absences | 5,751 | - | 5,751 |
| Current portion of notes payable | 16,451 | - | 16,451 |
| Current portion of bonds payable | - | 5,400 | 5,400 |
| Total current liabilities | <u>52,642</u> | <u>46,122</u> | <u>98,764</u> |
| <u>Noncurrent liabilities:</u> | | | |
| Noncurrent portion of notes payable | 73,523 | - | 73,523 |
| Noncurrent portion of bonds payable | - | 256,745 | 256,745 |
| Total noncurrent liabilities | <u>73,523</u> | <u>256,745</u> | <u>330,268</u> |
| <u>Net Position:</u> | | | |
| Net investment in capital assets | 575,854 | 2,919,986 | 3,495,840 |
| Restricted | 19,388 | 234,573 | 253,961 |
| Unrestricted | 381,876 | 73,452 | 455,328 |
| Total net position | \$ <u>977,118</u> | \$ <u>3,228,011</u> | \$ <u>4,205,129</u> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

| | Program Revenues | | | |
|----------------------------------|--------------------------|--------------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for services | Operating grants and contributions | Capital grants and contributions |
| Functions / programs: | | | | |
| Governmental activities: | | | | |
| General government | \$ 165,965 | \$ - | \$ 21,696 | \$ 160,000 |
| Public safety | | | | |
| Police | 79,225 | 4,665 | 4,562 | - |
| Fire | 47,686 | - | 8,165 | - |
| Public service | | | | |
| Street | 24,761 | - | 22,349 | - |
| Recreation | 26,421 | 11,933 | 10,000 | - |
| Interest on long-term debt | 3,581 | - | - | - |
| | <u>347,639</u> | <u>16,598</u> | <u>66,772</u> | <u>160,000</u> |
| Business type activities: | | | | |
| Water and wastewater | 515,716 | 397,339 | - | - |
| Waste disposal | 31,381 | 39,664 | - | - |
| | <u>547,097</u> | <u>437,003</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 894,736</u> | <u>\$ 453,601</u> | <u>\$ 66,772</u> | <u>\$ 160,000</u> |

General Revenues:

- Taxes:
 - Property taxes
 - Motor vehicle taxes
 - Utility taxes
 - Bank deposit taxes
 - Insurance premium taxes
- Business licenses
- Earnings on investments
- Miscellaneous
- Total general revenues
- Change in net position
- Net position, beginning
- Net position, ending

See report of independent auditors and notes to financial statements.

Net (expense) revenue and change in net position

| Governmental activities | Business-type activities | Total |
|----------------------------|-----------------------------|---------------------|
| \$ 15,731 | \$ - | \$ 15,731 |
| (69,998) | - | (69,998) |
| (39,521) | - | (39,521) |
| - | - | - |
| (2,412) | - | (2,412) |
| (4,488) | - | (4,488) |
| (3,581) | - | (3,581) |
| - | - | - |
| (104,269) | - | (104,269) |
| - | (118,377) | (118,377) |
| - | 8,283 | 8,283 |
| - | (110,094) | (110,094) |
| (104,269) | (110,094) | (214,363) |
| 71,310 | - | 71,310 |
| 8,178 | - | 8,178 |
| 43,316 | - | 43,316 |
| 7,606 | - | 7,606 |
| 87,507 | - | 87,507 |
| 10,122 | - | 10,122 |
| 461 | 809 | 1,270 |
| 13,380 | 8,771 | 22,151 |
| 241,880 | 9,580 | 251,460 |
| 137,611 | (100,514) | 37,097 |
| 839,507 | 3,328,525 | 4,168,032 |
| \$ <u>977,118</u> | \$ <u>3,228,011</u> | \$ <u>4,205,129</u> |

CITY OF NEW HAVEN, KENTUCKY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | <u>General Fund</u> | <u>Municipal Aid Fund</u> | <u>Total Governmental Funds</u> |
|--|--------------------------|---------------------------|---------------------------------|
| ASSETS AND RESOURCES | | | |
| Cash and cash equivalents | \$ 196,809 | \$ 17,739 | \$ 214,548 |
| Accounts receivable | 31,273 | 1,494 | 32,767 |
| Investments | <u>190,140</u> | <u>-</u> | <u>190,140</u> |
| Total assets and resources | \$ <u>418,222</u> | \$ <u>19,233</u> | \$ <u>437,455</u> |
| LIABILITIES AND FUND BALANCES | | | |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 7,698 | \$ 604 | \$ 8,302 |
| Accrued expenses | 730 | - | 730 |
| Interest payable | 1,500 | - | 1,500 |
| Deferred revenue | <u>19,908</u> | <u>-</u> | <u>19,908</u> |
| Total liabilities | <u>29,836</u> | <u>604</u> | <u>30,440</u> |
| <u>Fund balances</u> | | | |
| Spendable: | | | |
| Restricted | 759 | 18,629 | 19,388 |
| Committed | 64,214 | - | 64,214 |
| Assigned | 23,744 | - | 23,744 |
| Unassigned | <u>299,669</u> | <u>-</u> | <u>299,669</u> |
| Total fund balances | <u>388,386</u> | <u>18,629</u> | <u>407,015</u> |
| Total liabilities and fund balances | \$ <u>418,222</u> | \$ <u>19,233</u> | \$ <u>437,455</u> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

