CITY OF NEW HAVEN

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

Jones & Associates CPAs, PSC

2808 Palumbo Drive, Suite 101, Lexington, KY 40509 (859) 687-0303

Certified Public Accountants

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JONES & ASSOCIATES CPAs, PSC

2808 PALUMBO DRIVE, SUITE 101, LEXINGTON, KY 40509 (859) 687-0303

CERTIFIED PUBLIC ACCOUNTANTS

To the Mayor and New Haven City Commissioners
City of New Haven
New Haven, Kentucky

Independent Auditor's Report

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

New Haven City Commissioners
City of New Haven
Independent Auditor's Report
(Continued)

Emphasis of a Matter – Implementation of New GASB Accounting Standards

As discussed in Notes 6 and 13 to the financial statements, effective July 1, 2017 the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, which the City has chosen not to present, and the schedules related to pensions and other postemployment benefits and budgetary comparison information 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 the 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 April 10, 2019, on our consideration of the City of New Haven's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of New Haven's internal control over financial reporting and compliance.

Respectfully submitted,

Jones & Associates CPAs, PSC

Jones & Associates CPAs, PSC
Certified Public Accountants
Lexington, Kentucky

April 10, 2019

City of New Haven
City Officials
June 30, 2018

Tessie Cecil	Mayor
Karl Lusk	Commissioner
Jane Masse	Commissioner
Mike Morris	Commissioner
Joseph Mattingly	Commissioner
Joanie Corbin	City Clerk

Note: List of officials who were in office as of June 30, 2018.

Financial Statements

Government-Wide Financial Statements

City of New Haven
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	$ 246,761	$ 82,532	$ 329,293
Restricted cash and cash equivalents	48,693	153,902	202,595
Investments	93,663		93,663
Restricted investments		96,425	96,425
Accounts receivable, net	32,694	63,259	95,953
Inventory		32,588	32,588
Total current assets	$ 421,811	$ 428,706	$ 850,517
Noncurrent assets			
Investments	$ 97,843	$	$ 97,843
Restricted investments		48,472	48,472
Capital assets, net	578,749	3,377,647	3,956,396
Total noncurrent assets	$ 676,592	$ 3,426,119	$ 4,102,711
Deferred outflows of resources			
Pension	$ 103,848	$ 61,753	$ 165,601
Other postemployment benefits	39,828	13,915	53,743
Total deferred outflows of resources	$ 143,676	$ 75,668	$ 219,344
Total assets	$ 1,242,079	$ 3,930,493	$ 5,172,572
Liabilities			
Current liabilities			
Accounts payable	$ 5,459	$ 35,988	$ 41,447
Payroll related liabilities	7,097	5,297	12,394
Interest payable	528	6,270	6,798
Current portion of long-term debt	10,178	15,285	25,463
Customer deposits		11,900	11,900
Other current liabilities	9,981	972	10,953
Total current liabilities	$ 33,243	$ 75,712	$ 108,955
Noncurrent liabilities			
Noncurrent portion of long-term debt	$ 17,226	$ 466,485	$ 483,711
Net pension liability	272,907	149,864	422,771
Net other postemployment benefits liability	98,511	51,472	149,983
Total noncurrent liabilities	$ 388,644	$ 667,821	$ 1,056,465

City of New Haven
Statement of Net Position
June 30, 2018
(Continued)

Deferred inflows of resources			
Pension	$ 10,155	$ 9,251	$ 19,406
Other postemployment benefits	6,034	2,694	8,728
Total deferred inflows of resources	$ 16,189	$ 11,945	$ 28,134
Total liabilities	$ 438,076	$ 755,478	$ 1,193,554
Net position			
Net investment in capital assets	$ 550,817	$ 2,867,932	$ 3,418,749
Restricted for:			
Municipal aid	48,620		48,620
ISTEA	73		73
Sewer rehab		34,197	34,197
Debt service		264,602	264,602
Unrestricted	204,493	8,284	212,777
Total net position	$ 804,003	$ 3,175,015	$ 3,979,018

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

City of New Haven
Statement of Activities
For the Year Ended June 30, 2018

Functions/programs	Expenses	Program Revenues Received: Charges for Services	Program Revenues Received: Operating Grants and Contributions	Program Revenues Received: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business Type Activities	Total
Governmental activities							
General government	$ 206,789	$	$ 48,313	$	$ (158,476)	$	$ (158,476)
Streets and maintenance	7,364		19,437		12,073		12,073
Protections to persons and property	107,311				(107,311)		(107,311)
Recreation and culture	16,487	11,219			(5,268)		(5,268)
Total governmental activities	$ 337,951	$ 11,219	$ 67,750	$	$ (258,982)	$	$ (258,982)
Business-Type activities							
Water and wastewater sewer system	$ 575,895	$ 482,849	$	$ 165,500	$	$ 72,454	$ 72,454
Total primary government	$ 913,846	$ 494,068	$ 67,750	$ 165,500	$ (258,982)	$ 72,454	$ (186,528)
General revenues							
Taxes:							
Property taxes					$ 81,987	$	$ 81,987
Franchise taxes					34,721		34,721
Insurance premium and license tax					136,792		136,792
Earnings on investments					572	466	1,038
Miscellaneous					20,702	21,865	42,567
Total general revenues					$ 274,774	$ 22,331	$ 297,105
Transfers					(15,722)	15,722	
Change in net position					$ 70	$ 110,507	$ 110,577
Net position - Beginning (restated)					803,933	3,064,508	3,868,441
Net position - Ending					$ 804,003	$ 3,175,015	$ 3,979,018

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

Fund Financial Statements

City of New Haven
Balance Sheet - Governmental Funds
June 30, 2018

	General Fund	Municipal Aid Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 246,761	$	$ 246,761
Restricted cash and cash equivalents	73	48,620	48,693
Investments	191,506		191,506
Accounts receivable	32,694		32,694
Total assets	$ 471,034	$ 48,620	$ 519,654
Liabilities and fund balances			
Liabilities			
Accounts payable	$ 5,015	$ 444	$ 5,459
Payroll related liabilities	7,097		7,097
Other liabilities	10,509		10,509
Total liabilities	$ 22,621	$ 444	$ 23,065
Fund balances			
Restricted	$ 80,943	$ 48,176	$ 129,119
Committed	74,137		74,137
Assigned	18,520		18,520
Unassigned	274,813		274,813
Total fund balances	$ 448,413	$ 48,176	$ 496,589
Total liabilities and fund balances	$ 471,034	$ 48,620	$ 519,654

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

City of New Haven
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Municipal Aid Fund	Total Governmental Funds
Revenues			
Taxes	$ 241,615	$	$ 241,615
Intergovernmental	40,545	19,437	59,982
License and permits	11,885		11,885
Charges for service	11,219		11,219
Miscellaneous	29,030	12	29,042
Total revenues	$ 334,294	$ 19,449	$ 353,743
Expenditures			
General government	$ 138,871	$	$ 138,871
Protections to persons and property	107,311		107,311
Streets and maintenance		7,363	7,363
Recreation and culture	16,487		16,487
Debt service	9,881		9,881
Capital outlay	22,319		22,319
Total expenditures	$ 294,869	$ 7,363	$ 302,232
Excess (deficiency) of revenues over expenditures	$ 39,425	$ 12,086	$ 51,511
Other financing sources (uses)			
Transfers in	$ 4,017	$	$ 4,017
Transfers out	(19,739)		(19,739)
Total other financing sources (uses)	$ (15,722)	$	$ (15,722)
Net change in fund balances	$ 23,703	$ 12,086	$ 35,789
Fund balances - Beginning	424,710	36,090	460,800
Fund balances - Ending	$ 448,413	$ 48,176	$ 496,589

