

CITY OF NEW HAVEN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2019

Jones & Associates CPAs, PSC

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Certified Public Accountants

Table of Contents

	Page
Independent Auditor's Report	1 – 2
City Officials	3
Financial Statements.....	4
Government-Wide Financial Statements	5
Statement of Net Position	6 – 7
Statement of Activities.....	8
Fund Financial Statements	9
Balance Sheet – Governmental Funds	10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	11
Statement of Net Position – Proprietary Fund	12 – 13
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	14
Statement of Cash Flows – Proprietary Fund	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to the Statement of Activities	16
Reconciliation of Fund Balance – Governmental Funds to Net Position of Governmental Activities	17
Notes to the Financial Statements	18 – 44
Required Supplementary Information	45
Budgetary Comparison – Major Governmental Funds	46 – 48
Schedule of City's Proportionate Share of the Net Pension Liability of County Employees Retirement Systems of Kentucky Retirement Systems	49
Schedule of City's Pension Contributions to County Employees Retirement Systems of Kentucky Retirement Systems.....	50
Schedule of City's Proportionate Share of the Net Other Postemployment Benefit Liability of County Employees Retirement Systems of Kentucky Retirement Systems.....	51
Schedule of City's Other Postemployment Benefit Contributions to County Employees Retirement Systems of Kentucky Retirement Systems	52
Notes to the Required Supplementary Information.....	53 – 55

Table of Contents
(Continued)

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 <i>Government Auditing Standards</i>	56 – 58
Schedule of Findings.....	59
Certificate of Compliance – Local Government Economic Assistance Program	60 – 61

JONES & ASSOCIATES CPAs, PSC

2808 PALUMBO DRIVE, SUITE 101, LEXINGTON, KY 40509

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CERTIFIED PUBLIC ACCOUNTANTS

To the Mayor and City Commissioners of New Haven
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, 2019, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

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, 2019, 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.

To the Mayor and City Commissioners of New Haven
City of New Haven
Independent Auditor's Report
(Continued)

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 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 December 11, 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

December 11, 2019

**City of New Haven
City Officials
June 30, 2019**

Tessie Cecil	Mayor
Karl Lusk	Commissioner
Lois Boley	Commissioner
Mike Morris	Commissioner
Linda Mattingly	Commissioner
Joanie Corbin	City Clerk
Angela Mattingly	Utility Clerk

Note: List of officials who were in office as of June 30, 2019.

Financial Statements

Government-Wide Financial Statements

City of New Haven
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 216,956	\$ 86,918	\$ 303,874
Restricted cash and cash equivalents	66,834	165,104	231,938
Investments	183,987		183,987
Restricted investments		145,288	145,288
Accounts receivable, net	31,762	65,074	96,836
Inventory		20,629	20,629
Other current assets	<u>2,312</u>	<u>3,380</u>	<u>5,692</u>
Total current assets	\$ <u>501,851</u>	\$ <u>486,393</u>	\$ <u>988,244</u>
Noncurrent assets			
Capital assets, net	\$ <u>625,351</u>	\$ <u>3,258,572</u>	\$ <u>3,883,923</u>
Total noncurrent assets	\$ <u>625,351</u>	\$ <u>3,258,572</u>	\$ <u>3,883,923</u>
Deferred outflows of resources			
Pension	\$ 85,897	\$ 47,512	\$ 133,409
Other postemployment benefits	<u>33,991</u>	<u>14,266</u>	<u>48,257</u>
Total deferred outflows of resources	\$ <u>119,888</u>	\$ <u>61,778</u>	\$ <u>181,666</u>
Total assets	\$ <u><u>1,247,090</u></u>	\$ <u><u>3,806,743</u></u>	\$ <u><u>5,053,833</u></u>
Liabilities			
Current liabilities			
Accounts payable	\$ 6,521	\$ 10,342	\$ 16,863
Payroll related liabilities	6,215	3,360	9,575
Interest payable	304	5,978	6,282
Current portion of long-term debt	10,483	25,736	36,219
Customer deposits		16,000	16,000
Other current liabilities	<u>9,692</u>	<u>1,146</u>	<u>10,838</u>
Total current liabilities	\$ <u>33,215</u>	\$ <u>62,562</u>	\$ <u>95,777</u>
Noncurrent liabilities			
Noncurrent portion of long-term debt	\$ 6,744	\$ 435,969	\$ 442,713
Net pension liability	309,812	154,376	464,188
Net other postemployment benefits liability	<u>90,991</u>	<u>45,004</u>	<u>135,995</u>
Total noncurrent liabilities	\$ <u>407,547</u>	\$ <u>635,349</u>	\$ <u>1,042,896</u>

City of New Haven
Statement of Net Position
June 30, 2019
(Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities <i>(Continued)</i>			
Deferred inflows of resources			
Pension	\$ 8,841	\$ 5,565	\$ 14,406
Other postemployment benefits	18,476	8,540	27,016
	<u>27,317</u>	<u>14,105</u>	<u>41,422</u>
Total deferred inflows of resources	\$	\$	\$
	<u>27,317</u>	<u>14,105</u>	<u>41,422</u>
Total liabilities	<u>\$ 468,079</u>	<u>\$ 712,016</u>	<u>\$ 1,180,095</u>
Net position			
Net investment in capital assets	\$ 608,124	\$ 2,796,867	\$ 3,404,991
Restricted			
Municipal road aid	9,323		9,323
Fire department	56,519		56,519
Sewer rehab		8,522	8,522
Bond, interest, and depreciation reserves		301,870	301,870
Unrestricted	<u>105,045</u>	<u>(12,532)</u>	<u>92,513</u>
Total net position	<u>\$ 779,011</u>	<u>\$ 3,094,727</u>	<u>\$ 3,873,738</u>

