

CITY OF PROSPECT, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018



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Independent Auditor's Report

To the Mayor and Members of the City Council
City of Prospect, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Prospect, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Prospect, Kentucky'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 Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Prospect, Kentucky, as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Accounting principles generally accepted in the United States of America require that budgetary comparison information, pension schedules, and OPEB schedules on pages 36 through 48 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, on our consideration of the City of Prospect, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 of Prospect, Kentucky'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 Prospect, Kentucky's internal control over financial reporting on compliance.

Stephens & Lawson, CPAs

Louisville, Kentucky
February 11, 2019

CITY OF PROSPECT, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government
	Governmental Activities
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents (\$167,079 restricted)	\$ 1,275,290
Investments	1,039,021
Accounts Receivable	338,669
Prepaid Expenses	34,160
Total Current Assets	<u>2,687,140</u>
Non-current Assets:	
Non-Depreciable Fixed Assets	805,642
Depreciable Fixed Assets, net	1,585,971
Total Non-current Assets	<u>2,391,613</u>
Total Assets	5,078,753
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Amounts Related to Pensions	552,649
Deferred Amounts Related to OPEB	189,663
Total Deferred Outflows of Resources	<u>742,312</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 5,821,065</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 85,836
Clean Up Deposits	5,100
Total Current Liabilities	<u>90,936</u>
Long-Term Liabilities:	
Compensated Absences	59,560
Pension Obligation	1,473,669
OPEB Obligation	524,419
Total Long-Term Liabilities	<u>2,057,648</u>
Total Liabilities	2,148,584
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Amounts Related to Unavailable Revenue	28,438
Deferred Amounts Related to Pensions	277,042
Deferred Amounts Related to OPEB	30,807
Total Deferred Inflows of Resources	<u>336,287</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,391,613
Restricted for Roads	167,079
Unrestricted	<u>777,502</u>
Total Net Position	<u>3,336,194</u>
Total Liabilities, Deferred Inflows or Resources, and Net Position	<u><u>\$ 5,821,065</u></u>

See the accompanying notes to the financial statements.

**CITY OF PROSPECT, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

		Operating	Capital	Primary Government	
		Grants and	Grants and	Net (Expense)	
		Contributions	Contributions	Revenue	
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For</u> <u>Services</u>	<u>Grants and</u> <u>Contributions</u>	<u>Grants and</u> <u>Contributions</u>	<u>Primary Government</u> <u>Net (Expense)</u> <u>Revenue</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 1,282,178	\$ 20,117	\$ 8,655	\$ -	\$ (1,253,406)
Public Safety	914,879	1,366	34,651	-	(878,862)
Public Works	412,832	-	98,129	-	(314,703)
Sanitation	747,920	-	-	-	(747,920)
Community Development	138,683	-	-	-	(138,683)
Total Governmental Activities	<u>3,496,492</u>	<u>21,483</u>	<u>141,435</u>	<u>-</u>	<u>(3,333,574)</u>
 Total Primary Government	 <u>\$ 3,496,492</u>	 <u>\$ 21,483</u>	 <u>\$ 141,435</u>	 <u>\$ -</u>	 <u>\$ (3,333,574)</u>
		Primary Government			
		Governmental Activities			
 Changes in Net Assets:					
Net Expense		<u>\$ (3,333,574)</u>			
 General Revenues:					
Taxes:					
Property Taxes		\$ 1,740,127			
Utilities Taxes		4,306			
Insurance Taxes		1,272,240			
Bank Deposit Taxes		75,407			
Cable Franchise Tax		35,053			
Intergovernmental		266			
Penalties & Interest		18,399			
Interest Income		15,376			
Gain (Loss) on Fixed Asset Disposition		(5,592)			
Other Income		<u>556</u>			
Total General Revenues		<u>3,156,138</u>			
Change in Net Position		<u>(177,436)</u>			
 Net Position - July 1, 2017		 3,814,057			
Restatement of Prior Year Balances -OPEB					
Adjustments (see Note N)		<u>(332,192)</u>			
Net Position - July 1, 2017 - as restated		<u>3,481,865</u>			
Prior Period Adjustment		<u>31,765</u>			
Net Position - June 30, 2018		<u>\$ 3,336,194</u>			

See the accompanying notes to the financial statements.

CITY OF PROSPECT, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

GOVERNMENTAL FUND TYPES

	General Fund	Special Revenue Fund	Total Government Funds
ASSETS			
Cash	\$ 1,108,211	\$ 167,079	\$ 1,275,290
Investments	1,039,021	-	1,039,021
Receivables	338,669	-	338,669
Prepaid Expenses	34,160	-	34,160
Total Assets	<u>2,520,061</u>	<u>167,079</u>	<u>2,687,140</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts Payable	85,836	-	85,836
Clean Up Deposits	5,100	-	5,100
Total Liabilities	<u>90,936</u>	<u>-</u>	<u>90,936</u>
Deferred Inflows of Resources:			
Unavailable Revenue	40,745	-	40,745
Total Deferred Inflows of Resources	<u>40,745</u>	<u>-</u>	<u>40,745</u>
Fund Balances:			
Nonspendable Fund Balances	34,160	-	34,160
Restricted Fund Balances	3,360	167,079	170,439
Committed Fund Balances	1,585	-	1,585
Unassigned Fund Balances	2,349,275	-	2,349,275
Total Fund Balance	<u>2,388,380</u>	<u>167,079</u>	<u>2,555,459</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,520,061</u>	<u>\$ 167,079</u>	<u>\$ 2,687,140</u>

See the accompanying notes to the financial statements.