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

City of New Haven
Statement of Net Position - Proprietary Fund
June 30, 2018

		Water and Wastewater Sewer System Fund
Assets		
Current assets		
Cash and cash equivalents	$	82,532
Restricted cash and cash equivalents		153,902
Restricted investments		96,425
Accounts receivable, net		63,259
Inventory		32,588
Total current assets	$	428,706
Noncurrent assets:		
Restricted investments	$	48,472
Capital assets, net		3,377,647
Total noncurrent assets	$	3,426,119
Deferred outflows of resources		
Pension	$	61,753
Other postemployment benefits		13,915
Total deferred outflows of resources	$	75,668
Total assets	$	3,930,493
Liabilities		
Current liabilities:		
Accounts payable	$	35,988
Payroll related liabilities		5,297
Interest payable		6,270
Current portion of long-term debt		15,285
Customer deposits		11,900
Other current liabilities		972
Total current liabilities	$	75,712
Noncurrent liabilities:		
Noncurrent portion of long-term debt	$	466,485
Net pension liability		149,864
Net other postemployment benefits		51,472
Total noncurrent liabilities	$	667,821

City of New Haven
Statement of Net Position - Proprietary Fund
June 30, 2018
(Continued)

Deferred inflows of resources		
Pension	$	9,251
Other postemployment benefits		2,694
Total deferred inflows of resources	$	11,945
Total liabilities	$	755,478
Net position		
Net investment in capital assets	$	2,867,932
Restricted		
Sewer rehab		34,197
Debt service		264,602
Unrestricted		8,284
Total net position	$	3,175,015

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

City of New Haven
Statement of Revenues, Expenses, and Changes in Net Position -
Proprietary Fund
For the Year Ended June 30, 2018

		Water and Wastewater Sewer System Fund
Operating revenues		
Utility sales	$	471,755
Penalties		7,950
Miscellaneous		25,009
Total operating revenues	$	504,714
Operating expenses		
Water purchases for resale	$	94,192
Salaries, wages, employee benefits and related taxes		180,417
Contractual services, operations and materials		66,463
Repairs		15,528
Insurance		8,818
Utilities		64,042
Depreciation		131,583
Total operating expenses	$	561,043
Operating income (loss)	$	(56,329)
Non-operating revenues (expenses)		
Grant revenue	$	165,500
Interest income		466
Interest expense		(14,852)
Total non-operating revenues (expenses)	$	151,114
Other financing sources (uses)		
Transfers in	$	19,739
Transfers out		(4,017)
Total other financing sources (uses)	$	15,722
Change in net position	$	110,507
Net position - Beginning (restated)		3,064,508
Net position - Ending	$	3,175,015

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

City of New Haven
Statement of Cash Flows -
Proprietary Fund
For the Year Ended June 30, 2018

Cash flows from operating activities		
Cash received from customers	$	494,173
Cash payments to suppliers for goods and services		(246,982)
Cash payments for employee services and benefits		(157,272)
Net cash flows from operating activities	$	89,919
Cash flows from capital and related financing activities		
Cash from grants	$	165,500
Cash from loans		166,074
Cash paid for bond principal		(6,600)
Cash paid for loans		(19,059)
Cash paid for interest		(14,769)
Cash paid for capital assets		(338,447)
Net cash flows from capital and related financing activities	$	(47,301)
Cash flows from noncapital and related financing activities		
Transfers	$	17,105
Net cash flows from noncapital and related financing activities	$	17,105
Cash flows from investing activities		
Interest received	$	1,298
Net cash flows from investing activities	$	1,298
Net increase (decrease) in cash	$	61,021
Cash - Beginning (restated)		175,413
Cash - Ending	$	236,434
Cash is reported in the Statement of Net Position as follows:		
Cash and cash equivalents	$	82,532
Restricted cash and cash equivalents		153,902
Total	$	236,434
Reconciliation of cash flows from operating activities		
Operating income	$	(56,329)
Adjustments to reconcile income (loss) from operation to cash used in operating activities		
Depreciation		131,583
Change in assets and liabilities		
Accounts receivable		(10,541)
Inventory		11,669
Accounts payable		(7,380)
Payroll and payroll related liabilities		1,621
Customer deposits		(3,200)
Pension and other postemployment benefits		63,824
Deferred inflows and deferred outflows		(42,300)
Other current liabilities		972
Net cash flows from operating activities	$	89,919

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

City of New Haven
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance -
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds	$	35,789
Governmental funds report capital outlays as expenditures, but in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as:		
Depreciation expense		(27,934)
Capital outlay		22,319
Pension and other postemployment contributions are recognized as expenditures in the governmental funds. However, pension and other postemployment expense in the Statement of Activities is primarily the result of changes in the components of the net pension and net other postemployment benefits liability over the current and future periods:		
Pension expense		(39,866)
Other postemployment benefits		(119)
Payments for long-term debt are recognized as expenditures in the governmental funds. However, these are not recognized in the Statement of Activities but are a reduction of debt principal on the Statement of Net Position.		
Payment on long-term debt		9,881
Change in net position of governmental activities	$	70

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

City of New Haven
Reconciliation of Fund Balance - Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Reconciliation of the fund balances to net position of governmental funds

Fund balances	$	496,589
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Assets -		
Capital assets and infrastructure assets used in governmental assets are not financial resources and therefore, are not reported in the funds		578,749
Deferred outflows of resources related to pensions not recognized in governmental funds		103,848
Deferred outflows of resources related to other postemployment benefits not recognized in governmental funds		39,828
Liabilities -		
Long-term debt not recognized in governmental funds		(27,404)
Net pension liability not recognized in governmental funds		(272,907)
Net other postemployment benefits not recognized in governmental funds		(98,511)
Deferred inflows of resources related to pensions not recognized in governmental funds		(10,155)
Deferred inflows of resources related to other postemployment benefits not recognized in governmental funds		(6,034)
Net position of governmental activities	$	804,003

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

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

The City of New Haven, Kentucky (City) was incorporated under the provisions of the State of Kentucky as a sixth-class city on February 18, 1839. The City, located in Nelson County, operates under a Mayor-Commissioner form of government as authorized by its charter and derives significantly all of its income from property taxes and charges for services.

The accounting policies of the City conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB), is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

B. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility including, but not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon these criteria, the City has no component units to be reported in these financial statements.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues are directly associated with the function or segment and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants are capital specific. Taxes and other items not identifiable with a program are reported as general revenues.

Amounts paid to acquire fixed assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Separate financial statements are provided for governmental funds and proprietary funds. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

Note 1. Summary of Significant Accounting Policies *(Continued)*

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. With this measurement focus, all assets and all liabilities, including long-term assets as well as long-term debt and obligations, are included in the Statement of Net Position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Taxes 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenue of the City's Enterprise Fund is charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. 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 non-operating revenues and expenses.