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

**City of New Haven
Statement of Activities
For the Year Ended June 30, 2019**

Functions/programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- Type Activities	Total
Governmental activities							
General government	\$ 173,603	\$ 1,333	\$ 10,322	\$	\$ (161,948)	\$	\$ (161,948)
Streets and maintenance	9,162		19,381		10,219		10,219
Protections to persons and property	139,724		23,781		(115,943)		(115,943)
Recreation and culture	30,857	18,604	18,710		6,457		6,457
Total governmental activities	\$ 353,346	\$ 19,937	\$ 72,194	\$	\$ (261,215)	\$	\$ (261,215)
Business-Type activities							
Water and wastewater sewer system	\$ 575,416	\$ 483,609	\$	\$ 2,000	\$	\$ (89,807)	\$ (89,807)
Total business-type activities	\$ 575,416	\$ 483,609	\$	\$ 2,000	\$	\$ (89,807)	\$ (89,807)
Total primary government	\$ 928,762	\$ 503,546	\$ 72,194	\$ 2,000	\$ (261,215)	\$ (89,807)	\$ (351,022)
General revenues							
Taxes							
Property taxes					\$ 100,528	\$	\$ 100,528
Franchise taxes					27,206		27,206
Insurance premium taxes					96,445		96,445
Telecommunications taxes					16,942		16,942
Other taxes					12,232		12,232
Earnings on investments					609	578	1,187
Miscellaneous					4,116		4,116
Total general revenues					\$ 258,078	\$ 578	\$ 258,656
Transfers					\$ 1,000	\$ (1,000)	\$
Change in net position					\$ (2,137)	\$ (90,229)	\$ (92,366)
Net position - Beginning (restated)					781,148	3,184,956	3,966,104
Net position - Ending					\$ 779,011	\$ 3,094,727	\$ 3,873,738

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

Fund Financial Statements

City of New Haven
Balance Sheet - Governmental Funds
June 30, 2019

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Fire Fund</u>	<u>Total Govern- mental Funds</u>
Assets				
Cash and cash equivalents	\$ 216,956	\$	\$	\$ 216,956
Restricted cash and cash equivalents		10,011	56,823	66,834
Investments	183,987			183,987
Accounts receivable	31,762			31,762
Other assets	<u>2,312</u>			<u>2,312</u>
Total assets	<u>\$ 435,017</u>	<u>\$ 10,011</u>	<u>\$ 56,823</u>	<u>\$ 501,851</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 5,833	\$ 688	\$	\$ 6,521
Payroll related liabilities	6,215			6,215
Other liabilities	<u>9,692</u>		<u>304</u>	<u>9,996</u>
Total liabilities	<u>\$ 21,740</u>	<u>\$ 688</u>	<u>\$ 304</u>	<u>\$ 22,732</u>
Fund balances				
Non-spendable	\$ 2,312	\$	\$	\$ 2,312
Restricted		9,323	56,519	65,842
Committed	78,695			78,695
Assigned	18,100			18,100
Unassigned	<u>314,170</u>			<u>314,170</u>
Total fund balances	<u>\$ 413,277</u>	<u>\$ 9,323</u>	<u>\$ 56,519</u>	<u>\$ 479,119</u>
Total liabilities and fund balances	<u>\$ 435,017</u>	<u>\$ 10,011</u>	<u>\$ 56,823</u>	<u>\$ 501,851</u>

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, 2019

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Fire Fund</u>	<u>Total Govern- mental Funds</u>
Revenues				
Taxes	\$ 242,814	\$	\$	\$ 242,814
Intergovernmental	28,828	19,380	16,299	64,507
License and permits	10,538			10,538
Charges for service	19,937			19,937
Miscellaneous	<u>12,103</u>	<u>31</u>	<u>279</u>	<u>12,413</u>
Total revenues	<u>\$ 314,220</u>	<u>\$ 19,411</u>	<u>\$ 16,578</u>	<u>\$ 350,209</u>
Expenditures				
General government	\$ 144,465	\$	\$	\$ 144,465
Protections to persons and property	101,182		2,060	103,242
Streets and maintenance		5,956		5,956
Recreation and culture	22,834			22,834
Debt service			10,177	10,177
Capital outlay	<u>29,697</u>	<u>52,308</u>		<u>82,005</u>
Total expenditures	<u>\$ 298,178</u>	<u>\$ 58,264</u>	<u>\$ 12,237</u>	<u>\$ 368,679</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 16,042</u>	<u>\$ (38,853)</u>	<u>\$ 4,341</u>	<u>\$ (18,470)</u>
Other financing sources (uses)				
Transfers in	<u>\$ 1,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,000</u>
Total other financing sources (uses)	<u>\$ 1,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,000</u>
Net change in fund balances	<u>\$ 17,042</u>	<u>\$ (38,853)</u>	<u>\$ 4,341</u>	<u>\$ (17,470)</u>
Fund balances - Beginning (restated)	<u>396,235</u>	<u>48,176</u>	<u>52,178</u>	<u>496,589</u>
Fund balances - Ending	<u>\$ 413,277</u>	<u>\$ 9,323</u>	<u>\$ 56,519</u>	<u>\$ 479,119</u>

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

City of New Haven
Statement of Net Position - Proprietary Fund
June 30, 2019

	Water and Wastewater Sewer System Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 86,918
Restricted cash and cash equivalents	165,104
Restricted investments	145,288
Accounts receivable, net	65,074
Inventory	20,629
Other current assets	<u>3,380</u>
Total current assets	\$ <u>486,393</u>
Noncurrent assets	
Capital assets, net	\$ <u>3,258,572</u>
Total noncurrent assets	\$ <u>3,258,572</u>
Deferred outflows of resources	
Pension	\$ 47,512
Other postemployment benefits	<u>14,266</u>
Total deferred outflows of resources	\$ <u>61,778</u>
Total assets	\$ <u><u>3,806,743</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 10,342
Payroll related liabilities	3,360
Interest payable	5,978
Current portion of long-term debt	25,736
Customer deposits	16,000
Other current liabilities	<u>1,146</u>
Total current liabilities	\$ <u>62,562</u>
Noncurrent liabilities	
Noncurrent portion of long-term debt	\$ 435,969
Net pension liability	154,376
Net other postemployment benefits	<u>45,004</u>
Total noncurrent liabilities	\$ <u>635,349</u>

City of New Haven
Statement of Net Position - Proprietary Fund
June 30, 2019
(Continued)

	Water and Wastewater Sewer System Fund
	<u> </u>
Liabilities <i>(Continued)</i>	
Deferred inflows of resources	
Pension	\$ 5,565
Other postemployment benefits	<u> 8,540</u>
Total deferred inflows of resources	\$ <u>14,105</u>
Total liabilities	\$ <u><u>712,016</u></u>
Net position	
Net investment in capital assets	\$ 2,796,867
Restricted	
Sewer rehab	8,522
Bond, interest, and depreciation reserves	301,870
Unrestricted	<u> (12,532)</u>
Total net position	\$ <u><u>3,094,727</u></u>