CITY OF PROSPECT, KENTUCKY
RECONCILIATION OF TOTAL FUND BALANCE - GOVERNMENTAL FUNDS TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Reconciliation of total fund balance - governmental funds to total net position of governmental activities:

Total Fund Balance - Governmental Funds			\$ 2,555,459
Amounts reported for governmental activities in the statement of net position are different because of the following:			
Certain property tax revenues are earned but not available and therefore are shown as unavailable revenue in the fund financial statements.			12,307
Fixed assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,713,871			2,391,613
Deferred outflows/inflows of resources related to pensions/OPEB are not reported in the fund financial statements.			
Deferred outflows of resources related to pensions	\$ 552,649		
Deferred outflows of resources related to OPEB	189,663		
Deferred inflows of resources related to pensions	(277,042)		
Deferred inflows of resources related to OPEB	<u>(30,807)</u>	434,463	
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements.			
Compensated Absences	(59,560)		
Pension Obligation	(1,473,669)		
OPEB Obligation	<u>(524,419)</u>	<u>(2,057,648)</u>	
Net Position of Governmental Activities			<u><u>\$ 3,336,194</u></u>

See the accompanying notes to the financial statements.

CITY OF PROSPECT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>GOVERNMENTAL FUND TYPES</u>		
	General Fund	Special Revenue Fund	Totals Governmental Funds
REVENUE			
Property Taxes	\$ 1,741,270	\$ -	\$ 1,741,270
Utilities Tax	4,306	-	4,306
Insurance Tax	1,272,240	-	1,272,240
Cable TV Franchise Tax	35,053	-	35,053
Bank Deposits Tax	75,407	-	75,407
Intergovernmental	34,918	94,769	129,687
License and Permits	18,477	-	18,477
Charges for Services	3,005	-	3,005
Interest Income	13,934	1,442	15,376
Penalties and Interest	18,399	-	18,399
Other Income	557	-	557
Donations	12,015	-	12,015
Total Revenue	<u>3,229,581</u>	<u>96,211</u>	<u>3,325,792</u>
EXPENDITURES			
General Government	1,127,702	-	1,127,702
Public Safety	856,191	-	856,191
Public Works	208,427	43,122	251,549
Sanitation	742,705	-	742,705
Community Development	138,683	-	138,683
Capital Outlay	91,003	-	91,003
Total Expenditures	<u>3,164,711</u>	<u>43,122</u>	<u>3,207,833</u>
Excess (Deficiency) of Revenue over Expenditures	64,870	53,089	117,959
OTHER FINANCING SOURCES (USES):			
Sale of Surplus Property	7,000	-	7,000
Total Other Financing Sources (Uses)	<u>7,000</u>	<u>-</u>	<u>7,000</u>
Net Change in Fund Balances	71,870	53,089	124,959
Fund Balances - July 1, 2017	2,284,745	113,990	2,398,735
Prior Period Adjustment	31,765	-	31,765
Fund Balances - June 30, 2018	<u>\$ 2,388,380</u>	<u>\$ 167,079</u>	<u>\$ 2,555,459</u>

See the accompanying notes to the financial statements.

CITY OF PROSPECT, KENTUCKY
RECONCILIATION OF THE NET CHANGES IN FUND BALANCE - TOTAL
GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION OF
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Reconciliation of the net changes in fund balances - total governmental funds to the change in net position of governmental activities:

Net Change in Fund Balances - Total Governmental Funds		\$ 124,959
Amounts reported for governmental activities in the statement of activities are different because of the following:		
Some property taxes and code enforcement liens will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are shown as a deferred inflow in the fund financial statements. Unavailable revenues decreased by this amount this year.		(1,143)
Pension/OPEB expense in the fund financial statements are based on amounts paid into the retirement plan during the current fiscal year. Pension/OPEB expense in the government-wide financial statements are based on the measurement date of the net pension/OPEB liability which was June 30, 2017.		
Net increase in pension expense	\$ (102,901)	
Net increase in OPEB expense	<u>(33,370)</u>	(136,271)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Outlays	91,003	
Depreciation expense	<u>(265,995)</u>	(174,992)
Since governmental activities report expenditures for capital assets in the statement of net position, when the underlying asset is sold, its book value has to be removed and is netted against any sales proceeds shown in the statement of activities.		
Reduction for basis of assets sold		(12,592)
Compensated absences are shown as a long-term obligation in the government-wide financial statements, but are not recognized as a liability in the fund financial statements, as such the change in the liability from year to year is recognized only in the statement of activities. Net decrease in compensated absences this fiscal year.		<u>22,603</u>
Change in Net Position of Governmental Activities		<u><u>\$ (177,436)</u></u>

See the accompanying notes to the financial statements.

CITY OF PROSPECT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Prospect, Kentucky (the City) is a home-rule city with a population in excess of 4,000 located in Jefferson and a small part of Oldham County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: police, sanitation, street maintenance, and community development. Primary revenue sources are property taxes, insurance taxes, bank deposit tax, and municipal road aid. Those revenues susceptible to accrual are property taxes, insurance taxes, and municipal road aid.

All significant activities and organizations on which the City of Prospect, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2018. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the City management.

After consideration of the above criteria, no additional entities are deemed to be component units of the City.

Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All activities of the City are classified as governmental activities; the City has no business-type activities.

Government-wide Financial Statements:

These financial statements display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds.

In the statement of net position, the governmental activities columns is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements - Continued

Government-wide Financial Statements - continued:

The statement of activities reports both the gross and net cost of each of the City's functions (general government, public safety, public works, etc.). The functions are also supported by general government revenues (property taxes, insurance, taxes, bank deposit tax and certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, public safety, public works, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs, by function, are normally covered by general revenue (property taxes, insurance taxes, insurance taxes and certain intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs and all interfund activity is eliminated in the government-wide financial statements.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Fund Financial Statements:

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds, except that the primary operating fund of the City, the general fund, is always considered major. Those criteria for evaluation of all other funds are as follows:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The funds of the financial reporting entity are described below:

Governmental Type Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements - Continued

Fund Financial Statements - Continued:

Governmental Type Funds - continued

General Fund - The general fund is the City's primary operating fund. It is used to account for and report all financial resources except those legally or administratively required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one such fund, the Municipal Road Aid Fund, which is used to account for state road funds that are allocated to the City by the State of Kentucky and it is considered to be a major fund.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statement of net position and the statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Measurement Focus and Basis of Accounting - Continued

Basis of Accounting - Continued

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

Encumbrances

The City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Cash and Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Investments

Investments of the primary government are valued at fair market value. Additionally, all investments of the primary government comply with the Kentucky Revised Statutes concerning the types of investments allowed.