The City reports the following major Governmental Funds:

- General Fund: reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

- Municipal Aid Fund: a special revenue fund that accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The City reports the following major Proprietary Fund:

- Water and Wastewater Sewer Fund: accounts for water services for the City and surrounding communities. It is also used to account for wastewater (sewer) services for the City and surrounding communities.

E. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and the net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and the accrual basis of accounting. In addition, capital assets, long-term debt, deferred inflows, deferred outflows, net pension liability, and postemployment benefits are added to the governmental funds to compile the long-term

Note 1. Summary of Significant Accounting Policies *(Continued)*

E. Reconciliation of Government-Wide and Fund Financial Statements *(Continued)*

view of the governmental activities column.

The focus of governmental fund measurement (in the fund financial statements) is on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than on net income. The balance sheets contain only current assets and liabilities. The reported fund balance (net current assets) is a measure of "available spendable resources."

A similar reconciliation is included for the Statement of Revenues, Expenditures and Changes in Fund Balances for the governmental funds. These adjustments reflect the transition from the modified accrual basis of accounting for governmental fund financial statements to the accrual basis of accounting for the government-wide statements. Capital outlay is replaced with depreciation expense.

F. Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position

Cash and Cash Equivalents and Investments

For purposes of the Statement of Cash Flows, cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months or less of the date acquired by the City. Investments of the City consist of certificates of deposit, which are stated at fair market value as determined by quoted market prices.

Inventories

Inventories in proprietary funds, stated on a first in, first out basis, consist of expendable supplies held for consumption. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Accounts Receivable

Accounts receivable consists of property and other taxes as well as amounts due from other governmental entities. Since management considers all of these receivables to be collectible at year-end, no provision has been made for uncollectible accounts in the General Fund. However, the City has an allowance for uncollectible accounts in the Water and Wastewater Sewer System Fund for accounts receivable.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or estimated historical cost and reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of $1,000 or more as purchase and construction outlays occur.

Note 1. Summary of Significant Accounting Policies *(Continued)*

F. Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position *(Continued)*

Capital Assets and Depreciation *(Continued)*

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

All reported capital assets are depreciated with the exception of land and construction in progress. The City provides for depreciation and obsolescence of such assets by annual charges to expense. The following expected useful lives are used:

Building and improvements	20 – 40 years
Infrastructure	20 – 40 years
Office equipment	7 – 10 years
Other equipment	4 – 10 years
Sewer system	10 – 50 years
Water system	20 – 50 years

Property Tax

Property taxes attach as an enforceable lien on property as of each April 15. Taxes are levied on October 1 and are due and payable on or before December 31. All unpaid taxes become delinquent January 1 of the following year. No allowance for delinquent taxes is established due to the immateriality of uncollectible taxes.

The constitution of the Commonwealth of Kentucky sets absolute tax rates on the value of taxable property based on the population of the city. For the year ended June 30, 2018, the City had a tax rate of $0.214 per $100 for real estate, $0.4329 per $100 for tangible property, and $0.25 per $100 for motor vehicles.

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The City accrues a liability for compensated absences when it is earned and becomes payable to employees.

In accordance with this policy, the City accrued a liability in the government-wide and proprietary fund financial statements for vacation pay earned but not taken by employees. For governmental funds, the liability for compensated absences is only considered current because all vacation pay is based on the calendar year and cannot be carried over from one year to another. As a result, all vacation pay is reported as current. Upon termination, accumulated vacation will be paid to the employee.

It is the City's policy to permit its employees to accumulate earned but unused sick pay benefits. The City does not pay any amounts for sick pay benefits to employees who are terminated. Employees who retire from the City may be eligible to receive payment for a portion of these accrued benefits. However, no liability is recognized for unpaid accumulated sick leave because this amount is not readily determinable until it becomes due to the employee.

Note 1. Summary of Significant Accounting Policies *(Continued)*

F. <u>Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position</u> *(Continued)*

Other Postemployment Benefits

The City adopted GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the current year, including the amendments in GASB Statement No. 85. The primary objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and replaces the requirements of Statements No. 45 and No. 57. The new pronouncements establish standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, GASB identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. The adoption of these new standards resulted in the restatement of certain beginning balances to record OPEB amounts as of July 1, 2017. The net OPEB liability was increased by $104,971 resulting in a decrease in beginning net position.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of the Kentucky Retirement Systems' Insurance Fund (KRS Insurance Fund) and additions to or deductions from the KRS Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the KRS Insurance Fund. For this purpose, the KRS Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for short-term investments that are reported at cost, which approximates fair value.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide and in the proprietary fund-level financial statements, long-term debt and other long-term obligations are reported as liabilities. Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures.

The accounting for the proprietary fund is the same in the fund-level statement as it is in the government-wide statement.

Fund Balance/Net Position

Government-Wide Financial Statements

Net position is classified in three components:

- Net investment in capital assets: Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets;

Note 1. Summary of Significant Accounting Policies *(Continued)*

F. <u>Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position</u> *(Continued)*

Fund Balance/Net Position *(Continued)*

- Restricted: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation;
- Unrestricted: All other net position that does not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Financial Statements

Governmental fund equity is classified as fund balances. Fund balances are further classified as the following:

- Nonspendable: Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted: Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed: Amounts constrained to specific purposes determined by a formal action of the City. The City must take the action to remove or change the constraint;
- Assigned: Amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City Commissioners or by an official or body to which the City delegates the authority;
- Unassigned: Amounts that are available for any purpose.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for Deferred Outflows of Resources. Deferred Outflows of Resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has items related to pensions and other postemployment benefits included in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for Deferred Inflows of Resources. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has items related to pensions and other postemployment benefits included in this category.

Pension

For purposes of measuring the Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources related to pensions, and pension expense, information about the pension plan's fiduciary net position of the County Employees Retirement Systems (CERS) and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Note 1. Summary of Significant Accounting Policies *(Continued)*

F. Assets, Liabilities, Deferred Inflows/Outflows, and Fund Balance/Net Position *(Continued)*

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those resulting from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, governmental fund expenditures are classified by character as current expenditures and capital outlay expenditures. Proprietary fund expenses are classified as operating expenses and non-operating expenses. Governmental funds report expenditures of financial resources. Proprietary funds report expenses related to use of economic resources.

Interfund Transactions

During the course of operations, transactions may occur between funds within the City that may result in transfers being recorded. Interfund transfers are eliminated in the Statement of Net Position.

G. Budgeting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing the budget.

H. Estimates

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

I. Statement of Cash Flows

For purposes of the Statement of Cash Flows, cash includes amounts held in checking accounts and certificates of deposit (including those held as restricted assets).

Note 2. Stewardship, Compliance and Accountability

The City adopts a budget for the general fund, special revenue fund, and enterprise fund on a basis consistent with GAAP.

The Mayor and City Clerk submit an annual proposed operating budget for the fiscal year commencing the following July 1 to the City Commissioners for review. The operating budget includes proposed expenditures and means of financing them. Public hearings are held to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Once adopted, the City Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Note 3. Deposits, Restricted Cash and Investments

A. Deposits

The City maintains deposits of public funds with depository institutions insured by the FDIC as required by KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). At June 30, 2018, the City's deposits were undercollateralized by as much as $14,102.