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, 2019

	Water and Wastewater Sewer System Fund
Operating revenues	
Utility sales	\$ 452,449
Penalties	7,015
Miscellaneous	<u>24,145</u>
Total operating revenues	\$ <u>483,609</u>
Operating expenses	
Water purchases for resale	\$ 85,801
Salaries, wages, employee benefits and related taxes	182,038
Contractual services, operations and materials	92,843
Repairs	29,619
Insurance	6,912
Utilities	28,390
Depreciation	<u>135,621</u>
Total operating expenses	\$ <u>561,224</u>
Operating income (loss)	\$ <u>(77,615)</u>
Non-operating revenues (expenses)	
Tap fees	\$ 2,000
Interest revenue	578
Interest expense	<u>(14,192)</u>
Total non-operating revenues (expenses)	\$ <u>(11,614)</u>
Other financing sources (uses)	
Transfers out	<u>(1,000)</u>
Total other financing sources (uses)	\$ <u>(1,000)</u>
Change in net position	\$ (90,229)
Net position - Beginning (restated)	<u>3,184,956</u>
Net position - Ending	\$ <u><u>3,094,727</u></u>

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, 2019

	Water and Wastewater Sewer System Fund
Cash flows from operating activities	
Cash received from customers	\$ 481,794
Cash paid for suppliers for goods and services	(256,358)
Cash paid for employee services and benefits	<u>(159,940)</u>
Net cash flows from operating activities	<u>\$ 65,496</u>
Cash flows from capital and related financing activities	
Cash received from tap fees	\$ 2,000
Cash paid for bond principal	(6,700)
Cash paid for loans	(13,365)
Cash paid for interest	(14,484)
Cash paid for capital assets	<u>(16,546)</u>
Net cash flows from capital and related financing activities	<u>\$ (49,095)</u>
Cash flows from noncapital and related financing activities	
Transfers out	\$ <u>(1,000)</u>
Net cash flows from noncapital and related financing activities	<u>\$ (1,000)</u>
Cash flows from investing activities	
Interest received on cash equivalents	\$ <u>187</u>
Net cash flows from investing activities	<u>\$ 187</u>
Net increase (decrease) in cash	\$ 15,588
Cash - Beginning	<u>236,434</u>
Cash - Ending	<u><u>\$ 252,022</u></u>
Cash is reported in the Statement of Net Position as follows	
Cash and cash equivalents	\$ 86,918
Restricted cash and cash equivalents	<u>165,104</u>
Total	<u><u>\$ 252,022</u></u>
Reconciliation of cash flows from operating activities	
Operating income	\$ (77,615)
Adjustments to reconcile income (loss) from operation to cash used in operating activities	
Depreciation	135,621
Change in assets and liabilities	
Accounts receivable	(1,815)
Inventory	11,959
Other current assets	(3,380)
Accounts payable	(25,646)
Payroll and payroll related liabilities	(1,937)
Customer deposits	4,100
Pension and other postemployment benefits	9,248
Deferred inflows and deferred outflows	14,787
Other current liabilities	<u>174</u>
Net cash flows from operating activities	<u><u>\$ 65,496</u></u>

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, 2019

Net change in fund balances - total governmental funds	\$ (17,470)
<p>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</p>	
Depreciation expense	(29,988)
Capital outlay	82,005
<p>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</p>	
Pension expense	(40,004)
Other postemployment benefits	(6,857)
<p>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 instead a reduction of debt principal on the Statement of Net Position</p>	
Payment on long-term debt	10,177
Change in net position of governmental activities	\$ <u>(2,137)</u>

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, 2019

Fund balance - governmental funds	\$	479,119
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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;		625,351
Deferred outflows of resources related to pensions not recognized in governmental funds; and		85,897
Deferred outflows of resources related to other postemployment benefits not recognized in governmental funds.		33,991

Liabilities

Debt not recognized in governmental funds;		(17,227)
Net pension liability not recognized in governmental funds;		(309,812)
Net other postemployment benefits not recognized in governmental funds;		(90,991)
Deferred inflows of resources related to pensions not recognized in governmental funds; and		(8,841)
Deferred inflows of resources related to other postemployment benefits not recognized in governmental funds.		<u>(18,476)</u>

Net position of governmental activities	\$	<u><u>779,011</u></u>
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The accompanying notes are an integral part of the financial statements.

City of New Haven
Notes to the Financial Statements
June 30, 2019

Note 1. Summary of Significant Accounting Policies

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 insurance premium taxes, 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.

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 by 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 report.

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 are reported as separate columns in the fund financial statements.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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 noncurrent assets as well as noncurrent liabilities, 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 Proprietary Fund is charges to customers for sales and services. The City also recognizes as non-operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for the Proprietary Fund 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; and
- Fire Fund: receives fire department aid allotted by the State Fire Marshall. The funds must be expended as shown on the list submitted to them. This fund is provided from the insurance premium surcharge proceeds as established by House Bill 525.

The City reports the following major Proprietary Fund:

- Water and Wastewater Sewer Fund: accounts for water and wastewater services of the City for its citizens and surrounding communities.

The City reports no non-major funds.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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 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 Sheet contains 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.

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

A. Cash, 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 for similar assets.

B. 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.

C. 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.

D. Prepaid Expenses

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

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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

E. 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 capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur.

The costs of normal maintenance and repairs that do not add to the asset value or materially extend its useful life 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

F. Property Tax

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 and attach as an enforceable lien on property as of each April 15. 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, 2019, the City had a tax rate of \$0.224 per \$100 for real estate, \$0.4329 per \$100 for tangible property, and \$0.25 per \$100 for motor vehicles.

G. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. A liability is accrued 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 is considered current because all vacation pay is based on the calendar year and cannot be carried over from one year to another. Upon termination, accumulated vacation will be paid to the employee.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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

G. Compensated Absences *(Continued)*

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 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. These benefits may be subject to employer contribution requirements as determined by the Kentucky Retirement System.

H. 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 are reported as expenditures.

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

I. Fund Balance/Net Position

Government-Wide Financial Statements

Net position is classified as follows:

- 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;
- 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; and
- 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 follows:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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

I. Fund Balance/Net Position *(Continued)*

- Non-spendable: 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; and
- Unassigned: Amounts that are available for any purpose.

J. 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.

K. 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.

L. Other Postemployment Benefits

For purposes of measuring the net Other Postemployment Benefits (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 (Insurance Fund) and additions to or deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the 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.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

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

M. 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.

N. 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.

O. 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.

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.

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.

Statement of Cash Flows

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

Note 2. Stewardship, Compliance and Accountability

The City adopts a budget for the general fund, special revenue funds, and proprietary 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.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 3. Deposits, Restricted Cash, and Investments

Deposits

The City maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by Kentucky Revised Statutes. 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, 2019, the City's deposits were undercollateralized by as much as \$23,328.