Inventories

Disbursements for inventory type items are considered expenditures at the time of purchase.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes and insurance taxes.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, insurance tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions, collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City considers all receivables to be fully collectible; therefore, an allowance for doubtful accounts is not necessary.

Fixed Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. For financial reporting purposes, the City has decided to only capitalize individual assets with a value of \$5,000 or greater. Fixed assets are not reported on the fund financial statements.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Fixed Assets - Continued

Prior to June 30, 2003, governmental funds' infrastructure assets were not required to be capitalized by the City nor were these assets capitalized by the City. Starting on July 1, 2003 the City is required to keep a record of all infrastructure assets placed in service from that date forward.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful life using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings and Improvements	20 years
Furniture and Fixtures	5 to 10 years
Vehicles	5 years
Equipment	5 to 10 years
Infrastructure	10 to 40 years

Due to and Due From Other Funds

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Deferred Inflow/Outflow of Resources

Deferred Outflows:

The City reports decreases in net position/fund balances that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred outflows of resources reported in the government-wide financial statements consisted of contributions made to Kentucky Retirement Systems between the measurement date of the net pension/net opeb liabilities from those plans and the end of the City's fiscal year as well as other amounts related to pensions/opebs. No deferred outflows of resources affected the fund financial statements in the current fiscal year.

Deferred Inflows:

The City reports increases in net position/fund balances that related to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred inflows of resources reported in the government-wide financial statements consisted of amounts related to pension/oepb obligations and unavailable revenue (\$28,438) resulting from the receipt of tax revenues prior to the levy date. The City has two types of items which occur in the fund financial statements because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly deferred property taxes (\$12,307) are reported in the fund financials balance sheet – governmental funds as unavailable revenue as well as unavailable revenue (\$28,438) relating to revenue received prior to the levy date.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Accounts Payable

Accounts payable consist of trade payable to vendors who provide goods and services to the City.

Compensated Absences

In accordance with current accounting standards no liability for compensated absences is recorded in the fund financial statements, but a liability is recorded in the government-wide financial statements as a long-term liability. The City allows accumulation of vacation pay not to exceed 45 working days except upon completion of ten years of service at which point employees are allowed to accumulate up to 60 days which is payable on termination of employment or used by the employee. Sick pay can be accumulated carried forward year to year. Employees who leave employment in good standing shall be compensated for unused sick leave as follows:

Completed 5 years of service – 10% of unused sick leave, not to exceed 15 days.

Completed 10 years of service – 25% of unused sick leave, not to exceed 25 days.

Long-term Debt

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. Long-term debt consists of the City's share of the unfunded pension liability through its participation in CERS as well as compensated absences as previously described.

Long-term debt of governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payments of principal and interest are reported as debt service expenditures.

Equity Classifications

Government-Wide Financial Statements

The City reports the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as net position. Net position is divided into three categories defined as follows:

- a. Net Investment in Capital Assets – Consists of the historical cost of capital assets including restricted capital assets, less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position – Consist of assets that are restricted by the City's creditors (for example through debt covenants), by state enabling legislation (through restrictions on shared revenues) by grantors (both federal and state), by other contributors, or by enabling legislation.
- c. Unrestricted net position – Balance of net position not meeting the requirements of the other two categories.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Equity Classifications - Continued

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council.
- d. Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by City Council.
- e. Unassigned – All amounts not included in other spendable classification.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided for otherwise.

Property Tax Revenue

Property tax revenue is recognized when the bills become due and payable. Tax is assessed at a rate of .2125 per \$100 of assessed value for real property based on the assessment made by the Jefferson and Oldham County Property Valuation Administrators.

The City assesses property taxes each calendar year based upon an assessment date of January 1st. Bills are mailed in mid-August and are payable by October 1st of the same year. All bills paid after October 1st are considered late and charged additional fees.

Business License

The City imposes a business license on all businesses operating within the City on January 1st of a given year. The fee is based on the number of employees as follows:

0 to 5 employees -	\$ 50
6 to 10 employees -	\$100
More than 10 employees -	\$200

Insurance Tax

The City assess a tax on all insurance premiums other than life insurance on the residents of the City. The City receives payment of these taxes from the insurance carrier.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: general government, public safety, public works, and capital outlay.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the classifications and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. The City typically invests surplus cash at local banks in the form of certificates of deposit, savings accounts, and money market accounts. Presently, the City's investments consist solely of certificates of deposits held with local financial institutions.

Custodial Credit Risk – this is the risk that in the event of the failure of a counterparty (e.g., a bank) the City will not be able to recover the full value of its deposits or investments. The City does not have a formal investment policy to deal with this risk, but this City considers this risk immaterial. The City had exposure at June 30, 2018 to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	1,081,639
Uninsured and collateral held by pledging bank's trust department not in City's name	-
	<u>\$ 1,081,639</u>

Concentration of Credit Risk – this is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City has addressed this risk by purchasing investments that are secured by FDIC insurance and spreading City funds between multiple financial institutions.

Interest Rate Risk – this is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates. The City has attempted to address this risk by diversifying the investments and their maturity dates to minimize the risk of loss.