B. Restricted Cash

Restricted cash as of June 30, 2018 consists of the following:

ISTEA	$	73
Sewer Rehab		34,197
Municipal Aid		48,620
Bond, Interest, and Depreciation		119,705
Total Restricted Cash	$	202,595

The ISTEA account is restricted for the federal fund activity related to a federal grant from the Department of Transportation passed through the Kentucky Transportation Cabinet. The Sewer Rehab account is for funds restricted for use in making improvements to the sewer infrastructure. The Municipal Aid accounts are for the allocation of funds from the state which are for design, right-of-way acquisitions, relocation of utilities, construction and other municipal road expenditures. The Bond, Interest, and Depreciation accounts are restricted and held for use for payment of interest and principal on revenue bonds, for repairs and maintenance to the water and sewer system, and for required depreciation reserve.

C. Investments and Restricted Investments

Restricted investments as of June 30, 2018 consists of the following:

Bond and Interest	$	144,897
Total Restricted Investments	$	144,897

Investing is performed in accordance with investment policies complying with state and city statutes.

Note 3. Deposits, Restricted Cash and Investments *(Continued)*

C. Investments and Restricted Investments *(Continued)*

Fair Value of Financial Instruments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, then the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the hierarchy, the City's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018.

	Level 1	Level 2	Level 3	Total
Certificate of Deposits	$	$ 336,403	$	$ 336,403
Total	$	$ 336,403	$	$ 336,403

The City's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the year ended June 30, 2018.

The City holds investments which are exposed to various risks such as interest rate, market rate, and credit.

Due to the level of risk associated with these investments and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Note 4. Compensated Absences

The City accrued $6,271 for compensated absences as of June 30, 2018. This amount consists of vacation pay due to employees as of that date.

Note 5. Employee Retirement System

A. <u>General Information about County Employees Retirement Systems</u>

Plan Description

Employees of the City are provided a defined benefit pension plan through the CERS, a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees (Board) is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646 or it may be found at the KRS website at www.kyret.ky.gov.

Non-hazardous Benefits Provided

Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Non-hazardous members are eligible to retire with an unreduced benefit at age 65 or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with 5 years of service credit. Service-related disability benefits are provided after 5 years of service.

Cost of living adjustments (COLA) are provided at the discretion of the General Assembly. Effective July 1, 2009, COLA for retirees are set by statute at 1.5% each July 1.

Hazardous Benefits Provided

For hazardous members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 3-high creditable compensation years with a minimum of 24 months and a minimum of 3 fiscal years. Final compensation is determined by dividing the total salary earned during the 3 high years by the number of months worked, then multiplying by 12. Hazardous members, age 55 or older, or with 20 or more years of service are eligible to retire and receive unreduced benefits. Any hazardous member, age 50, with a minimum of 15 years of service may retire with a reduction in benefits.

For hazardous members who began contributing to CERS on or after September 1, 2008, any member age 60 or older with 60 months of service or a member with 25 years of service, may retire with no reduction in benefits. A member, age 50 or older, with at least 180 months of service credit may retire at any time with a reduction of benefits.

Non-hazardous Contributions

The contribution requirements of Plan members and the City are established by state statute. Employee contributions for nonhazardous employees who began participating with KRS prior to September 1, 2008, contribute 5% of their creditable compensation to the KRS. Those who began on or after September 1, 2008, contribute a total of 6% of all their creditable compensation to the KRS. One percent of each employee's contribution is deposited to the KRS Pension Fund 401(h) account for the payment of health benefits. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of

Note 5. Employee Retirement System *(Continued)*

A. <u>General Information about County Employees Retirement Systems</u> *(Continued)*

Non-hazardous Contributions *(Continued)*

contributions and interest in his/her account; however, the 1% contributed to the 401(h) account is non-refundable and is forfeited. Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Employer contribution rates for the fiscal year ending 2018 were adopted by the Board based on actuarially recommended rates. For the year ended June 30, 2018, the City's covered payroll was $168,654. Covered payroll refers to the payroll on which contributions to a pension plan are based. The required pension contribution rate for the year ended June 30, 2018 was 14.48%. The City contributed $21,349 or 100% of the required contributions to the Plan for the year ended June 30, 2018.

Hazardous Contributions

For the year ended June 30, 2018, all plan members who began participating before September 1, 2008, were required to contribute 8% of their annual creditable compensation. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, are required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution is deposited to the member's account while 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to participate in the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Note 5. Employee Retirement System *(Continued)*

A. General Information about County Employees Retirement Systems *(Continued)*

Hazardous Contributions *(Continued)*

Employer contribution rates for the fiscal year ending 2018 were adopted by the Board based on actuarially recommended rates. For the year ended June 30, 2018, the City's covered payroll was $48,076. Covered payroll refers to the payroll on which contributions to a pension plan are based. The required pension contribution rate for the year ended June 30, 2018 was 22.20%. The City contributed $11,198 or 100% of the required contributions to the Plan for the year ended June 30, 2018.

B. Net Pension Liability

At June 30, 2018, the City reported a liability of $239,225 for its proportionate share of the net pension liability for non-hazardous and $183,546 for hazardous classifications. The net pension liability was measured as of June 30, 2017, based on an expected total pension liability calculated as of that date using standard roll forward techniques applied to the total pension liability determined by an actuarial valuation as of June 30, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportion at June 30, 2017 and June 30, 2016 was 0.004087% and 0.002814%, respectively, for non-hazardous and 0.008204% and 0.008672%, respectively, for hazardous classifications.

Actuarial Methods and Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. The current actuary did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuation results on the same assumption, methods, and data as of that date. The roll-forward is based on the results of that replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, the Board reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions that were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the total pension liability and net pension liability as of June 30, 2017, for the plan as a whole.

Inflation	2.30%
Salary increases	2.00%
Investment rate of return	6.25%

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

In general, the actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 thru June 30, 2013. Regular experience studies are prepared every five years.

Note 5. Employee Retirement System *(Continued)*

B. Net Pension Liability *(Continued)*

Actuarial Methods and Assumptions *(Continued)*

The long-term expected rate of return on plan investments for the June 30, 2017 valuation was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.97%	17.50%
International equity	7.85%	17.50%
Global bonds	2.63%	4.00%
Global credit	3.63%	2.00%
High yield	5.75%	7.00%
Emerging market debt	5.50%	5.00%
Private credit	8.75%	10.00%
Real estate	7.63%	5.00%
Absolute return	5.63%	10.00%
Real return	6.13%	10.00%
Private equity	8.25%	10.00%
Cash	1.88%	2.00%
Total		100.00%

Discount Rate

The projection of cash flows used to determine the 2017 discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-six-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

City of New Haven
Notes to the Financial Statements
June 30, 2018
(Continued)

Note 5. Employee Retirement System *(Continued)*

B. Net Pension Liability *(Continued)*

Sensitivity Analysis

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (5.25%) or one percentage-point higher (7.25%) than the current rate:

Non-hazardous	Discount Rate		City's Proportionate Share of Net Pension Liability
1% decrease	5.25%	$	301,714
Current discount rate	6.25%	$	239,225
1% increase	7.25%	$	186,953

Hazardous	Discount Rate		City's Proportionate Share of Net Pension Liability
1% decrease	5.25%	$	230,776
Current discount rate	6.25%	$	183,546
1% increase	7.25%	$	144,541

C. Pension Expense (Income) and Deferred Outflows and Inflows of Resources Related to Pensions

Pension Expense

The City recognized pension expense of $84,081 for non-hazardous and $12,872 for hazardous classifications.