Restricted Cash

Restricted cash as of June 30, 2019 consists of the following:

Sewer rehab	\$	8,522
Fire department		56,823
Municipal road aid		10,011
Bond, interest, and depreciation reserves		156,582
Total restricted cash	\$	<u>231,938</u>

The sewer rehab account is for funds restricted for use in making improvements to the sewer infrastructure. The fire department account is for funds restricted for use in providing fire protection services. The municipal road 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 reserves accounts are restricted and held for use for payment of interest and principal on revenue bonds, for repairs and maintenance to the water and wastewater sewer system, and for required depreciation reserves.

Investments and Restricted Investments

Restricted investments as of June 30, 2019 consists of the following:

Bond, interest, and depreciation reserves	\$	145,288
Total restricted investments	\$	<u>145,288</u>

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

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:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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

Investments and Restricted Investments *(Continued)*

Fair Value of Financial Instruments *(Continued)*

- Level 1: 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; and
- 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, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of Deposits	\$ _____	\$ 329,275	\$ _____	\$ 329,275
Total	\$ _____	\$ 329,275	\$ _____	\$ 329,275

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, 2019.

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 \$3,332 for compensated absences as of June 30, 2019. This amount consists of vacation pay due to employees as of that date.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System

General Information about County Employees Retirement Systems

A. 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.

B. 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 5 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.

C. 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.

D. 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

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System *(Continued)*

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

D. 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, are 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 2019 were adopted by the Board based on actuarially recommended rates. For the year ended June 30, 2019, the City's covered payroll was \$107,451. 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, 2019 was 16.22%. The City contributed \$17,429, or 100% of the required contributions, to the Plan for the year ended June 30, 2019.

E. Hazardous Contributions

For the year ended June 30, 2019, 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 the 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.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System *(Continued)*

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

E. Hazardous Contributions *(Continued)*

Employer contribution rates for the fiscal year ending 2019 were adopted by the Board based on actuarially recommended rates. For the year ended June 30, 2019, the City's covered payroll was \$47,281. 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, 2019 was 24.87%. The City contributed \$11,759, or 100% of the required contributions, to the Plan for the year ended June 30, 2019.

Net Pension Liability

At June 30, 2019, the City reported a liability of \$464,188 for its proportionate share of the net pension liability (\$258,716 for non-hazardous and \$205,472 for hazardous classifications). The net pension liability was measured as of June 30, 2018, 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, 2017. 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, 2019 and June 30, 2018 was 0.004248% and 0.004087%, respectively, for non-hazardous and 0.008496% and 0.008204%, respectively, for hazardous classifications.

A. Actuarial Methods and Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2017), but prior to the measurement date, the Board reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board has made no changes in actuarial assumptions since June 30, 2017. The actual assumptions are:

Inflation	2.30%
Salary increases	3.05%
Investment rate of return	6.25%

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 is determined using these updated benefit provisions.

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

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System *(Continued)*

Net Pension Liability *(Continued)*

A. Actuarial Methods and Assumptions *(Continued)*

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.

The long-term expected rate of return on plan investments for the June 30, 2018 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:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	14.50%	17.50%
International equity	13.75%	17.50%
Global bonds	3.00%	4.00%
Global credit	3.75%	2.00%
High yield	5.75%	7.00%
Emerging market debt	6.00%	5.00%
Illiquid private credit	8.50%	10.00%
Real estate	9.00%	5.00%
Absolute return	5.00%	10.00%
Real return	7.00%	10.00%
Private equity	6.50%	10.00%
Cash	1.50%	2.00%
Total		<u>100.00%</u>

B. Discount Rate

The projection of cash flows used to determine the 2018 discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

C. 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:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System *(Continued)*

Net Pension Liability *(Continued)*

C. Sensitivity Analysis *(Continued)*

	<u>Discount Rate</u>		<u>City's Proportionate Share of Net Position</u>
Non-hazardous			
1% decrease	5.25%	\$	325,697
Current discount rate	6.25%	\$	258,716
1% Increase	7.25%	\$	202,598
Hazardous			
1% decrease	5.25%	\$	257,443
Current discount rate	6.25%	\$	205,472
1% increase	7.25%	\$	162,508

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

A. Pension Expense

The City recognized pension expense of \$58,788 for non-hazardous and \$32,633 for hazardous classifications.

B. 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, 2018.

C. Deferred Outflows and Inflows of Resources

For the year ended June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System (Continued)

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

C. Deferred Outflows and Inflows of Resources (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Non-hazardous		
Difference between expected and actual experience	\$ 8,439	\$ 3,787
Change in assumptions	25,284	
Net difference between projected and actual earnings on investments		3,103
Changes in proportion and difference between employer contributions and proportionate share of contributions	28,472	2,437
Contributions subsequent to the measurement date	17,429	
Total non-hazardous	<u>\$ 79,624</u>	<u>\$ 9,327</u>
Hazardous		
Difference between expected and actual experience	\$ 16,352	\$
Change in assumptions	21,872	
Net difference between projected and actual earnings on investments		2,318
Changes in proportion and difference between employer contributions and proportionate share of contributions	3,802	2,761
Contributions subsequent to the measurement date	11,759	
Total hazardous	<u>\$ 53,785</u>	<u>\$ 5,079</u>
Total	<u>\$ 133,409</u>	<u>\$ 14,406</u>

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, 2019. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Non-hazardous</u>		<u>Hazardous</u>		<u>Total</u>
2019	\$	35,937	\$	25,587	\$ 61,524
2020	\$	20,281	\$	12,578	\$ 32,859
2021	\$	(1,962)	\$	(290)	\$ (2,252)
2022	\$	(1,389)	\$	(928)	\$ (2,317)

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Employee Retirement System *(Continued)*

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

D. 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 Health 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 the CERS Board of Trustees to establish and amend the benefit terms. Section 61.701 provides for the administration of the 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.

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.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 6. Other Postemployment Benefits *(Continued)*

Benefits Provided *(Continued)*

	<u>Participation Date</u>	<u>Benefit Eligibility</u>	<u>Benefit</u>	
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.

Contributions

OPEB contributions are actuarially determined and set by the Board. The City's actuarially determined contribution rate for the year ended June 30, 2019, was 5.26% of covered payroll for non-hazardous employees and 10.47% for hazardous employees. Contributions paid to the OPEB plan for the year ended June 30, 2019 were \$5,652 for non-hazardous and \$4,950 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, 2019, the implicit subsidy on current year contributions was \$1,217 for non-hazardous classifications and (\$241) for hazardous classifications.