The City is party to a repurchase agreement with a local financial institution. Under this agreement, excess funds of the City are used to purchase obligations of the United States Government; these obligations are subsequently repurchased from the City for their original cost plus interest. The financial institution handles all of the activity under this agreement for the City and the City has access to all funds obligated under this agreement at any time. Statutes require that repurchase agreements be collateralized at 102% of the market value of the obligations acquired under the repurchase agreement. The City had \$1,081,639 of its funds under this agreement at June 30, 2018.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE C – RECEIVABLES

Receivables at June 30, 2018 consisted of the following:

Receivable Type	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Special Revenue Fund
Property Tax	\$ 14,131	\$ 14,131	\$ -
Insurance Tax	317,086	317,086	-
Cable TV Franchise Tax	2,928	2,928	-
KLEFPF	1,877	1,877	-
Base Court (HB413)	2,647	2,647	-
Total Receivables	<u>\$ 338,669</u>	<u>\$ 338,669</u>	<u>\$ -</u>

NOTE D – FIXED ASSETS

Fixed asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Non-depreciable Assets:				
Land	\$ 805,642	\$ -	\$ -	\$ 805,642
Total Non-depreciable Assets	<u>805,642</u>	<u>-</u>	<u>-</u>	<u>805,642</u>
Depreciable Assets:				
Police Vehicles and Equipment	326,601	40,398	31,480	335,519
Office Furniture and Fixtures	80,258	-	-	80,258
Buildings	212,559	-	-	212,559
City Hall	309,889	8,291	-	318,180
Equipment	177,926	-	-	177,926
Sprinkler	100,044	-	-	100,044
Drainage System	118,403	-	-	118,403
Infrastructure	1,839,564	42,314	-	1,881,878
City Hall Additions	1,075,075	-	-	1,075,075
Total Depreciable Assets	<u>4,240,319</u>	<u>91,003</u>	<u>31,480</u>	<u>4,299,842</u>
Total Fixed Assets	<u>5,045,961</u>	<u>91,003</u>	<u>31,480</u>	<u>5,105,484</u>

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE D – FIXED ASSETS – CONTINUED

Governmental Activities (Continued)	Beginning Balance	Additions	Retirements	Ending Balance
Accumulated Depreciation:				
Police Vehicles and Equipment	191,149	54,728	18,888	226,989
Office Furniture and Fixtures	72,443	2,667	-	75,110
Buildings	149,215	9,215	-	158,430
City Hall	300,092	1,603	-	301,695
Equipment	84,224	27,569	-	111,793
Sprinkler	100,044	-	-	100,044
Drainage System	84,213	5,921	-	90,134
Infrastructure	676,614	110,755	-	787,369
City Hall Additions	808,770	53,537	-	862,307
Total Accumulated Depreciation	2,466,764	265,995	18,888	2,713,871
Governmental Activities Fixed Assets, Net	<u>\$ 2,579,197</u>	<u>\$ (174,992)</u>	<u>\$ 12,592</u>	<u>\$ 2,391,613</u>

Depreciation expense of \$265,995 was allocated to the various functions on the statement of activities as follows:

Governmental Activities	
General Government	\$ 44,768
Public Safety	54,728
Public Works	161,284
Solid Waste	5,215
Total	<u>\$ 265,995</u>

NOTE E – CLEAN UP DEPOSITS

The City collects a deposit from each builder commencing a project with the City to cover the cost of cleanup in the event the builder fails to do so. If the builder cleans up the area satisfactorily, the deposit is refunded. At June 30, 2018 the City has \$5,100 of such deposits shown as a liability in the financial statements.

NOTE F – LONG-TERM LIABILITIES

A summary of long-term liabilities and the corresponding activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Pension Obligation	<u>\$ 82,163</u>	<u>\$ -</u>	<u>\$ 22,603</u>	<u>\$ 59,560</u>	<u>\$ -</u>

Compensated Absences

As previously discussed, compensated absences represent amounts due to employees of the City for unused vacation and sick time. Due to the nature of this obligation and the unpredictability of when an employee may use this time, no current obligation for compensated absences can be reasonably estimated.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE G – FUND BALANCES – GOVERNMENTAL FUNDS

Classifications of fund balances at June 30, 2018 are as follows:

Classification	General Fund	Special Revenue Fund
Nonspendable:		
From prepaid items	\$ 34,160	\$ -
Restricted:		
By enabling legislation for roads	-	167,079
By donor request for parks	3,360	-
Committed:		
MSD Funds for Reforestation	963	-
MSD Funds for Parks	622	-
Unassigned	2,349,275	-
Total Fund Balances	<u>\$ 2,388,380</u>	<u>\$ 167,079</u>

NOTE H - INTERGOVERNMENTAL REVENUE

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for police training and other miscellaneous operating costs during the year ended June 30, 2018 that are recorded in the General Fund.

NOTE I - EMPLOYEE RETIREMENT SYSTEM

The City has elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 696-8800, or at <https://kyret.ky.gov>. Detailed information about the plan's fiduciary net position can be found here.

Plan Description

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Cost of living adjustments (COLAs) are made at the discretion of the Kentucky General Assembly. In 2013 the General Assembly passed a new law to govern how COLAs will be granted. Language in that law states that COLAs will only be granted in the future if the KRS Board determines that the assets of the system are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA; or the General Assembly fully prefunds the COLA or directs payments of funds in the year the COLA is provided. No COLA has been granted since July 1, 2011.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Contributions

For the year ending June 30, 2018, all covered employees who began participating before September 1, 2008, Tier 1 members, are required to contribute either 5 percent (non-hazardous duty job classification) or 8 percent (hazardous duty job classification) of their annual creditable compensation to the plan. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% (allocated 14.48% for pension and 4.70% for insurance) of each employee's creditable compensation for members with nonhazardous duty job classifications or 31.55% (allocated 22.20% for pension and 9.35% for insurance).