| | | |
|--|----|-----------------|
| Total fund balance per fund financial statements | \$ | 407,015 |
| Amounts reported for governmental activities in the statement of net position are different due to: | | |
| Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position | | 665,828 |
| Certain liabilities (such as notes payable and compensated absences) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position | | <u>(95,725)</u> |
| Net position for governmental activities | \$ | <u>977,118</u> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

| | <u>General Fund</u> | <u>Municipal Aid Fund</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------------------|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes: | | | |
| Property | \$ 71,310 | \$ - | \$ 71,310 |
| Motor vehicle | 8,178 | - | 8,178 |
| Utilities | 43,316 | - | 43,316 |
| Bank deposit | 7,606 | - | 7,606 |
| Insurance premium tax | 87,507 | - | 87,507 |
| Business licenses | 10,122 | - | 10,122 |
| Donations | 11,364 | - | 11,364 |
| Earnings on investments | 456 | 5 | 461 |
| Recreation department | 22,113 | - | 22,113 |
| Grant revenues | 24,082 | 22,350 | 46,432 |
| Other local revenue | 16,839 | - | 16,839 |
| Total revenues | <u>302,893</u> | <u>22,355</u> | <u>325,248</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 172,230 | - | 172,230 |
| Public safety: | | | |
| Police | 78,346 | - | 78,346 |
| Fire | 19,727 | - | 19,727 |
| Public service: | | | |
| Street | - | 21,772 | 21,772 |
| Recreation | 5,432 | - | 5,432 |
| Debt service: | | | |
| Principal | 16,263 | - | 16,263 |
| Interest | 3,581 | - | 3,581 |
| Capital outlay | 16,507 | - | 16,507 |
| Total expenditures | <u>312,086</u> | <u>21,772</u> | <u>333,858</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(9,193)</u> | <u>583</u> | <u>(8,610)</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing source (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | <u>(9,193)</u> | <u>583</u> | <u>(8,610)</u> |
| Fund balances, beginning of year | <u>397,579</u> | <u>18,046</u> | <u>415,625</u> |
| Fund balances, end of year | <u>\$ 388,386</u> | <u>\$ 18,629</u> | <u>\$ 407,015</u> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| | | |
|--|----|----------|
| Net change in fund balances - total governmental funds | \$ | (8,610) |
| Amounts reported for governmental activities in the statement of activities are different due to the following: | | |
| Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year. | | (30,256) |
| The effect of miscellaneous transactions involving capital assets not reported in governmental funds. Estimated value of capital contributions of real property. | | 160,000 |
| Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount of principal debt paid versus the amount of loan proceeds received for the year. | | 16,263 |
| Some items reported in the Statement of Activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. | | |
| These activities include: | | |
| Decrease in compensated absences | | 214 |
| Change in net position - total governmental funds | \$ | 137,611 |

CITY OF NEW HAVEN, KENTUCKY

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

| | Water & Wastewater Fund |
|-------------------------------------|--|
| ASSETS | |
| <u>Current Assets:</u> | |
| Cash and cash equivalents | \$ 145,055 |
| Accounts receivable | 40,441 |
| Interest receivable | 862 |
| Investments | 146,904 |
| Inventories | 15,485 |
| Total current assets | 348,747 |
| <u>Noncurrent assets:</u> | |
| Capital assets, net | 3,182,131 |
| Total noncurrent assets | 3,182,131 |
| Total assets | \$ 3,530,878 |
| LIABILITIES AND NET POSITION | |
| <u>Current liabilities:</u> | |
| Accounts payable | \$ 14,347 |
| Accrued expenses | 1,936 |
| Interest payable | 6,750 |
| Deferred revenue | 17,689 |
| Current portion of bonds payable | 5,400 |
| Total current liabilities | 46,122 |
| <u>Noncurrent liabilities:</u> | |
| Noncurrent portion of bonds payable | 256,745 |
| Total noncurrent liabilities | 256,745 |
| <u>Net Position:</u> | |
| Net investment in capital assets | 2,919,986 |
| Restricted for debt service | 234,573 |
| Unrestricted | 73,452 |
| Total net position | \$ 3,228,011 |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