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

Note 5. Employee Retirement System *(Continued)*

C. Pension Expense (Income) and Deferred Outflows and Inflows of Resources Related to Pensions *(Continued)*

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

Non-hazardous		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual experience	$	297	$	6,073
Change in assumptions		44,143		
Net difference between projected and actual earnings on investments		2,959		
Changes in proportion and difference between employer contributions and proportionate share of contributions		38,171		8,694
Contributions subsequent to the June 30, 2017 measurement date		21,349		
Total	$	106,919	$	14,767

Hazardous		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual experience	$	6,732	$	
Change in assumptions		36,613		
Net difference between projected and actual earnings on investments		1,604		
Changes in proportion and difference between employer contributions and proportionate share of contributions		2,535		4,639
Contributions subsequent to the June 30, 2017 measurement date		11,198		
Total	$	58,682	$	4,639

Note 5. Employee Retirement System *(Continued)*

C. Pension Expense (Income) and Deferred Outflows and Inflows of Resources Related to Pensions *(Continued)*

Deferred Outflows and Inflows of Resources *(Continued)*

Total		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual experience	$	7,029	$	6,073
Change in assumptions		80,756		
Net difference between projected and actual earnings on investments		4,563		
Changes in proportion and difference between employer contributions and proportionate share of contributions		40,706		13,333
Contributions subsequent to the June 30, 2017 measurement date		32,547		
Total	$	165,601	$	19,406

The deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,		Non-hazardous		Hazardous		Total
2018	$	27,297	$	1,875	$	29,172
2019	$	30,919	$	19,322	$	50,241
2020	$	15,659	$	6,776	$	22,435
2021	$	(3,072)	$	(2,003)	$	(5,075)

Deferred Compensation Plan

The City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority. The plan, available to all City employees, permits them to defer a portion of their salary into a retirement plan for each employee.

Note 6. Other Postemployment Benefits

The CERS also contains an OPEB plan. Employees covered under this plan are provided with other postemployment benefits through the CERS Non-hazardous and Hazardous Insurance Fund, a cost-sharing, multiple-employer defined benefit OPEB plan that covers all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, county, city, and any additional eligible local agencies electing to participate. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement and each year during open enrollment in order to obtain insurance coverage. The KRS provides access to group health insurance coverage through the Kentucky Employees Heath Plan for recipients until they reach age 65 and/or become Medicare eligible. After a retired or disabled retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by the KRS. OPEB may be extended to beneficiaries of plan members under certain circumstances. The Insurance Fund is administered by the CERS. Kentucky Revised Statute Section 61.645 grants the authority to establish and amend the benefit terms to the CERS Board of Trustees. Section 61.701 provides for the administration of the KRS Insurance Fund.

The KRS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646, or it may be found at the KRS website at www.kyret.ky.gov.

A. Benefits Provided

The Insurance Fund provides healthcare benefits through payment of insurance premiums for retirees. The percentage of premiums paid is determined by a retiree's date of participation in the plan.

	Participation Date	Benefit Eligibility	Benefit	
Tier 1	Before July 1, 2003	Recipient of a retirement allowance	Years of Service: Less than 4 years 4 – 9 years 10 – 14 years 15 – 19 years 20 or more years	Percentage of premium paid by KRS: 0% 25% 50% 75% 100%
Tier 2	After July 1, 2003 but before September 1, 2008	Recipient of a retirement allowance with at least 120 months of service at retirement	Monthly contribution of $10 for each year of earned service increased by 1.50% each July 1	
Tier 3	After September 1, 2008	Recipient of a retirement allowance with at least 180 months of service at retirement	Monthly contribution of $10 for each year of earned service increased by 1.50% each July 1	

The benefit amount as of July 1, 2017 for Tier 2 and Tier 3 members is $13.18 per year of service. Upon a retiree's death, the surviving spouse of Tier 2 and Tier 3 members may continue coverage but will be responsible for 100% of the premiums. Tier 1 surviving spouses will continue to receive the retiree's benefits. There are also benefits for disability and death while in service.

B. Contributions

OPEB contributions are actuarially determined and set by the Board. The City's actuarially determined contribution rate for the year ended June 30, 2018, was 4.70% of covered payroll for non-hazardous employees

Note 6. Other Postemployment Benefits *(Continued)*

B. Contributions *(Continued)*

and 9.35% for hazardous employees. Contributions paid to the OPEB plan for the year ended June 30, 2018 were $7,116 for non-hazardous and $3,733 for hazardous classifications. However, the fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to all participants, there is an implicit employer subsidy for the non-Medicare eligible retirees. To account for the employer provided OPEB benefit in accordance with GASB Statement No. 75, employer contributions need to be adjusted to reflect the cost of the implicit subsidy. For the year ended June 30, 2018, the implicit subsidy on current year contributions was $1,004 for non-hazardous classifications and ($233) for hazardous classifications.

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

At June 30, 2018, the City reported a liability of $82,163 for its proportionate share of the net OPEB liability for non-hazardous and $67,820 for hazardous classifications. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the employers' actual contributions for fiscal year 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.004087% for non-hazardous and 0.008204% for hazardous classifications. Since GASB Statement No. 75 is effective for the City's 2018 fiscal year, the KRS has not provided prior year information.

For the year ended June 30, 2018, the City recognized CERS OPEB expense of $11,202 for non-hazardous and $608 for hazardous classifications.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

Note 6. Other Postemployment Benefits *(Continued)*

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

Non-hazardous	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$	$ 3,883
Change in assumptions	17,878	
Differences between expected and actual experience		228
Changes in proportion and differences between employer contributions and proportionate share of contributions		190
Contributions subsequent to the measurement date (includes the implicit subsidy of $1,004 per KRS)	7,116	
Total	$ 24,994	$ 4,301

Hazardous	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$	$ 4,255
Change in assumptions	25,016	
Differences between expected and actual experience		158
Changes in proportion and differences between employer contributions and proportionate share of contributions		14
Contributions subsequent to the measurement date (includes the implicit subsidy of ($233) per KRS)	3,733	
Total	$ 28,749	$ 4,427

Note 6. Other Postemployment Benefits *(Continued)*

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

Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$	$ 8,138
Change in assumptions	42,894	
Differences between expected and actual experience		386
Changes in proportion and differences between employer contributions and proportionate share of contributions		204
Contributions subsequent to the measurement date (includes the implicit subsidy of $771 per KRS)	10,849	
Total	$ 53,743	$ 8,728

The amount reported above as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the following measurement periods:

Year Ended June 30,	Non-hazardous	Hazardous	Total
2018	$ 2,336	$ 5,954	$ 8,290
2019	$ 2,336	$ 5,954	$ 8,290
2020	$ 2,336	$ 5,954	$ 8,290
2021	$ 2,336	$ 2,726	$ 5,062
2022	$ 2,307	$	$ 2,307
Thereafter	$ 926	$	$ 926