In accordance with House Bill 1, signed by the Governor on June 27, 2008, covered employees who began participating on, or after, September 1, 2008, Tier 2 members, were required to contribute a total of 6 percent (non-hazardous duty job classification) or 9 percent (hazardous duty job classification) of their annual creditable compensation. Five percent (non-hazardous duty job classification) or 8 percent (hazardous duty job classification) of the contribution is deposited to the member's account while the other 1% was 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 30th on covered employees' accounts (regardless of duty type) at a rate of 2.5%. If a covered employee 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 5% (non-hazardous duty job classification) or 8% (hazardous duty job classification) of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, covered employees who began participating on, or after, January 1, 2014, Tier 3 members, were 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. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous duty covered employees contribute 5% of their annual creditable compensation while hazardous duty covered members contribution 8%. Both groups contribute an additional 1% of their creditable compensation to the health insurance fund which is not credited to the covered employee's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributions a set percentage of the covered employee's compensation. Each month, when employer contributions are received, an employer pay credit is deposited to the covered employee's account. A covered employee's account is credited with a 4% (non-hazardous) or 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2018, the City contributed 100% of the required contribution for both non-hazardous and hazardous duty members, which is listed below.

<u>Duty Classification</u>	<u>Total Amount Contributed</u>	<u>Allocated to CERS</u>	
		<u>Pension Fund</u>	<u>Insurance Fund</u>
Non-hazardous Duty	\$69,298	\$52,317	\$16,981
Hazardous Duty	\$51,869	\$36,497	\$15,372

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefits

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date as follows:

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 1	Participation Date	Before 09/01/2008	Before 09/01/2008
	Unreduced Retirement	27 years of service or 65 years old	Age 55 with 1 month service credit or any age and 20 years service.
	Benefit Amount	At least 4 years service, monthly benefit is 2% times final average compensation times years of service. Participation after 08/01/2004 the rate is 2.20%.	Minimum of 60 months of service, the monthly benefit is 2.5% times final average compensation times years of service.
		Less than 4 years of service monthly benefit is actuarial equivalent of 2 times member contributions plus interest.	Less than 60 months of service, monthly benefit is actuarial equivalent of 2 times member contributions plus interest.
		Final average compensation is based on member's highest 5 years of compensation.	Final average compensation is based on member's highest 3 years of compensation.
	Reduced Retirement	At least 5 years of service and 55 years old or 25 years of service and any age.	Age 50 with at least 15 years of service.
Tier 2	Participation Date	09/01/2008 to 12/31/2013	09/01/2008 to 12/31/2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.	Age 60 with minimum 5 years service or any age with minimum 25 years service.
	Benefit Amount	Monthly benefit is based upon applicable benefit multiplier (based on years of service) time final average compensation times years of service.	Monthly benefit is based upon applicable benefit multiplier (based on years of service) time final average compensation times years of service.
		Final compensation is based on member's last 5 years.	Final compensation is based on member's last 3 years.
	Reduced Retirement	At least 10 years of service and 60 years old.	Age 50 with at least 15 years of service.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefits - Continued

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 3	Participation Date	After 12/31/2013	After 12/31/2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.	Age 60 with minimum 5 years service or any age with at least 25 years of service.
	Benefit Amount	Each year member is active, a 4% employer pay credit along with the member's 5% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4% minimum rate, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.	Each year member is active, a 7.5% employer pay credit along with the member's 8% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4% minimum rate, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.
		At retirement, the account balance may be converted into an annuity based on an actuarial factor.	At retirement, the account balance may be converted into an annuity based on an actuarial factor.
	Reduced Retirement	Not applicable	Not applicable

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

For non-hazardous duty employees the post-retirement death benefit is \$5,000 in a lump sum and requires 48 months of service and to be in receipt of retirement benefits. Pre-retirement death benefits are determined based on whether the death was in the line of duty or not. The non-line of duty death benefit requires the member to be eligible for early retirement or under the age of 55, with at least 60 months of service, or at least 144 months of service if no longer actively working. The spouse of the deceased member will receive the member's retirement benefit calculated in the same manner as if the member had retired on the day of the member's death and elected a 100% joint and survivor benefit. The benefit is actuarially reduced if the member dies prior to their normal retirement age. In the case of a death in the line of duty only one month service credit is required for eligibility. The decedent's spouse will receive a \$10,000 lump sum payment plus a monthly payment of 25% of the deceased member's final monthly rate of pay. A spouse may also elect the non-line of duty death benefit. Each eligible dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefits - Continued

For hazardous duty employees the post-retirement death benefit is \$5,000 in a lump sum and requires 48 months of service and to be in receipt of retirement benefits. Pre-retirement death benefits are determined based on whether the death was in the line of duty or not. The non-line of duty death benefit requires the member to be eligible for early retirement or under the age of 55, with at least 60 months of service, or at least 144 months of service if no longer actively working. The spouse of the deceased member will receive the member's retirement benefit calculated in the same manner as if the member had retired on the day of the member's death and elected a 100% joint and survivor benefit. The benefit is actuarially reduced if the member dies prior to their normal retirement age. In the case of a death in the line of duty only one month service credit is required for eligibility. The decedent's spouse will receive a \$10,000 lump sum payment plus a monthly payment of 25% of the deceased member's final monthly rate of pay. A spouse may also elect the non-line of duty death benefit. If the beneficiary is only 1 person, and not the member's spouse, who is a dependent receiving at least 50% of their support from the member, the beneficiary may elect a lump sum payment of \$10,000. Each eligible dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children.

Disability benefits require 60 months of service except in the case of line of duty disability in which case the requirement is waived regardless of the member's classification.