| | Water & Wastewater Fund |
|--|--|
| Operating revenues: | |
| Water revenues | \$ 249,653 |
| Sewer revenues | 143,786 |
| Waste disposal revenues | 39,664 |
| Tap on fees | 3,900 |
| Miscellaneous | 8,771 |
| | <hr/> |
| Total operating revenues | 445,774 |
| | <hr/> |
| Operating expenses: | |
| Water purchased | 89,033 |
| Waste disposal fees | 31,381 |
| Wages and related expenses | 115,642 |
| Repairs | 35,233 |
| Utilities | 27,174 |
| Depreciation | 153,222 |
| Other operating expenses | 77,227 |
| | <hr/> |
| Total operating expenses | 528,912 |
| | <hr/> |
| Operating income (loss) | (83,138) |
| | <hr/> |
| Non-operating revenues (expenses) | |
| Interest revenue | 809 |
| Interest expense | (14,481) |
| Grant expenditures | (3,704) |
| | <hr/> |
| Total non-operating revenues (expenses) | (17,376) |
| | <hr/> |
| Change in net position | (100,514) |
| | <hr/> |
| Net position, beginning of year | 3,328,525 |
| | <hr/> |
| Net position, end of year | \$ 3,228,011 |
| | <hr/> <hr/> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

| | Water & Wastewater Fund |
|---|--|
| | <u> </u> |
| Cash flows from operating activities: | |
| Receipts from customers | \$ 446,332 |
| Payments to employees | (116,987) |
| Payments to suppliers for goods and services | <u>(265,129)</u> |
| Net cash provided by operating activities | <u>64,216</u> |
| Cash flows from non-capital financing activities: | |
| Grant expenditures | <u>(3,704)</u> |
| Net cash used in non-capital financing activities | <u>(3,704)</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | (4,288) |
| Principal paid on long-term debt | (5,400) |
| Interest paid on debt | <u>(14,619)</u> |
| Net cash used in capital and related financing activities | <u>(24,307)</u> |
| Cash flows from investing activities: | |
| Purchase of investments | (696) |
| Interest received | <u>809</u> |
| Net cash provided by investing activities | <u>113</u> |
| Net increase in cash and cash equivalents | 36,318 |
| Balance, beginning of year | <u>108,737</u> |
| Balance, end of year | \$ <u><u>145,055</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ (83,138) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 153,272 |
| Changes in assets and liabilities: | |
| Accounts receivable | (1,743) |
| Inventories | (1,084) |
| Accounts payable | (4,046) |
| Accrued expenses | (1,345) |
| Deferred revenue | <u>2,300</u> |
| Net cash provided by operating activities | \$ <u><u>64,216</u></u> |

See report of independent auditors and notes to financial statements.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New Haven, Kentucky (the "City") was incorporated under the provisions of the State of Kentucky as a sixth class city on February 18, 1839. The City operates as authorized by its charter: public safety (police and fire), streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units, hereinafter referred to as GAAP (generally accepted accounting principles). The accepted standard-setting body for establishing governmental accounting and financial reporting principles is GASB (the Governmental Accounting Standards Board).

A. Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of New Haven. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of New Haven. The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

New Haven Water and Sewer - The City Commission and Mayor operate the water and sewer systems. The Water and Sewer System cannot issue bonded debt without the City's approval. The operations are reported in the Water and Wastewater Fund, a proprietary fund.

B. Basis of Presentation

The City's *government-wide financial statements* provide both short-term and long-term information about the City's overall financial status. *Fund financial statements* focus on the individual activities of City government, reporting the City's operations in more detail than the government-wide financial statements.

C. Basis of Accounting and Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Governmental funds use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Government-wide Financial Statements

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 infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position.

The Statement of Activities presents changes in net position. 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 three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standard Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The City has elected not to follow subsequent private-sector guidance.

Governmental Fund Financial Statements

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

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

The City reports the following major governmental fund:

The general fund is the City of New Haven, Kentucky's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. All governmental funds are accounted for on 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 expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after yearend) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Municipal Aid Fund

The Municipal Aid Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures to be used to account for and report resources restricted or committed to improvement of the City's roads and sidewalks. The primary sources of revenue are intergovernmental grants.

Proprietary Fund Financial Statements

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 noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. 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.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The City reports the following major proprietary funds:

The water and wastewater fund accounts for the activities related to the provision of water and sewer services to the City of New Haven, Kentucky's business, residents, schools, and churches. It operates the sewer treatment plant, water distribution systems, sewer collection systems, and pump stations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Wastewater Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Criteria for determining if other entities are potential component units which should be reported within the City's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations that the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

D. Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

E. Investments

The City holds eligible investments as permitted under State law. Investments consisted entirely of certificates of deposit at June 30, 2014. All investments are considered current as there would be no significant fees or penalties to liquidate the certificates of deposit that are due in more than one-year.

F. Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$1,000 with the exception of computers, digital cameras and real property for which there is no threshold. Under the modified cash basis of accounting, the City does not include donated infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized. All reported capital assets are depreciated. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

| Description | Governmental Activities Estimated Lives |
|----------------------------|--|
| Buildings and improvements | 25-50 Years |
| Land improvements | 20 Years |
| Technology equipment | 5 Years |
| Vehicles | 5-10 Years |
| Service equipment | 10-12 Years |
| Furniture and fixtures | 7 Years |
| Infrastructure | 15 Years |

H. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, with the exception of compensated absences, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements, with the exception of compensated absences.

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

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

J. Compensated Absences

The criteria for determining compensated absences (i.e., paid absences for employee vacation and sick leave benefit) liability are derived from City policy, negotiated agreements, and state law. Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

In the government-wide financial statements, compensated absences are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported for compensated absences in the governmental fund financial statements only if they have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement).

It is the policy of the City to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. There is no liability recorded for sick leave at June 30, 2014. The estimated accumulated amount of unused sick leave at June 30, 2014 totals \$23,438.

K. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Commissioners - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Commissioners remove the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Assigned fund balance. This classification reflects the amounts constrained by the town's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Commissioners and Mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

L. Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are primarily property taxes.

N. Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.2260 per \$100 valuation for real property, \$.4783 per \$100 valuation for business personal property and \$.250 per \$100 valuation for motor vehicles.

O. Interfund Balances

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

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Budgetary Process

Budgetary Basis of Accounting: The City's budgetary process accounts for its transactions the same as the governmental funds, using the cash basis of accounting. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Budget amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

R. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used to determine depreciation expense, and the allowance for doubtful accounts among other accounts. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2014, the City's cash and cash equivalent funds are substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

As of June 30, 2014, the City's investments are as follows:

| | | |
|---|----|----------------|
| Certificates of Deposits – Governmental Funds | \$ | 190,140 |
| Certificates of Deposits – Proprietary Fund | | <u>146,904</u> |
| Total | \$ | <u>337,044</u> |

Custodial Credit Risk: For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2014, the City's investments and deposits were adequately collateralized by the FDIC deposit insurance and the value of pledged securities held by the City's custodial bank in the City's name.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Credit Risk: Under KRS 66.480 and in accordance with the City's formal investment policy, the City is permitted to invest in the following:

- obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian
- obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States Government agency
- obligations of any corporation of the United States Government
- certificates of deposit issued by, or other interest-bearing accounts of, any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity, or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4)
- uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency
- bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- commercial paper rated in the highest category by a nationally recognized rating agency
- bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities
- securities issued by a state or local government, or any instrumentality of an agency thereof in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- shares of mutual funds (the mutual fund shall be an open and diversified investment company registered under the Federal Investment Company Act of 1940, as amended; the management company of the investment company shall have been in operation for at least five years; and all securities in the mutual funds shall be eligible investments pursuant to the above)

Concentration of Credit Risk: The amount invested at any time by the City in uncollateralized certificates of deposit issued by any bank or savings and loan institution, bankers' acceptances, commercial paper, or securities issued by a state or local government, or any instrumentality of an agency thereof in the United States (as described above), shall not exceed 20% of the total amount invested by the City. With the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 20% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

Interest Rate Risk: The City's formal investment policy does not address policies relative to investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF NEW HAVEN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2014 is as follows:

Governmental activities:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 33,889 | \$ 40,000 | \$ - | \$ 73,889 |
| Construction in process | 5,415 | - | - | 5,415 |
| Total | <u>39,304</u> | <u>40,000</u> | <u>-</u> | <u>79,304</u> |
| Capital assets being depreciated | | | | |
| Buildings | 566,200 | 120,000 | - | 686,200 |
| Machinery and equipment | 436,209 | 16,507 | 7,000 | 445,716 |
| Infrastructure | 186,217 | - | - | 186,217 |
| Total | <u>1,188,626</u> | <u>136,507</u> | <u>7,000</u> | <u>1,318,133</u> |
| Less: accumulated depreciation | <u>(691,846)</u> | <u>(46,763)</u> | <u>(7,000)</u> | <u>(731,609)</u> |
| Total capital assets being depreciated, net | <u>496,780</u> | <u>89,744</u> | <u>-</u> | <u>586,524</u> |
| Governmental activities capital assets, net | <u>\$ 536,084</u> | <u>\$ 129,744</u> | <u>\$ -</u> | <u>\$ 665,828</u> |

Depreciation expense attributable to governmental activities was charged to the governmental functions/programs per the statement of activities as follows for the year ending June 30, 2014:

| | |
|------------------------|------------------|
| General government | \$ 14,936 |
| Public safety – police | 2,620 |
| Public safety – fire | 26,218 |
| Public works – streets | <u>2,989</u> |
| Total | <u>\$ 46,763</u> |