Note 6. Other Postemployment Benefits *(Continued)*

D. Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.30%
Salary increases	0.00%
Investment rate of return	6.25%, net of OPEB plan investment expense
Healthcare cost trend rates:	
Pre-65	7.50%, decreasing gradually to an ultimate rate of 5.00% over a period of 5 years
Post-65	5.50%, decreasing gradually to an ultimate rate of 5.00% over a period of 2 years

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013. However, subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was changed from 4.00% to 0.00%
- The single discount rate was changed from 6.90% to 5.84%.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Note 6. Other Postemployment Benefits *(Continued)*

D. Actuarial Assumptions *(Continued)*

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.97%	17.50%
International equity	7.85%	17.50%
Global bonds	2.63%	4.00%
Global credit	3.63%	2.00%
High yield	5.75%	7.00%
Emerging market debt	5.50%	5.00%
Private credit	8.75%	10.00%
Real estate	7.63%	5.00%
Absolute return	5.63%	10.00%
Real return	6.13%	10.00%
Private equity	8.25%	10.00%
Cash	1.88%	2.00%
Total		100.00%

E. Discount Rate

The discount rate used to measure the total OPEB liability was 5.84%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at statutorily required rates, actuarially determined. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

F. Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower (4.83%) or one percentage-point higher (6.83%) than the current discount rate:

Note 6. Other Postemployment Benefits *(Continued)*

F. Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate *(Continued)*

Non-hazardous	Discount Rate		City's Proportionate Share of Net Pension Liability
1% decrease	4.83%	$	104,547
Current discount rate	5.83%	$	82,163
1% increase	6.83%	$	63,535

Hazardous	Discount Rate		City's Proportionate Share of Net Pension Liability
1% decrease	4.83%	$	90,888
Current discount rate	5.83%	$	67,820
1% increase	6.83%	$	48,947

G. Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

City's Proportionate Share of Net OPEB Liability		Non-hazardous		Hazardous
1% decrease	$	63,023	$	48,009
Current discount rate	$	82,163	$	67,820
1% increase	$	107,043	$	92,340

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

Note 7. Risk Management

The City is exposed to various forms of losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omission, etc. Each of these risk areas is covered through participation in a public entity risk pool with the exception of the errors and omissions bond, which is covered through the purchase of commercial insurance. The City retains no risk of loss through participation in the risk pool. For insured programs, there have been no significant reductions in insurance coverage, nor have settlement amounts exceeded insurance coverage for the current year or three years prior. The City has purchased certain policies that are retrospectively rated which include worker's compensation insurance.

Note 8. Contingent Liabilities

The City currently has no legal claims and is not aware of any future claims that could have a material adverse effect on the financial condition of the City.

Note 9. Long-Term Debt

The following reflects the long-term liability activity for governmental activities for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fire Truck – Term Note (restated)	$ 37,286	$	$ 9,882	$ 27,404	$ 10,178
Total	$ 37,286	$	$ 9,882	$ 27,404	$ 10,178

The following reflects the long-term liability activity for business-type activities for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sewer Rehab – Construction Loan (restated)	$ 84,061	$ 121,824	$	$ 205,885	$
Water Line – Term Note	11,394		11,394		
Tractor – Term Note		44,250	7,665	36,585	8,585
Series 1999A Revenue Bonds	185,000		5,000	180,000	5,000
Series 1999B Revenue Bonds	60,900		1,600	59,300	1,700
Total	$ 341,355	$ 166,074	$ 25,659	$ 481,770	$ 15,285

Note 9. Long-Term Debt *(Continued)*

A. Water and Wastewater Sewer Revenue Bonds – Series 1999A

On January 28, 2000, the City issued $237,000 of water and sewer revenue bonds to substantially renovate the City's water and wastewater sewer system. The bonds mature serially through January 1, 2039 and require annual principal payments on January 1 and semi-annual interest payments at an interest rate of 5.125%. Bonds outstanding as of June 30, 2018 were $180,000. Future principal and interest requirements are:

Year Ending June 30,		Interest		Principal
2019	$	9,225	$	5,000
2020		8,969		5,500
2021		8,687		5,500
2022		8,405		6,000
2023		8,098		6,000
2024 – 2028		35,439		36,000
2029 – 2033		25,215		46,000
2034 – 2038		12,454		56,500
2039		692		13,500
Total	$	117,184	$	180,000

B. Water and Wastewater Sewer Revenue Bonds – Series 1999B

On January 28, 2000, the City issued $79,000 of water and sewer revenue bonds to substantially renovate the City's water and wastewater sewer system. The bonds mature serially through January 1, 2039 and require annual principal payments on January 1 and semi-annual interest payments at an interest rate of 4.75%. Bonds outstanding as of June 30, 2018 were $59,300. Future principal and interest requirements are:

Note 9. Long-Term Debt *(Continued)*

B. Water and Wastewater Sewer Revenue Bonds – Series 1999B *(Continued)*

Year Ending June 30,		Interest		Principal
2019	$	2,817	$	1,700
2020		2,736		1,800
2021		2,651		1,900
2022		2,560		2,000
2023		2,465		2,000
2024 – 2028		10,773		11,900
2029 – 2033		7,667		15,000
2034 – 2038		3,757		18,900
2039		195		4,100
Total	$	35,621	$	59,300

C. Tractor – Term Note

On July 3, 2017, the City entered into an agreement with Town and Country Bank to borrow funds to purchase a tractor. The principal of the borrowing was $44,250 at an effective interest rate of 2.70% for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2018 was $36,585. Future principal and interest requirements are:

Year Ending June 30,		Interest		Principal
2019	$	896	$	8,585
2020		659		8,821
2021		412		9,068
2022		161		9,320
2023		2		791
Total	$	2,130	$	36,585

Note 9. Long-Term Debt *(Continued)*

D. Sewer Rehab – Construction Loan

On March 3, 2016, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow funds to complete an extensive sewer rehab project. The City was approved to borrow up to $251,000 at an effective interest rate of .75% with interest payments due semi-annually. Principal payments are not due until the project is completed and will be paid over a period not to exceed twenty years from the date of completion. As of June 30, 2018, the project was not completed, and a completion date is not known at this time. The principal outstanding as of June 30, 2018 was $205,885.

E. Fire Truck – Term Note

On November 10, 2006, the City entered into an agreement with the Kentucky Fire Commission to borrow funds to purchase a fire truck. The principal of the borrowing was $100,000 at an effective interest rate of 3.00% for a period of fifteen years, with principal and interest payments deducted annually from the City's state aid monies. The principal outstanding as of June 30, 2018 was $27,404. Future principal and interest requirements are:

Year Ending June 30,	Interest	Principal
2019	$ 822	$ 10,178
2020	517	10,483
2021	202	6,743
Total	1,541	27,404

F. Water Line – Term Note

On December 2, 2014, the City entered into an agreement with the Town and Country Bank to borrow funds to pay for a water line. The principal of the borrowing was $65,200 at an effective interest rate of 4.25% for a period of three years, with principal and interest paid monthly. The loan was paid off during the fiscal year, therefore it had a zero balance at June 30, 2018.