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

Pension Liabilities

At June 30, 2018 the City recognized a liability of \$1,473,669 for its proportionate share of the CERS net pension liability (\$771,700 non-hazardous and \$701,969 hazardous). The City's net pension liability was measured as of June 30, 2017, as allowed by standards, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan (\$44,779 non-hazardous and \$37,393 hazardous) relative to the total contributions of all participants in the non-hazardous and hazardous retirement plans. At June 30, 2017 the City's share of the non-hazardous net pension liability was .013184% which is an increase of .000765% from the figure of .012419% in the prior period. At June 30, 2017 the City's share of the hazardous pension liability was .031376% which is a decrease of .002000% from the figure of .033375% in the prior period.

Pension Payable/Expense

At June 30, 2018 the City had paid all of its obligations owed to Kentucky Retirement Systems for both non-hazardous and hazardous duty pension withholdings as well as the City's required matching contribution for the month of June 2018.

For the year ended June 30, 2018, the City recognized pension expense of \$191,328 (\$182,064 for non-hazardous and \$9,264 for hazardous) for covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

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

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

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

Deferred Outflows/Inflows of Resources - Continued

	Non-Hazardous		Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 957	\$ 19,589	\$ 25,747	\$ -
Change of assumptions	142,400	-	140,027	-
Net difference between projected and actual earnings on plan investments	61,118	51,573	46,043	39,909
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,929	-	-	165,971
City's contributions to the plan subsequent to the measurement date	52,325	-	36,103	-
Totals	<u>\$ 304,729</u>	<u>\$ 71,162</u>	<u>\$ 247,920</u>	<u>\$ 205,880</u>

If the amounts serve to reduce pension expense in the future they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

	Non-Hazardous	Hazardous
Year 1	\$ 86,906	\$ (31,551)
Year 2	73,679	19,641
Year 3	30,566	25,506
Year 4	(9,909)	(7,659)
Year 5	-	-
Thereafter	-	-
Total	<u>\$ 181,242</u>	<u>\$ 5,937</u>

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Actuarial Assumptions

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

Inflation	2.30%
Salary Increase	3.30% to 11.55%
Investment Rate of Return	6.25% net of pension plan investment expense

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These mortality assumptions assume a margin for future mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year end, June 30, 2017. Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

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

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

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	<u>6.56%</u>

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that 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 actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

The following table presents the City's net pension liability, calculated using the discount rate of 6.25%, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) and 1 percentage point higher (7.25%) than the current rate.

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Non-Hazardous	<u>\$ 973,281</u>	<u>\$ 771,700</u>	<u>\$ 603,079</u>
Hazardous	<u>\$ 882,598</u>	<u>\$ 701,969</u>	<u>\$ 552,795</u>

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS

The City, through its participation in CERS, also participates in the Kentucky Retirement Systems' Insurance Fund (Insurance Fund) which was established to provide hospital and medical insurance for eligible members receiving benefits from various plans including CERS. Information on how to obtain information on this plan, such as the OPEB plan's fiduciary net position, is more fully discussed in Note I.

Plan Description

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other post-employment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

As more fully described in Note I, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018 the employer's contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% (allocated 14.48% for pension and 4.70% for insurance) of each non-hazardous duty employee's creditable compensation and 31.55% (allocated 22.20% for pension and 9.35% for insurance) of each hazardous duty employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the City contributed 100% of the required contribution for both non-hazardous and hazardous duty members, which is listed below.

<u>Duty Classification</u>	<u>Total Amount Contributed</u>	<u>Allocated to CERS</u>	
		<u>Pension Fund</u>	<u>Insurance Fund</u>
Non-hazardous Duty	\$69,298	\$52,317	\$16,981
Hazardous Duty	\$51,869	\$36,497	\$15,372

Insurance Benefits

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For OPEB purposes, employees are grouped into three tiers based on hire date as follows:

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Insurance Benefits - Continued

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 1	Participation Date	Before 07/01/2003	Before 07/01/2003
	Benefit Eligibility	Recipient of a retirement allowance	Recipient of a retirement allowance
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement.	Set percentage of single coverage health insurance based on service credit accrued at retirement.
	Duty Disability Retirement	100% of maximum contribution for member and dependents.	100% of maximum contribution for member and dependents.
	Duty Death in Service	Spouse & children receive 100% of the maximum contribution.	Spouse & children receive 100% of the maximum contribution.
	Non-Duty Death in Service	not applicable	If surviving spouse is in receipt of a pension allowance then eligible for continued health coverage. Percentage of premium paid by retirement system is based on member's years of hazardous service at time of death.
	Surviving Spouse of Retiree	not applicable	Surviving spouse of a retiree, who is in receipt of a pension allowance, will receive a premium subsidy based on member's years of hazardous service.
	Pre 08/01/1998 retirement	not applicable	System's contribution for spouse and dependents is based on total service.
Tier 2	Participation Date	07/01/2003 to 09/01/2008	07/01/2003 to 09/01/2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement.	Recipient of a retirement allowance with at least 120 months of service at retirement.
	Benefit	Monthly contribution of \$10 for each year of earned service increasing by 1.5% each July 1st (\$12.99 per year of service as of July 1, 2016) Surviving spouse may continue coverage (if in receipt of a retirement allowance) but is 100% responsible for premiums.	Monthly contribution of \$15 for each year of earned service increasing by 1.5% each July 1st (\$19.48 per year of service as of July 1, 2016) Surviving spouse will receive a monthly contribution of \$10 (\$12.99 as of July 1, 2016) for each year of hazardous service.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Insurance Benefits - Continued

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 2 (cont.)	Duty Disability Retirement	Benefit equal to 20 times the non-hazardous monthly contribution.	Benefit equal to 20 times the non-hazardous monthly contribution.
	Duty Death in Service	Spouse & children receive 20 times the non-hazardous monthly contribution.	Spouse & children receive 20 times the non-hazardous monthly contribution.
	Non-Duty Death in Service	not applicable	If surviving spouse is in receipt of a pension allowance then eligible for continued health coverage. Percentage of premium paid by retirement system is based on member's years of hazardous service at the time of death.
Tier 3	Participation Date	After 09/01/2008	After 09/01/2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement.	Recipient of a retirement allowance with at least 180 months of service at retirement.
	Benefit	Same as tier 2	Same as tier 2

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

At June 30, 2018 the City recognized a liability of \$524,419 for its proportionate share of the CERS net OPEB liability (\$265,043 non-hazardous and \$259,376 hazardous). The City's net OPEB liability was measured as of June 30, 2017, as allowed by standards, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's contributions to the OPEB plan (\$16,846 non-hazardous and \$13,841 hazardous) relative to the total contributions of all participants in the non-hazardous and hazardous retirement plans. At June 30, 2017 the City's share of the non-hazardous net OPEB liability was .013184% and .031376% for hazardous.