During 2013, the City incurred architectural fees of \$5,415 for a potential Senior Center through a Community Block Development Grant. The amounts have been recorded as construction in process in the government-wide financial statements. There were no new expenditures related to the Senior Center during fiscal year 2014.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Business-type activities:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 20,801 | \$ - | \$ - | \$ 20,801 |
| Total | <u>20,801</u> | <u>-</u> | <u>-</u> | <u>20,801</u> |
| Capital assets being depreciated | | | | |
| Buildings | 80,565 | - | - | 80,565 |
| Machinery and equipment | 348,761 | 4,288 | - | 353,049 |
| Water and sewer system | 4,708,643 | - | - | 4,708,643 |
| Total | <u>5,137,969</u> | <u>4,288</u> | <u>-</u> | <u>5,142,257</u> |
| Less: accumulated depreciation | <u>(1,827,705)</u> | <u>(153,222)</u> | <u>-</u> | <u>(1,980,927)</u> |
| Total capital assets being depreciated, net | <u>3,310,264</u> | <u>(148,934)</u> | <u>-</u> | <u>3,161,330</u> |
| Business type activities capital assets, net | <u>\$ 3,331,065</u> | <u>\$ (148,934)</u> | <u>\$ -</u> | <u>\$ 3,182,131</u> |

Depreciation expense attributable to business-type activities was charged to specific functions per the statement of activities as follows:

| | |
|-------|-------------------|
| Water | \$ 29,512 |
| Sewer | <u>123,710</u> |
| Total | <u>\$ 153,222</u> |

Grant Projects:

The City has entered into multiple grants with the Kentucky Infrastructure Authority (KIA) to upgrade and extend the current water and sewer systems of the City. Additional projects have been approved by the Authority as of June 30, 2014 but have not been funded by specific state legislation or local revenues.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

4. LONG-TERM OBLIGATIONS

Long-term debt of the City consists of the following as of June 30, 2014:

| | <u>Balance</u> | <u>Current</u> | <u>Long-term</u> |
|---|-------------------|------------------|-------------------|
| Water and Sewer Revenue Series 1999A Bonds; interest at 5.125%; original face amount of \$237,000, principal due annually through January 1, 2039; secured by water and sewer revenues | 198,000 | 4,000 | 194,000 |
| Water and Sewer Revenue Series 1999B Bonds; interest at 4.75%; original face amount of \$79,000, principal due annually through January 1, 2039; secured by water and sewer revenues | 65,400 | 1,400 | 64,000 |
| Term note with a trustee bank; interest at rates ranging from 3.50% to 5.25%; original face amount of \$105,000; due annually through April 20, 2017; secured by real property | 30,000 | 10,000 | 20,000 |
| Term Note from the Commonwealth of Kentucky's State Fire Commission; interest at 3.00%; original face amount of \$100,000; due annually through November 10, 2022; secured by a fire truck and state aid funds received from the Commission | <u>59,974</u> | <u>6,451</u> | <u>53,523</u> |
| Total | 353,374 | 21,851 | 331,523 |
| Less: unamortized discount | <u>(1,255)</u> | <u>(50)</u> | <u>(1,205)</u> |
| | <u>\$ 352,119</u> | <u>\$ 21,801</u> | <u>\$ 330,318</u> |

CITY OF NEW HAVEN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Activity in long-term debt for the year ending June 30, 2014 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|----------------------------------|------------------------------|------------------|------------------|---------------------------|
| <u>Governmental activities:</u> | | | | |
| Notes payable | \$ 106,238 | \$ - | \$ 16,264 | \$ 89,974 |
| <u>Business-type activities:</u> | | | | |
| Bonds payable | \$ 268,800 | \$ - | \$ 5,400 | \$ 263,400 |
| Unamortized discounts | (1,305) | - | (50) | (1,255) |
| | <u>\$ 267,495</u> | <u>\$ -</u> | <u>\$ 5,350</u> | <u>\$ 262,145</u> |

At June 30, 2014, the future debt service requirements of the City are as follows:

Governmental activities:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|------------------|-------------------|
| 2015 | \$ 16,451 | \$ 3,962 | \$ 20,413 |
| 2016 | 16,644 | 3,208 | 19,852 |
| 2017 | 16,844 | 2,449 | 19,293 |
| 2018 | 7,049 | 1,201 | 8,250 |
| 2019 | 7,260 | 990 | 8,250 |
| 2020 - 2023 | <u>25,726</u> | <u>1,713</u> | <u>27,439</u> |
| | <u>\$ 89,974</u> | <u>\$ 13,523</u> | <u>\$ 103,497</u> |

Business-type activities:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|-------------------|-------------------|
| 2015 | \$ 5,400 | \$ 13,500 | \$ 18,900 |
| 2016 | 6,000 | 13,223 | 19,223 |
| 2017 | 6,100 | 12,915 | 19,015 |
| 2018 | 6,600 | 12,602 | 19,202 |
| 2019 | 6,700 | 12,264 | 18,964 |
| 2020 - 2024 | 39,400 | 55,740 | 95,140 |
| 2025 - 2029 | 50,400 | 44,609 | 95,009 |
| 2030 - 2034 | 63,200 | 30,362 | 93,562 |
| 2035 - 2039 | <u>79,600</u> | <u>12,644</u> | <u>92,244</u> |
| | <u>\$ 263,400</u> | <u>\$ 207,859</u> | <u>\$ 471,259</u> |