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

At June 30, 2019, the City reported a liability of \$135,995 for its proportionate share of the net OPEB liability (\$75,422 for non-hazardous and \$60,573 for hazardous classifications). The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The City's proportion of the net OPEB liability was based on the employers' contributions as a percent of total contributions to the plan for the year ended June 30, 2018. This method is expected to be reflective of the employers' long-term contribution effort. The City's proportion at June

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 6. Other Postemployment Benefits *(Continued)*

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

30, 2019 and June 30, 2018 was 0.004248% and 0.004087%, respectively, for non-hazardous and 0.008496% and 0.008204%, respectively, for hazardous classifications.

For the year ended June 30, 2019, the City recognized CERS OPEB expense of \$11,297 for non-hazardous and \$8,528 for hazardous classifications.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Non-hazardous		
Difference between expected and actual experience	\$	\$ 5,195
Change in assumptions	15,063	174
Net difference between projected and actual earnings on OPEB plan investments		8,789
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,976	154
Contributions subsequent to the measurement date (includes the implicit subsidy of \$1,217 per KRS)	6,869	
Total non-hazardous	\$ <u>23,908</u>	\$ <u>14,312</u>
Hazardous		
Difference between expected and actual experience	\$	\$ 5,759
Change in assumptions	18,588	166
Net difference between projected and actual earnings on OPEB plan investments		6,769
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,052	10
Contributions subsequent to the measurement date (includes the implicit subsidy of \$(241) per KRS)	4,709	
Total hazardous	\$ <u>24,349</u>	\$ <u>12,704</u>
Total	\$ <u>48,257</u>	\$ <u>27,016</u>

The amount reported above as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the measurement period ended June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in OPEB expense in the following measurement periods:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 6. Other Postemployment Benefits *(Continued)*

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

<u>Year Ended June 30,</u>	<u>Non-hazardous</u>				
2019	\$	605	\$	3,928	\$ 4,533
2020	\$	605	\$	3,928	\$ 4,533
2021	\$	605	\$	585	\$ 1,190
2022	\$	1,614	\$	(1,507)	\$ 107
2023	\$	(319)			\$ (319)
Thereafter	\$	(384)			\$ (384)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average
Investment rate of return	6.25%
Healthcare cost trend rates:	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 5 years

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 with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018 is determined using these updated benefit provisions.

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:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 6. Other Postemployment Benefits *(Continued)*

Actuarial Assumptions *(Continued)*

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	14.50%	17.50%
International equity	13.75%	17.50%
Global bonds	3.00%	4.00%
Global credit	3.75%	2.00%
High yield	5.50%	7.00%
Emerging market debt	6.00%	5.00%
Illiquid private credit	8.50%	10.00%
Real estate	9.00%	5.00%
Absolute return	5.00%	10.00%
Real return	7.00%	10.00%
Private equity	6.50%	10.00%
Cash	1.50%	2.00%
Total		<u>100.00%</u>

Discount Rate

The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous classifications and 5.97% for hazardous classifications. 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.

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 or one percentage-point higher than the current discount rate for each classification:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 6. Other Postemployment Benefits (Continued)

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

	<u>Discount Rate</u>		<u>City's Proportionate Share of Net OPEB Liability</u>
Non-hazardous			
1% decrease	4.85%	\$	97,962
Current discount rate	5.85%	\$	75,422
1% increase	6.85%	\$	56,223
Hazardous			
1% decrease	4.97%	\$	84,199
Current discount rate	5.97%	\$	60,573
1% increase	6.97%	\$	41,659

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			
		<u>Non-hazardous</u>		<u>Hazardous</u>
1% decrease	\$	56,153	\$	41,253
Current discount rate	\$	75,422	\$	60,573
1% increase	\$	98,136	\$	84,502

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, 2018.

Note 7. Risk Management

The City is exposed to various forms of loss 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.

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

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, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Fire Truck – Term Note	\$ 27,404	\$	\$ 10,177	\$ 17,227	\$ 10,483
	<u>\$ 27,404</u>	<u>\$</u>	<u>\$ 10,177</u>	<u>\$ 17,227</u>	<u>\$ 10,483</u>

The following reflects the long-term liability activity for business-type activities for the year ended June 30, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Sewer Rehab – Construction Loan	\$ 205,885	\$	\$ 4,780	\$ 201,105	\$ 9,615
Tractor – Term Note Series 1999A Revenue Bonds	36,585		8,585	28,000	8,821
Series 1999B Revenue Bonds	180,000		5,000	175,000	5,500
	59,300		1,700	57,600	1,800
	<u>\$ 481,770</u>	<u>\$</u>	<u>\$ 20,065</u>	<u>\$ 461,705</u>	<u>\$ 25,736</u>

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%. The bonds are collateralized with service revenue. Bonds outstanding as of June 30, 2019 were \$175,000. Future principal and interest requirements are:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 9. Long-Term Debt (Continued)

Water and Wastewater Sewer Revenue Bonds – Series 1999A (Continued)

<u>Year Ending June 30,</u>		<u>Interest</u>		<u>Principal</u>
2020	\$	8,969	\$	5,500
2021		8,687		5,500
2022		8,405		6,000
2023		8,098		6,000
2024		7,790		6,500
2025 – 2029		33,594		38,000
2030 – 2034		22,858		47,500
2035 – 2039		9,558		60,000
Total	\$	<u>107,959</u>	\$	<u>175,000</u>

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%. The bonds are collateralized with service revenue. Bonds outstanding as of June 30, 2019 were \$57,600. Future principal and interest requirements are:

<u>Year Ending June 30,</u>		<u>Interest</u>		<u>Principal</u>
2020	\$	2,736	\$	1,800
2021		2,651		1,900
2022		2,560		2,000
2023		2,465		2,000
2024		2,370		2,200
2025 – 2029		10,208		12,400
2030 – 2034		6,954		15,700
2035 – 2039		2,860		19,600
Total	\$	<u>32,804</u>	\$	<u>57,600</u>

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 note is collateralized with the tractor. The principal outstanding as of June 30, 2019 was \$28,000. Future principal and interest requirements are:

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 9. Long-Term Debt (Continued)

Tractor – Term Note (Continued)

<u>Year Ending June 30,</u>		<u>Interest</u>		<u>Principal</u>
2020	\$	659	\$	8,821
2021		412		9,068
2022		161		9,320
2023		2		791
Total	\$	<u>1,234</u>	\$	<u>28,000</u>