OPEB Payable/Expense

At June 30, 2018 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous OPEB withholdings and the City's required matching contribution for the month of June 2018

For the year ended June 30, 2018, the City recognized OPEB expense of \$65,560 (\$26,960 for non-hazardous and \$38,600 for hazardous) for covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

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

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

OPEB Liabilities, Pension Expense, and Deferred Outflows / Inflows of Resources Related to OPEB - Continued

Deferred Outflows/Inflows of Resources - Continued

	Non-Hazardous		Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 736	\$ -	\$ 604
Change of assumptions	57,672	-	95,673	-
Net difference between projected and actual earnings on plan investments	-	12,526	-	16,274
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	615	-	52
City's contributions to the plan subsequent to the measurement date	20,222	-	16,096	-
Totals	<u>\$ 77,894</u>	<u>\$ 13,877</u>	<u>\$ 111,769</u>	<u>\$ 16,930</u>

If the amounts serve to reduce OPEB expense in the future they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2018. This amount includes adjustments of \$3,239 for the non-hazardous implicit subsidy and \$890 for the hazardous implicit subsidy. Other amounts reported as deferred outflows / inflows will be recognized in OPEB expense as follows:

	Non-Hazardous	Hazardous
Year 1	\$ 7,536	\$ 22,772
Year 2	7,535	22,773
Year 3	7,536	22,772
Year 4	7,535	10,426
Year 5	10,667	-
Thereafter	2,986	-
Total	<u>\$ 43,795</u>	<u>\$ 78,743</u>

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions

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

Inflation	2.30%
Salary Increase	4.00%
Investment Rate of Return	6.25% net of pension plan investment expense
Healthcare Trend:	
	Pre-65: Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
	Post-65: Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These mortality assumptions assume a margin for future mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year end, June 30, 2017. Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

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

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

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	<u>6.56%</u>

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84%. For the non-hazardous group, the single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's net OPEB liability, calculated using the discount rate of 5.84%, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.84%) and 1 percentage point higher (6.84%) than the current rate.

	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
Non-Hazardous	<u>\$ 337,269</u>	<u>\$ 265,043</u>	<u>\$ 204,963</u>
	1% Decrease (4.96%)	Current Discount Rate (5.96%)	1% Increase (6.96%)
Hazardous	<u>\$ 347,593</u>	<u>\$ 259,376</u>	<u>\$ 187,191</u>

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Discount Rate - Continued

The following table presents the City's net OPEB liability, calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Non-Hazardous	<u>\$ 203,312</u>	<u>\$ 265,043</u>	<u>\$ 345,320</u>
Hazardous	<u>\$ 183,605</u>	<u>\$ 259,376</u>	<u>\$ 353,143</u>

NOTE K - LEASES

The City has entered into two leases for office equipment used by the City. These leases have cancellation provisions and are subject to annual appropriations. For the year ended June 30, 2018 expenditures under these lease agreements totaled \$10,751, including per copy charges. Future minimum payments to be made under these agreements for the fiscal years ending June 30th are: 2019 - \$7,520; 2020 - \$5,628; 2021 - \$5,628.

NOTE L - LITIGATION

The City is involved in various legal proceedings incidental to the normal course of business. City management is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecast with certainty, final disposition should not have a material effect on the financial position of the City.

NOTE M - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS

The City prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a listing of standards scheduled to be implemented, as applicable, during this fiscal year and schedule for implementation in the future.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

Pronouncements Scheduled to be Adopted in this Fiscal Year:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. This standard is intended to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions as well as improving information provided by state and local governmental employers about financial support for such benefits that is provided by other entities and is more fully discussed in Note J. This standard necessitated retroactive prior period adjustment to the City's financial statement in the amount of \$332,192 to record the opening OPEB liability and related deferred outflows of resources for contributions subsequent to the measurement date. Restatement of prior year amounts impacted by this standard is not possible as amounts are derived from actuarial valuations performed for Kentucky Retirement System and they only provided figures for the year of implementation.

GASB Statement No. 81, Irrevocable Split-Interest Agreements

The provisions of this statement are effective for fiscal years beginning after December 15, 2016 with earlier adoption encouraged. This standard is meant to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 85, Omnibus 2017

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. This standard is meant to address practice issues that have been identified during implementation and application of certain GASB Statements as they relate to a variety of topics including goodwill, fair value measurement and postemployment benefits.

GASB Statement No. 86, Certain Debt Extinguishment Issues

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. The primary objective of this standard is to improve consistency in accounting and financial reporting for in-substance defeasance of debt.