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

5. FUND BALANCES

The following is a summary of the Governmental Funds fund balances of the City of New Haven at the June 30, 2014:

| | | |
|---------------------------------|----|----------------|
| Restricted: | | |
| Streets | \$ | 18,629 |
| T-21 Grant | | 759 |
| | | <u>19,388</u> |
| Committed: | | |
| Fire Truck Funds | | 47,340 |
| Police Car Funds | | 16,874 |
| | | <u>64,214</u> |
| Assigned: | | |
| Abbey Donations | | 8,154 |
| Media Donations | | 5,407 |
| General Equipment Account | | 10,183 |
| | | <u>23,744</u> |
| Unassigned | | <u>299,669</u> |
| Total governmental fund balance | \$ | <u>407,015</u> |

6. RETIREMENT PLAN

The City has elected to participate in the County Employees Retirement System (CERS), a multi-employer defined benefit plan pursuant to KRS 75.830. The plan is administered by the Board of Trustees of the Kentucky Retirement Systems.

Non-hazardous employees who retire at or after age 65 with at least 48 or more months of credited service are entitled to a normal retirement benefit, payable monthly for life, equal to 2.00% to 2.20% of their final-average salary (final compensation) multiplied by their years of service. Hazardous employees who retire at or after age 55 with at least 60 months of credited service are entitled to a normal retirement benefit, payable monthly for life, equal to 2.50% of their final-average salary (final compensation) multiplied by their years of service. Final-average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five (non-hazardous employees) or fifteen (hazardous employees) years of service. Vested non-hazardous employees may retire after 27 years of service regardless of age and receive full benefits or retire after age 55 and receive reduced retirement benefits. Vested hazardous employees may retire after 20 years of service regardless of age and receive full benefits or retire after age 50 and receive reduced retirement benefits. The CERS also provides death and disability benefits. Benefits are established by State statute.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The payroll for employees covered by the CERS for the year ended June 30, 2014 totals approximately \$193,000. Covered non-hazardous and hazardous employees (hired before September 1, 2008) are required by State statute to contribute 5.00% and 8.00%, respectively, of their salaries to the plan. Covered non-hazardous and hazardous employees (hired after September 1, 2008) are required by State statute to contribute 6.00% and 9.00%, respectively, of their salaries to the plan. The City is required by the same statute to contribute 18.89% and 35.70% of the covered non-hazardous and hazardous employees' salaries, respectively, for the year ended June 30, 2014.

Contributions required by the City for the following three fiscal years are as follows:

| <u>Fiscal Year End</u> | <u>Required Contribution</u> | <u>Percent Contributed</u> |
|------------------------|------------------------------|----------------------------|
| June 30, 2014 | \$ 37,642 | 100% |
| June 30, 2013 | \$ 36,877 | 100% |
| June 30, 2012 | \$ 41,148 | 100% |

Ten year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in the CERS Annual Financial Reports (which are a matter of public record). The most recent actuarial valuation is as of June 30, 2013. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the CERS.

7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and workers' compensation claims.

The City contracts with the Kentucky League of Cities Insurance Services (KLCIS), a local government risk pool to insure against workers' compensation claims.

The City purchases commercial insurance for various risks of loss due to torts, thefts, property damage, errors and omissions, injuries to employees and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The types and amounts of coverage provided the City's commercial insurance carrier is as follows:

- General liability coverage - \$6,000,000 in excess of \$2,500
- Error and omissions coverage - \$6,000,000 in excess of \$2,500
- Auto and casualty coverage - \$2,000,000 in excess of \$2,500

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

8. LEASE AGREEMENT

The City of New Haven entered into a 30 year lease with Amerigas Co. for land owned by the City. The City was paid the entire amount of the lease, \$40,000 in advance. July 1, 1989 was the starting date of this lease. At June 30, 2014, deferred revenue related to the lease included in the government-wide statement of net position was \$6,667.

9. JOINT VENTURE

The City operates under an agreement with the Rolling Fork Volunteer Fire Department (RFVFD) in order to save on costs associated with providing fire services. The City and the RFVFD hold joint title to the Fire House. Under the agreement, the City pays operating costs and the RFVFD reimburses the City for half of all costs. For the year ending June 30, 2014, the City received \$2,000 in reimbursements from the RFVFD.