Note 10. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 is as follows:

		Beginning Balance		Increase		Decrease		Ending Balance
Land	$	89,889	$		$		$	89,889
Construction in progress		5,415						5,415
Buildings and improvements		698,125		15,275				713,400
Machinery and equipment (Restated)		471,538				39,438		432,100
Infrastructure		186,217		7,044				193,261
Total capital assets	$	1,451,184	$	22,319	$	39,438	$	1,434,065
Less: Accumulated depreciation		866,820		27,934		39,438		855,316
Capital assets, net	$	584,364	$	(5,615)	$		$	578,749

Depreciation was charged to government functions as follows:

General government	$	7,265
Protection to persons and property		9,961
Recreation and culture		7,719
Streets and maintenance		2,989
Total	$	27,934

Capital asset activity for business-type activities for the year ended June 30, 2018 is as follows:

Note 10. Capital Assets *(Continued)*

	Beginning Balance	Increase	Decrease	Ending Balance
Land	$ 20,801	$	$	$ 20,801
Construction in progress	319,114	218,696		537,810
Buildings and improvements	80,565			80,565
Machinery and equipment	372,041	72,218	1,000	443,259
Infrastructure	4,770,112			4,770,112
Total capital assets	$ 5,562,633	$ 290,914	$ 1,000	$ 5,852,547
Less: Accumulated depreciation	2,344,317	131,583	1,000	2,474,900
Capital assets, net	$ 3,218,316	$ 159,331	$	$ 3,377,647

Depreciation was charged to business-type activities as follows:

Water and wastewater sewer system	$ 131,583
Total	$ 131,583

Note 11. Fund Balances

The following is a summary of the Governmental Funds fund balances of the City at June 30, 2018:

Note 11. Fund Balances *(Continued)*

Restricted				
Municipal aid	$	48,176		
Accounts receivable		32,694		
ISTEA		73	$	80,943
Committed				
Fire truck funds	$	53,172		
Police car funds		20,965		74,137
Assigned				
Abbey donations	$	5,669		
Media donations		6,343		
Historic preservation donations		2,336		
General equipment		5,274		19,622
Unassigned				273,711
Total			$	448,413

Note 12. Subsequent Events

The City has evaluated subsequent events through April 10, 2019, the date which the financial statements were available to be issued.

Note 13. Restatement of Net Position

Beginning net position was restated as follows:

		Governmental Activities		Business-type Activities
Net position, at beginning of year	$	855,497	$	3,248,228
Beginning net OPEB liability		(64,598)		(40,373)
Overstatement of accounts receivable				(59,286)
Understatement of loan balance				(84,061)
Understatement of fixed assets		7,193		
Overstatement of loan balance		5,841		
Net position, at beginning of year, restated	$	803,933	$	3,064,508

A. Implementation of New Accounting Standard GASB Statement No. 75

During 2018 the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with OPEB through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefits Other Than Pension Plans.

The guidance contained in Statement No. 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement No. 75 to be applied retroactively, which has resulted in a restatement of beginning net position. The beginning net OPEB liability was $64,598 for Governmental Activities and $40,373 for Business-type Activities resulting in a reduction of beginning net position.

B. Corrections for Governmental Activities

The prior year balance of the loan with the Kentucky Fire Commission was overstated at year-end by $5,841. Additionally, $7,193 should have been included as a capital asset but was improperly expensed. The net effect of these misstatements was a $13,034 understatement of beginning net position.

C. Corrections for Business-type Activities

A construction loan with the Kentucky Infrastructure Authority was incorrectly classified as grant revenue in the prior year. The amount incorrectly included in grant revenue was $143,347. The amounts incorrectly excluded from liabilities was $84,061 and included in accounts receivable was $59,286. The Kentucky Infrastructure Authority confirmed that, as of June 30, 2017, the loan balance was $84,061. The City had requested additional funds of $59,286 but had not received the loan disbursement as of June 30, 2017.

Required Supplementary Information

City of New Haven
Budgetary Comparison -
Major Governmental Funds
For the Year Ended June 30, 2018

	General Fund			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 218,050	$ 218,050	$ 241,615	$ 23,565
Intergovernmental	41,550	41,550	40,545	(1,005)
License and permits	11,000	11,000	11,885	885
Charges for services	10,050	10,050	11,219	1,169
Miscellaneous	51,996	51,996	29,030	(22,966)
Total revenues	$ 332,646	$ 332,646	$ 334,294	$ 1,648
Expenditures				
General government	$ 144,038	$ 144,038	$ 138,871	$ 5,167
Protections to persons and property	127,212	127,212	117,192	10,020
Recreation and culture	22,100	22,100	16,487	5,613
Capital outlay	39,296	39,296	22,319	16,977
Total expenditures	$ 332,646	$ 332,646	$ 294,869	$ 37,777
Excess (deficiency) of revenues over expenditures	$	$	$ 39,425	$ 39,425
Other financing sources (uses)				
Transfer in	$	$	$ 4,017	$ 4,017
Transfer out			(19,739)	(19,739)
Total other financing sources (uses)	$	$	$ (15,722)	$ (15,722)
Net change in fund balance	$	$	$ 23,703	$ 23,703
Fund balance - Beginning	424,710	424,710	424,710	
Fund balance - Ending	$ 424,710	$ 424,710	$ 448,413	$ 23,703

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

City of New Haven
Budgetary Comparison -
Major Governmental Funds
For the Year Ended June 30, 2018
(Continued)

	Municipal Aid Fund			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	$ 19,707	$ 19,707	$ 19,437	$ (270)
Miscellaneous	10	10	12	2
Total revenues	$ 19,717	$ 19,717	$ 19,449	$ (268)
Expenditures				
Streets and maintenance	$ 19,717	$ 19,717	$ 7,363	$ 12,354
Total expenditures	$ 19,717	$ 19,717	$ 7,363	$ 12,354
Excess (deficiency) of revenues over expenditures	$	$	$ 12,086	$ 12,086
Net change in fund balance	$	$	$ 12,086	$ 12,086
Fund balance - Beginning	36,090	36,090	36,090	
Fund balance - Ending	$ 36,090	$ 36,090	$ 48,176	$ 12,086

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

City of New Haven
Schedule of City's Proportionate Share of the Net Pension Liability in County Employees Retirement Systems of Kentucky Retirement Systems
For the Year Ended June 30, 2018

Year ended June 30,	2014	2015	2016	2017
Non-hazardous				
City's proportion of the collective net pension liability	0.003408%	0.003349%	0.002814%	0.004087%
City's proportionate share of the net pension liability	$ 110,568	$ 143,974	$ 138,552	$ 239,225
City's covered employee payroll	$ 78,190	$ 81,800	$ 112,954	$ 132,961
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	141.41%	176.01%	122.66%	179.92%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.30%
Hazardous				
City's proportion of the collective net pension liability	0.008182%	0.008236%	0.008672%	0.008204%
City's proportionate share of the net pension liability	$ 98,333	$ 126,434	$ 148,813	$ 183,546
City's covered employee payroll	$ 41,440	$ 62,419	$ 45,087	$ 45,036
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	237.29%	202.56%	330.06%	407.55%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	57.52%	53.95%	49.80%