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%. Principal and interest payments are due semi-annually and the loan matures December 1, 3038. The loan is collateralized with service revenue. The principal outstanding as of June 30, 2019 was \$201,105. Future principal and interest requirements are:

<u>Year Ending June 30,</u>		<u>Interest</u>		<u>Principal</u>
2020	\$	1,490	\$	9,615
2021		1,418		9,687
2022		1,345		9,760
2023		1,272		9,833
2024		1,198		9,907
2025 – 2029		4,862		50,662
2030 – 2034		2,930		52,594
2035 – 2039		924		49,047
Total	\$	<u>15,439</u>	\$	<u>201,105</u>

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. Due to an increase in state aid money, the note will be paid off early. The note is collateralized with the fire truck. The principal outstanding as of June 30, 2019 was \$17,227. Future principal and interest requirements are:

<u>Year Ending June 30,</u>		<u>Interest</u>		<u>Principal</u>
2020	\$	517	\$	10,483
2021		202		6,744
Total	\$	<u>719</u>	\$	<u>17,227</u>

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 10. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2019 follows:

	Beginning Balance (restated)		Increase		Decrease		Ending Balance
Land	\$ 89,889	\$		\$		\$	89,889
Buildings and improvements	713,400		5,700				719,100
Machinery and equipment	432,100		23,997				456,097
Infrastructure	193,261		52,308				245,569
Total capital assets	\$ 1,428,650	\$	82,005	\$		\$	1,510,655
Less: Accumulated depreciation	855,316		29,988				885,304
Capital assets, net	\$ 573,334	\$	52,017	\$		\$	625,351

Depreciation was charged to government functions as follows:

General government	\$ 6,644
Streets and maintenance	3,207
Protection of persons and property	12,114
Recreation and culture	8,023
Total	\$ 29,988

Capital asset activity for business-type activities for the year ended June 30, 2019 follows:

	Beginning Balance		Increase		Decrease		Ending Balance
Land	\$ 20,801	\$		\$		\$	20,801
Construction in progress	537,810						537,810
Buildings and improvements	80,565		4,480				85,045
Machinery and equipment	443,259		12,066				455,325
Infrastructure	4,770,112						4,770,112
Total capital assets	\$ 5,852,547	\$	16,546	\$		\$	5,869,093
Less: Accumulated depreciation	2,474,900		135,621				2,610,521
Capital assets, net	\$ 3,377,647	\$	(119,075)	\$		\$	3,258,572

Depreciation was charged to business-type activities as follows:

Water and wastewater sewer system	\$ 135,621
Total	\$ 135,621

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 11. Fund Balances

The following is a summary of the Governmental Funds' fund balances of the City at June 30, 2019:

Non-spendable			
Prepaid insurance		\$	2,312
Restricted			
Municipal road aid	\$	9,323	
Fire department		<u>56,519</u>	65,842
Committed			
Fire truck funds	\$	58,745	
Community development		19,124	
Police car funds		<u>826</u>	78,695
Assigned			
Abbey donations	\$	5,669	
Media donations		5,407	
General equipment		<u>7,024</u>	18,100
Unassigned			<u>314,170</u>
Total			<u>\$ 479,119</u>

Note 12. Subsequent Events

The City has evaluated subsequent events through December 11, 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, beginning of year	\$ 804,003	\$ 3,175,015
Under (over) statement of deferred outflows of resources related to pension	(4,685)	(2,111)
Under (over) statement of deferred outflows of resources related to other postemployment benefits	(888)	185
Over (under) statement of deferred inflows of resources related to pension	(515)	515
Over (under) statement of deferred inflows of resources related to other postemployment benefits	(150)	150
Over (under) statement of net pension liability	(8,338)	8,338
Over (under) statement of net other postemployment benefits liability	(2,864)	2,864
Overstatement of fixed assets	<u>(5,415)</u>	
Net position, beginning of year, restated	<u>\$ 781,148</u>	<u>\$ 3,184,956</u>

City of New Haven
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 13. Restatement of Net Position *(Continued)*

Restatement of Governmental Activities Net Position

The prior year balance of deferred outflows of resources related to pensions and other postemployment benefits was overstated by \$4,685 and \$888, respectively. The balance of deferred inflows of resources related to pensions and other postemployment benefits was understated by \$515 and \$150, respectively. Net pension and net other postemployment liability were understated by \$8,338 and \$2,864, respectively. Construction in progress was overstated by \$5,415. The net effect of these misstatements was a \$27,804 overstatement of beginning net position.

Restatement of Business-Type Activities Net Position

The prior year balance of deferred outflows of resources related to pensions and other postemployment benefits was overstated by \$2,111 and understated by \$183, respectively. The balance of deferred inflows of resources related to pensions and other postemployment benefits was overstated by \$515 and \$150, respectively. Net pension and net other postemployment liability were overstated by \$8,338 and \$2,866, respectively. The net effect of these misstatements was a \$9,941 understatement of beginning net position.

Note 14. Restatement of Fund Balance

The beginning fund balance of the General Fund was restated to allow for the separate presentation of the Fire Fund. The Fire Fund was presented as part of the General Fund in the prior year. Fund balances were restated as follows:

	<u>General Fund</u>		<u>Fire Fund</u>
Fund balance, beginning of year	\$ 448,413	\$	
Beginning fund balance for fire fund	(52,178)		52,178
Net position, beginning of year, restated	<u>\$ 396,235</u>	\$	<u>52,178</u>

Required Supplementary Information

**City of New Haven
Budgetary Comparison -
Major Governmental Funds
For the Year Ended June 30, 2019**

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues				
Taxes	\$ 226,200	\$ 226,200	\$ 242,814	\$ 16,614
Intergovernmental	17,960	17,960	28,828	10,868
License and permits	11,500	11,500	10,538	(962)
Charges for services	10,150	10,150	19,937	9,787
Miscellaneous	34,600	34,600	12,103	(22,497)
Total revenues	\$ 300,410	\$ 300,410	\$ 314,220	\$ 13,810
Expenditures				
General government	\$ 140,167	\$ 140,167	\$ 144,465	\$ (4,298)
Protections to persons and property	89,023	89,023	101,182	(12,159)
Recreation and culture	21,750	21,750	22,834	(1,084)
Capital outlay	25,000	25,000	29,697	(4,697)
Total expenditures	\$ 275,940	\$ 275,940	\$ 298,178	\$ (22,238)
Excess (deficiency) of revenues over expenditures	\$ 24,470	\$ 24,470	\$ 16,042	\$ (8,428)
Other financing sources (uses)				
Transfer in	\$ _____	\$ _____	\$ 1,000	\$ 1,000
Total other financing sources (uses)	\$ _____	\$ _____	\$ 1,000	\$ 1,000
Net change in fund balance	\$ 24,470	\$ 24,470	\$ 17,042	\$ (7,428)
Fund balance - Beginning	396,235	396,235	396,235	_____
Fund balance - Ending	\$ 420,705	\$ 420,705	\$ 413,277	\$ (7,428)