10. CONTINGENCIES

The City is party to pending civil suits that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of these proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

The City is subject to federal, state, and local regulations in regards to operating its waste water facility. Costs are routinely incurred to remove, contain, and neutralize existing environmental contaminants and these costs are generally expensed as incurred. Future costs for existing conditions are not readily determinable and are not reflected in the financial statements.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 18, 2014, which is the date the financial statements were available to be issued.

Subsequent to year end, the City approved an ordinance increasing property tax rates assessed to \$.2270 per \$100 valuation for real property and decreased property taxes to \$.3971 per \$100 valuation for personal property. Motor vehicle taxes were unchanged at \$.250 per \$100 valuation.

Subsequent to year end, the City purchased real property from a related party (Commissioner and Fire Chief) jointly with the Rolling Fork Volunteer Fire Department. The City paid the Commissioner \$16,000 for one-half of the cost of the property.

CITY OF NEW HAVEN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The City is in the process to secure financing from a local bank to replace a section of water line. The City received and approved a bid to complete the project for \$52,835.

12. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014.

Management is currently evaluating the impact of the adoption of this statement on the District's financial statements. Application of the standard may require restatement of portions of these financial statements in future years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEW HAVEN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET-TO-ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2014

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|--------------|------------|--|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | \$ 73,100 | \$ 73,100 | \$ 71,310 | \$ (1,790) |
| Motor vehicle | 8,700 | 8,700 | 8,178 | (522) |
| Utilities | 37,000 | 37,000 | 43,316 | 6,316 |
| Bank deposit | 7,500 | 7,500 | 7,606 | 106 |
| Insurance premium tax | 100,000 | 100,000 | 87,507 | (12,493) |
| Business licenses | 11,000 | 11,000 | 10,122 | (878) |
| Donations | 5,000 | 5,000 | 11,364 | 6,364 |
| Earnings on investments | 1,100 | 1,100 | 456 | (644) |
| Recreation department | 12,803 | 2,500 | 22,113 | 19,613 |
| Grant revenues | 617,124 | 625,124 | 24,082 | (601,042) |
| Other local revenue | 69,859 | 31,883 | 16,839 | (15,044) |
| Total revenues | 943,186 | 902,907 | 302,893 | (600,014) |
| Expenditures | | | | |
| Current: | | | | |
| General government | | | | |
| Administration | 153,126 | 156,925 | 158,366 | (1,441) |
| Grant projects | 632,943 | 632,943 | 13,864 | 619,079 |
| Public Safety: | | | | |
| Police | 81,214 | 81,414 | 78,346 | 3,068 |
| Fire | 33,900 | 20,800 | 19,727 | 1,073 |
| Public service: | | | | |
| Recreation | 22,803 | - | 5,432 | (5,432) |
| Debt Service: | | | | |
| Principal | - | - | 16,263 | (16,263) |
| Interest | 12,100 | 12,100 | 3,581 | 8,519 |
| Capital outlay | - | - | 16,507 | (16,507) |
| Total expenditures | 936,086 | 904,182 | 312,086 | 592,096 |
| Excess (deficiency) of revenues over (under) expenditures | 7,100 | (1,275) | (9,193) | (7,918) |
| Other Financing Sources: | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Net change in fund balance | \$ 7,100 | \$ (1,275) | (9,193) | \$ (7,918) |
| Fund balance, beginning of year | | | 397,579 | |
| Fund balance, end of year | | | \$ 388,386 | |

Note A: The approved budget and amendments are legally enacted through passage of an ordinance authorizing the Mayor to administer the budget and to transfer necessary appropriations among departments. Additional budget appropriations must be approved by the City Commissioners.

Note B: Actual expenditures and revenues are reported on the accrual basis of accounting.

Note C: Deficiency of budgeted revenues and other financing sources over final budgeted expenditures and other financing uses is balanced with available fund balance.

SMITH & COMPANY CPA's, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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KENTUCKY SOCIETY OF CPA's

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

To the Mayor and
City Commission Members
City of New Haven
New Haven, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Haven, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of New Haven, Kentucky's basic financial statements and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2014-1, 2014-2, and 2014-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New Haven, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-2, 2014-3, and 2014-4.

City of New Haven, Kentucky's Response to Findings

The City of New Haven, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of New Haven, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Bardstown, Kentucky
December 18, 2014

CITY OF NEW HAVEN, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2014

Finding 2014-1 (Material Weakness)

Condition: As part of the audit we noted that material adjustments were not identified by the City's internal control. This is a repeat finding from the prior year.

Criteria: City's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause: The City did not identify all necessary adjustments to prepare GAAP basis financial statements.

Effect: The design of the internal controls over financial reporting limits the ability of the City to provide accurate financial information in accordance with GAAP.

Recommendation: We recommend City management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure all material adjustments are made. The City may want to consider the use of another CPA or firm to assist with the preparation of the annual financial statements.

Management Response: The City will consider the recommendation. However, restraints on resources are such that it may not be feasible to hire an outside CPA or firm to assist with the preparation of the annual financial statements.