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

City of New Haven
Schedule of City's Contributions to County Employees Retirement Systems of Kentucky Retirement Systems
For the Year Ended June 30, 2018

Year ended June 30,	2015	2016	2017	2018
Non-hazardous				
Statutorily required contribution for pension	$ 14,454	$ 19,270	$ 24,837	$ 21,349
Less: City's contributions	$ 14,454	$ 19,270	$ 24,837	$ 21,349
Contribution deficiency (excess)	$	$	$	$
City's covered employee payroll	$ 81,800	$ 112,954	$ 132,961	$ 168,654
Contributions as a percentage of its covered employee payroll	17.67%	17.06%	18.68%	12.65%
Hazardous				
Statutorily required contribution for pension	$ 21,416	$ 14,856	$ 13,988	$ 11,198
Less: City's contributions	$ 21,416	$ 14,856	$ 13,988	$ 11,198
Contribution deficiency (excess)	$	$	$	$
City's covered employee payroll	$ 62,419	$ 45,087	$ 45,036	$ 48,076
Contributions as a percentage of its covered employee payroll	34.31%	32.94%	31.06%	23.29%

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

City of New Haven
Schedule of City's Proportionate Share of the Net Other Postemployment Benefit Liability to County Employees Retirement Systems of Kentucky Retirement Systems
For the Year Ended June 30, 2018

Plan year ending June 30,		2017
Non-hazardous		
City's proportion of the collective net OPEB liability		.004087%
City's proportionate share of the net OPEB liability	$	82,163
City's covered-employee payroll	$	168,654
City's proportionate share of net OPEB liability as a percent of its covered-employee payroll		48.72%
Plan fiduciary net position as a percent of total OPEB liability		52.40%
Hazardous		
City's proportion of the collective net OPEB liability		.008204%
City's proportionate share of the net OPEB liability	$	67,820
City's covered-employee payroll	$	48,076
City's proportionate share of net OPEB liability as a percent of its covered-employee payroll		141.06%
Plan fiduciary net position as a percent of total OPEB liability		52.40%

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

City of New Haven
Schedule of City's Other Postemployment Benefit Contributions to
County Employees Retirement Systems of Kentucky Retirement Systems
For the Year Ended June 30, 2018

Plan year ending June 30,	2017	2018
Non-hazardous		
Actuarially determined contributions	$ 6,289	$ 7,116
Less: Contributions in relation to the actuarially determined contribution	6,289	7,116
Contribution deficiency (excess)	$	$
City's covered-employee payroll	$ 132,961	$ 168,654
Contributions as a percentage of covered-employee payroll	4.73%	4.22%
Hazardous		
Actuarially determined contributions	$ 4,211	$ 3,733
Less: Contributions in relation to the actuarially determined contribution	4,211	3,733
Contribution deficiency (excess)	$	$
City's covered-employee payroll	$ 45,036	$ 48,076
Contributions as a percentage of covered-employee payroll	9.35%	7.76%

Note: This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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

City of New Haven
Notes to the Required Supplementary Information
For the Year Ended June 30, 2018

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The Mayor is required to submit estimated receipts and proposed expenditures to the City Commission by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the City Commission by July 1.

The City may change the original budget by transferring appropriations at the activity level; however, the City may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Pension

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions. However, subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of salary increases was reduced from 4.00% to 2.00%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.

A. Changes of Assumptions

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

B. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015, and on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

Note 2. Pension *(Continued)*

B. Method and Assumptions Used in Calculations of Actuarially Determined Contributions *(Continued)*

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	Five-year smoothed market
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Note 3. Other Postemployment Benefits

A. Changes of Assumptions

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provision. However, subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted the following updated actuarial assumptions reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The salary increase assumption was changed from 4.00% to zero.
- The single discount rate changed from 6.90% to 5.83%.

B. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates effective for fiscal year ending 2017 that are documented in the schedule are calculated as of June 30, 2015, using the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	28 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average
Investment rate of return	7.50%, net of pension plan investment expense
Mortality rates	RP-2000 Combined Mortality Table projected to 2013, with Scale BB (set back one year for females)
Healthcare cost trend rates:	
Pre-65	7.50%, decreasing gradually to an ultimate rate of 5.00% over a period of five years
Post-65	5.50%, decreasing gradually to an ultimate rate of 5.00% over a period of two years

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
the Financial Statements Performed in Accordance with
Government Auditing Standards

JONES & ASSOCIATES CPAs, PSC

2808 Palumbo Drive, Suite 101, Lexington, KY 40509 (859) 687-0303

CERTIFIED PUBLIC ACCOUNTANTS

New Haven City Commissioners
City of New Haven
New Haven, KY

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards*

We have audited, 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, 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, 2018, and related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 10, 2019.

Internal Control over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material *weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency: 2018 – 02.

Our consideration of internal control was for the limited purpose described in a 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, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness. We consider the following deficiencies described in the accompanying Schedule of Findings to be material weaknesses: 2018 – 01 and 2018 – 02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was

Compliance and Other Matters *(Continued)*

not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of New Haven, Kentucky's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Their 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.

Respectfully submitted,

Jones & Associates CPAs, PSC

Jones & Associates CPAs, PSC
Certified Public Accountants
Lexington, Kentucky

April 10, 2019

City of New Haven
Schedule of Findings
June 30, 2018

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

Finding Number 2018 – 01

Condition:	The City cannot fully segregate the record-keeping, custodial, and authorization functions of its internal controls due to the size of its staff.
Criteria:	Generally accepted accounting principles require that management design internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected. A fundamental concept in a good system of internal control is segregation of duties.
Effect:	The risk of errors or fraud occurring and not being prevented or detected in a timely manner increases when accounting functions are not adequately segregated, and sufficient controls are not in place.
Recommendation:	We realize that the City cannot fully segregate duties with the number of employees available. However, management and the board should be aware of this issue and continue to develop policies and procedures that segregate accounting functions as much as possible. This policy should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.
Response:	Due to budget limitations, the City is not in a financial position that would allow the hiring of extra stuff to segregate duties further. The Mayor will continue to review and sign purchase orders, checks, and receipts. The Board of Commissioners will oversee the work of the clerks by reviewing monthly financial reports.

Finding Number 2018 – 02

Condition:	We are required to give consideration to the City's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charged with governance.
Criteria:	Such preparation would require the City to maintain appropriate technical knowledge to prepare the financial statements with all related note disclosures.
Effect:	As a result of the above conditions, the City does not have controls in place that would assure the preparation of the financial statements and related note disclosures in accordance with modified accrual or accrual basis of accounting.
Recommendation:	As with many small cities, the City engages the auditor to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the City for approval. While this practice is common and practical, we must inform those charged with governance of this finding.
Response:	Due to the complexity of the financial reporting process, the City will continue to rely on the auditor in future years to ensure the financial statements and disclosures are appropriate. Due to budget constraints we are not able to hire someone for our year end reports.

Certificate of Compliance –
Local Government Economic Assistance Program

Certificate of Compliance
Local Government Economic Assistance Program
City of New Haven, Kentucky
For the Fiscal Year Ended June 30, 2018

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

____
Mayor

____
City Clerk