City of New Haven
Budgetary Comparison -
Major Governmental Funds
For the Year Ended June 30, 2019
(Continued)

	Municipal Road Aid Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues				
Intergovernmental	\$ 19,560	\$ 19,560	\$ 19,380	\$ (180)
Miscellaneous	<u>15</u>	<u>15</u>	<u>31</u>	<u>16</u>
Total revenues	<u>\$ 19,575</u>	<u>\$ 19,575</u>	<u>\$ 19,411</u>	<u>\$ (164)</u>
Expenditures				
Streets and maintenance	\$	\$	\$ 5,956	\$ (5,956)
Capital outlay	<u>19,575</u>	<u>19,575</u>	<u>52,308</u>	<u>(32,733)</u>
Total expenditures	<u>\$ 19,575</u>	<u>\$ 19,575</u>	<u>\$ 58,264</u>	<u>\$ (38,689)</u>
Excess (deficiency) of revenues over expenditures	\$	\$	<u>\$ (38,853)</u>	<u>\$ (38,853)</u>
Net change in fund balance	\$	\$	\$ (38,853)	\$ (38,853)
Fund balance - Beginning	<u>48,176</u>	<u>48,176</u>	<u>48,176</u>	
Fund balance - Ending	<u>\$ 48,176</u>	<u>\$ 48,176</u>	<u>\$ 9,323</u>	<u>\$ (38,853)</u>

City of New Haven
Budgetary Comparison -
Major Governmental Funds
For the Year Ended June 30, 2019
(Continued)

	Fire Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues				
Intergovernmental	\$ 18,000	\$ 18,000	\$ 16,299	\$ (1,701)
Miscellaneous			279	279
Total revenues	<u>\$ 18,000</u>	<u>\$ 18,000</u>	<u>\$ 16,578</u>	<u>\$ (1,422)</u>
Expenditures				
Protections to persons and property	\$ 31,470	\$ 31,470	\$ 2,060	\$ 29,410
Debt service	11,000	11,000	10,177	823
Total expenditures	<u>\$ 42,470</u>	<u>\$ 42,470</u>	<u>\$ 12,237</u>	<u>\$ 30,233</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (24,470)</u>	<u>\$ (24,470)</u>	<u>\$ 4,341</u>	<u>\$ 28,811</u>
Net change in fund balance	\$ (24,470)	\$ (24,470)	\$ 4,341	\$ 28,811
Fund balance - Beginning	<u>52,178</u>	<u>52,178</u>	<u>52,178</u>	
Fund balance - Ending	<u><u>\$ 27,708</u></u>	<u><u>\$ 27,708</u></u>	<u><u>\$ 56,519</u></u>	<u><u>\$ 28,811</u></u>

See the accompanying Notes to Required Supplementary Information.

City of New Haven
Schedule of City's Proportionate Share of the Net Pension Liability of County
Employees Retirement Systems of Kentucky Retirement Systems

Year ended June 30,	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Non-hazardous					
City's proportion of the collective net pension liability	0.003408%	0.003349%	0.002814%	0.004087%	0.004248%
City's proportionate share of the net pension liability	\$ 110,568	\$ 143,974	\$ 138,552	\$ 239,225	\$ 258,716
City's covered employee payroll	\$ 78,190	\$ 78,416	\$ 64,372	\$ 99,513	\$ 105,282
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	141.41%	183.60%	215.24%	240.40%	245.74%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%
Hazardous					
City's proportion of the collective net pension liability	0.008182%	0.008236%	0.008672%	0.008204%	0.008496%
City's proportionate share of the net pension liability	\$ 98,333	\$ 126,434	\$ 148,813	\$ 183,546	\$ 205,472
City's covered employee payroll	\$ 41,440	\$ 42,938	\$ 45,252	\$ 45,036	\$ 47,326
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	237.29%	294.46%	328.85%	407.55%	434.16%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	57.52%	53.95%	49.78%	49.26%

Notes:

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of City's Pension Contributions to County Employees Retirement Systems of Kentucky Retirement Systems.

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.

See the accompanying Notes to Required Supplementary Information.

City of New Haven
Schedule of City's Pension Contributions to County Employees Retirement
Systems of Kentucky Retirement Systems

Year ended June 30,	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Non-hazardous						
Statutorily required contributions for pension	\$ 10,743	\$ 9,998	\$ 7,995	\$ 13,882	\$ 15,245	\$ 17,429
Less: City's contributions	<u>10,743</u>	<u>9,998</u>	<u>7,995</u>	<u>13,882</u>	<u>15,245</u>	<u>17,429</u>
Contribution deficiency (excess)	\$ <u> </u>					
City's covered employee payroll	\$ 78,190	\$ 78,416	\$ 64,372	\$ 99,513	\$ 105,282	\$ 107,451
Contributions as a percentage of its covered employee payroll	13.74%	12.75%	12.42%	13.95%	14.48%	16.22%
Hazardous						
Statutorily required contribution for pension	\$ 9,021	\$ 8,901	\$ 9,168	\$ 9,777	\$ 10,506	\$ 11,759
Less: City's contributions	<u>9,021</u>	<u>8,901</u>	<u>9,168</u>	<u>9,777</u>	<u>10,506</u>	<u>11,759</u>
Contribution deficiency (excess)	\$ <u> </u>					
City's covered employee payroll	\$ 41,440	\$ 42,938	\$ 45,252	\$ 45,036	\$ 47,326	\$ 47,281
Contributions as a percentage of its covered employee payroll	21.77%	20.73%	20.26%	21.71%	22.20%	24.87%

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.

See the accompanying Notes to Required Supplementary Information.