Finding 2014-2 (Material Weakness and Noncompliance)

Condition: During our audit, we noted the Fire Chief entered into and executed a contract in the City's name for the purchase of real estate in violation of Kentucky Revised Statute (KRS) 61.252: *Prohibition against city officers and employees contracting with city or city agency for property or services*. The transaction was executed in July 2014 after the close of the current fiscal year.

Criteria: KRS 65.252 states the following:

- (1) No officer or employee of any city or city agency shall directly or through others undertake, execute, hold, or enjoy, in whole or in part, any contract made, entered into, awarded, or granted by the officer's or employee's city or city agency, with the following exceptions:
 - a. The prohibition in this section shall not apply to contracts entered into before an elected officer filed as a candidate for city office, before an appointed officer was appointed to the office, or before an employee was hired by the city or city agency; provided that if the contract is renewable, the prohibition shall apply to any renewal of the contract that occurs after the officer is elected or appointed, or

CITY OF NEW HAVEN, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2014

- after the employee is hired, unless the provisions of paragraph (c) of this subsection are satisfied;
- b. The prohibition in this section shall not apply if the contract is awarded after public notice and competitive bidding, unless the officer or employee is authorized to participate in establishing the contract specifications, or awarding, or managing the contract, in which case the provisions of paragraph (c) of this subsection shall be satisfied;
 - c. The prohibition in this section shall not apply if the following requirements are met:
 - i. The specific nature of the contract transaction and the nature of the officer's or employee's interest in the contract are publicly disclosed at a meeting of the governing body of the city or city agency;
 - ii. The disclosure is made a part of the official record of the governing body of the city or city agency before the contract is executed;
 - iii. A finding is made by the governing body of the city or city agency that the contract with the officer or employee is in the best interests of the public and the city or city agency because of price, supply, or other specific reasons; and
 - iv. The finding is made a part of the official record of the governing body of the city or city agency before the contract is executed.

Cause: The Fire Chief did not comply with the requirements of KRS 61.252

Effect: Violation of KRS 61.252 is a Class A misdemeanor, and upon conviction, the court may void any contract entered into in violation of the statute. Noncompliance with KRS could impact funding received by the state as well.

Recommendation: We recommend City offer training for Commissioner's and management personnel to ensure compliance with applicable laws and regulations.

Management Response: The City will make an effort to better train the City Commission by encouraging attendance at training seminars relating to all local government.

Finding 2014-3 (Material Weakness and Noncompliance)

Condition: During our audit, we noted the policies and procedures over receipts and disbursements for the New Haven Fire Department were not in accordance with the City's overall policies. Specifically, we noted that expenditures above a predetermined limit (involving real property) was not reviewed and approved by the City Commission. We also noted that the expenditure exceeded the approved budget for the Fire Department.

Criteria: The City's policies and procedures should apply and adhere to all City functions and departments.

Cause: The City did not subject the Fire Department funds to the City's policies and procedures.

CITY OF NEW HAVEN, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2014

Effect: Failure to comply with the appropriate policies and procedures could result in lost or missing funds.

Recommendation: We recommend City's Fire Department comply with all policies and procedures applicable to the City's funds. Specifically, transactions over predetermined limits should be approved by the City Commissioners prior to purchase and budgets should be amended for additional approved expenditures prior to executing the transaction.

Management Response: The City will ensure the Fire Department complies with all policies and procedures applicable to the City's funds.

Finding 2014-4 (Noncompliance)

Condition: During our audit, we noted the City violated the Kentucky Open Meetings Act (KRS 61.805 – 61.850) during the September Commissioners' meeting. This was reported on in the previous fiscal year audit and no further noncompliance has been noted since noting this instance that occurred during fiscal year 2014.

Criteria: The Kentucky Open Meetings Act prohibits information of public policy and public business from being conducted in closed sessions, with certain limited exceptions as provided for in KRS 61.810.

Cause: The City went into closed session in order to discuss personnel and land acquisition matters as allowed by KRS 61.810. However, the Council members inadvertently began discussing wage increases in the closed session in violation of the Kentucky Open Meetings Act.

Effect: The City could potentially face fines or other sanctions from violating Kentucky Open Meetings Act.

Recommendation: We recommend City offer training for Commissioner's and management personnel to ensure compliance with applicable laws and regulations.

Management Response: The City considers this an isolated incidence and will make an effort to better train the City Commission by encouraging attendance at training seminars relating to all local government.

CITY OF NEW HAVEN

SCHEDULE OF PRIOR YEAR FINDINGS JUNE 30, 2014

Finding 2013-1

Finding repeated as 2014-1.

Finding 2013-2

Finding repeated as 2014-4

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF NEW HAVEN, KENTUCKY
For the Year Ended June 30, 2014

The City of New Haven, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictate by the applicable Kentucky Revised Statutes.


Mayor


City Clerk