City of New Haven
Schedule of City's Proportionate Share of the Net Other Postemployment Benefit
Liability of County Employees Retirement Systems of Kentucky Retirement Systems

Year ended June 30,	<u>2018</u>	<u>2019</u>
Non-hazardous		
City's proportion of the collective net OPEB liability	.004087%	.004248%
City's proportionate share of the net OPEB liability	\$ 82,163	\$ 75,422
City's covered-employee payroll	\$ 99,513	\$ 105,282
City's proportionate share of net OPEB liability as a percent of its covered-employee payroll	82.57%	71.64%
Plan fiduciary net position as a percent of total OPEB liability	52.39%	57.62%
Hazardous		
City's proportion of the collective net OPEB liability	.008204%	.008496%
City's proportionate share of the net OPEB liability	\$ 67,820	\$ 60,573
City's covered-employee payroll	\$ 45,036	\$ 47,326
City's proportionate share of net OPEB liability as a percent of its covered-employee payroll	150.59%	127.99%
Plan fiduciary net position as a percent of total OPEB liability	58.99%	64.24%

Notes:

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of City's Other Postemployment Benefit Contributions to County Employees Retirement Systems of Kentucky Retirement Systems.

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.

See the accompanying Notes to Required Supplementary Information.

City of New Haven
Schedule of City's Other Postemployment Benefit Contributions to County
Employees Retirement Systems of Kentucky Retirement Systems

Year ended June 30,	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Non-hazardous						
Statutorily required contribution for OPEB	\$ 4,027	\$ 3,858	\$ 2,987	\$ 4,707	\$ 4,948	\$ 5,652
Less: City's contributions	<u>4,027</u>	<u>3,858</u>	<u>2,987</u>	<u>4,707</u>	<u>4,948</u>	<u>5,652</u>
Contribution deficiency (excess)	\$ <u> </u>					
City's covered employee payroll	\$ 78,190	\$ 78,416	\$ 64,372	\$ 99,513	\$ 105,282	\$ 107,451
Contributions as a percentage of its covered employee payroll	5.15%	4.92%	4.64%	4.73%	4.70%	5.26%
Hazardous						
Statutorily required contribution for OPEB	\$ 5,774	\$ 5,831	\$ 5,742	\$ 4,211	\$ 4,425	\$ 4,950
Less: City's contributions	<u>5,774</u>	<u>5,831</u>	<u>5,742</u>	<u>4,211</u>	<u>4,425</u>	<u>4,950</u>
Contribution deficiency (excess)	\$ <u> </u>					
City's covered employee payroll	\$ 41,440	\$ 42,938	\$ 45,252	\$ 45,036	\$ 47,326	\$ 47,281
Contributions as a percentage of its covered employee payroll	13.93%	13.58%	12.69%	9.35%	9.35%	10.47%

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.

See the accompanying Note to Required Supplementary Information.

City of New Haven
Notes to the Required Supplementary Information
For the Year Ended June 30, 2019

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

Changes of Assumptions Used in Determining Net Pension Liability

The following changes in assumptions used in determining the net pension liability are reflected in the actuarial valuation as of June 30, 2015:

- The assumed investment rate of return was reduced from 7.75% to 7.50%, net of pension plan investment expense, including inflation.
- 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%.
- The assumed rate of salary increases was reduced from 4.50% to 4.00%, average, including inflation.
- The mortality table used was RP-2000 Combined Mortality Table projected with Scale BB to 2013.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

There were no changes in assumptions used in determining the net pension liability in the actuarial valuation as of June 30, 2016.

The following changes in assumptions used in determining the net pension liability are reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was reduced from 7.50% to 6.25%.
- The assumed rate of salary increases was reduced from 4.00% to 3.05%, average, including inflation.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.

There were no changes in assumptions used in determining the net pension liability in the actuarial valuation as of June 30, 2018.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay

City of New Haven
Notes to the Required Supplementary Information
For the Year Ended June 30, 2019
(Continued)

Note 2. Pension *(Continued)*

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

Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average
Investment rate of return	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Tables projected with Scale BB to 2013 (multiplied to 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.

Changes in Benefit Provisions

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 is determined using these updated benefit provisions.

Note 3. Other Postemployment Benefits

Changes of Assumptions Used in Determining Net Other Postemployment Benefit Liability

The following changes in assumptions used in determining the net other postemployment benefit liability are reflected in the actuarial valuation as of June 30, 2017:

- The assumed investment rate of return was reduced from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth rate was reduced from 4.00% to 2.00%.
- The single discount rate was reduced from 6.89% to 5.84% for nonhazardous classifications and from 7.37% to 5.96% for hazardous classifications.
- The assumed rate of salary increases was reduced from 4.00% to 3.05%, average.

The following changes in assumptions used in determining the net other postemployment benefit liability are reflected in the actuarial valuation as of June 30, 2018:

- The single discount rate was increased from 5.84% to 5.85% for nonhazardous classifications and from 5.96% to 5.97% for hazardous classifications.

City of New Haven
Notes to the Required Supplementary Information
For the Year Ended June 30, 2019
(Continued)

Note 3. Other Postemployment Benefits *(Continued)*

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The following actuarial methods and assumptions, were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2018:

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

The mortality table used for active members is RP-2000 Combined Mortality Tables projected with Scale BB to 2013 (multiplied to 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.

Changes in Benefit Provisions

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of insurance premiums for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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, 2019, and related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 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 opinion 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: 2019 – 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 deficiency described in the accompanying Schedule of Findings to be a material weakness: 2019 – 01.

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

**New Haven City Commissioners
City of New Haven
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*
(Continued)**

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

December 11, 2019

**City of New Haven
Schedule of Findings
June 30, 2019**

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

Finding Number 2019 – 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: The Mayor will review and initial all paperwork that she oversees. Board Members will have access to all receipts and disbursements. Monthly financial reports will be provided to the Mayor and Commissioners.

Finding Number 2019 – 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 the modified accrual or accrual basis of accounting.

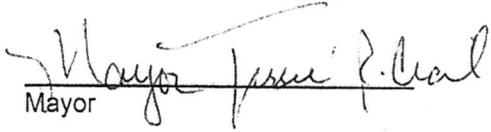
Recommendation: As with many small cities, the City engages the auditor to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the City for approval. While this practice is common and practical, we must inform those charged with governance of this finding.

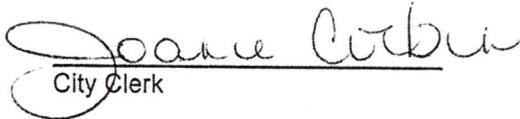
Response: Due to the complexity of the financial reporting process, the City will continue to rely on the auditor in future years to ensure the financial statements and disclosures are appropriate. Due to budget constraints we are not able to hire someone for our year end reports.

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, 2019

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