Pronouncements Scheduled to be Adopted in Future Fiscal Years:

GASB Statement No. 83, Certain Asset Retirement Obligations

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. This standard is meant address accounting and financial reporting for certain asset retirement obligations. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 84, Fiduciary Activities

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. This standards is meant to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

CITY OF PROSPECT, KENTUCKY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

Pronouncements Scheduled to be Adopted in Future Fiscal Years - Continued:

GASB Statement No. 87, Leases

The provisions of this statement are effective for fiscal years beginning after December 15, 2019. The objective of this standard is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, as well as clarifying which liabilities governments should include when disclosing information related to debt. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

The provisions of this statement are effective for fiscal years beginning after December 15, 2019 with earlier adoption encouraged. The objectives of this standard are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

NOTE O – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made to the books of the City:

Reason	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Special Revenue Fund
Understatement of prior year prepaids	\$ 31,765	\$ 31,765	\$ -
	<u>\$ 31,765</u>	<u>\$ 31,765</u>	<u>\$ -</u>

CITY OF PROSPECT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
Taxes:					
Property Taxes	\$ 1,759,000	\$ 14,558	\$ 1,773,558	\$ 1,741,270	\$ (32,288)
Utilities Tax	15,000	(10,694)	4,306	4,306	-
Insurance Tax	1,250,000	(19,887)	1,230,113	1,272,240	42,127
Cable TV Franchise Tax	35,000	43	35,043	35,053	10
Bank Deposit Taxes	65,000	10,407	75,407	75,407	-
Intergovernmental					
Base Court Revenue	10,000	(2,759)	7,241	9,848	2,607
LGEA Grants	225	(225)	-	266	266
KLEFPF	24,000	1,237	25,237	24,804	(433)
License and Permits:					
Business License	9,750	(1,500)	8,250	8,250	-
Liquor License	6,000	1,054	7,054	7,054	-
Permits	8,000	(5,226)	2,774	3,173	399
Charges for Services					
Police Fingerprinting / Reports	300	1,066	1,366	1,365	(1)
Tax Records Requests	2,500	(1,980)	520	1,640	1,120
Property Tax Penalties and Interest	-	-	-	18,399	18,399
Miscellaneous Revenue	3,500	(3,043)	457	557	100
Contributions:					
Community Contributions	10,000	(3,500)	6,500	6,500	-
Library Contributions	1,000	1,155	2,155	2,155	-
Parks Contributions	-	-	-	3,360	3,360
Interest Income	700	13,234	13,934	13,934	-
Total Revenues Before Prior Year Fund Balance	<u>3,199,975</u>	<u>(6,060)</u>	<u>3,193,915</u>	<u>3,229,581</u>	<u>35,666</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Prior Year Fund Balance	<u>3,199,975</u>	<u>(6,060)</u>	<u>3,193,915</u>	<u>3,229,581</u>	<u>35,666</u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF PROSPECT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<u>EXPENDITURES AND ENCUMBRANCES</u>					
General Government:					
Salaries and Benefits	466,216	41,579	507,795	507,277	518
Professional Services	162,650	144,098	306,748	301,376	5,372
Maintenance and Repairs	42,900	(6,596)	36,304	37,072	(768)
Travel and Training	3,000	(1,367)	1,633	1,813	(180)
Utilities	179,000	(17,472)	161,528	168,017	(6,489)
Postage	10,400	(4,172)	6,228	6,227	1
Insurance	22,545	25,068	47,613	45,260	2,353
Materials and Supplies	5,500	(1,971)	3,529	3,947	(418)
Information and Communication	37,500	(2,670)	34,830	34,830	-
Capital Outlay	69,502	(39,328)	30,174	30,174	-
Total General Government	999,213	137,169	1,136,382	1,135,993	389
Public Safety:					
Salaries and Benefits	756,966	(61,989)	694,977	695,761	(784)
KLEFPF Pay	24,000	(2,143)	21,857	21,857	-
Professional Services	4,500	(672)	3,828	3,828	-
Uniforms	6,000	(5,411)	589	4,374	(3,785)
Travel, Training, and Reimbursements	8,000	-	8,000	4,435	3,565
Insurance	78,063	664	78,727	78,416	311
Materials and Supplies	55,750	(12,932)	42,818	42,521	297
Capital Outlay	48,000	(9,603)	38,397	45,397	(7,000)
Total Public Safety	981,279	(92,086)	889,193	896,589	(7,396)
Public Works:					
Street Maintenance	10,000	(7,311)	2,689	7,634	(4,945)
Contractual Maintenance	241,083	(40,290)	200,793	200,793	-
Total Public Works	251,083	(47,601)	203,482	208,427	(4,945)
Solid Waste:					
Sanitation Service	742,000	505	742,505	742,705	(200)
Total Solid Waste	742,000	505	742,505	742,705	(200)
Community Development:					
Environmental Services	2,250	(1,254)	996	996	-
Forestation	24,050	(16,214)	7,836	7,836	-
Beautification	120,000	(25,875)	94,125	94,125	-
Library	13,600	39	13,639	13,639	-
Parks and Recreation	36,500	(554)	35,946	51,622	(15,676)
Prospect History Book	30,000	(17,521)	12,479	12,779	(300)
Total Community Development	226,400	(61,379)	165,021	180,997	(15,976)

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF PROSPECT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES AND ENCUMBRANCES - Continued</u>					
Total Expenditures	<u>3,199,975</u>	<u>(63,392)</u>	<u>3,136,583</u>	<u>3,164,711</u>	<u>(28,128)</u>
Excess of Revenue over Expenditures	-	57,332	57,332	64,870	7,538
<u>OTHER FINANCING SOURCES (USES):</u>					
Sale of Surplus Property	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>
Net Change in Fund Balance	-	57,332	57,332	71,870	14,538
Fund Balance - July 1, 2017	-	-	-	2,284,745	2,284,745
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,765</u>	<u>31,765</u>
Fund Balance - June 30, 2018	<u>\$ -</u>	<u>\$ 57,332</u>	<u>\$ 57,332</u>	<u>\$ 2,388,380</u>	<u>\$ 2,331,048</u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF PROSPECT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - MUNICIPAL ROAD AID FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
Municipal Road Aid:					
Intergovernmental Revenue	\$ 108,000	\$ (12,000)	\$ 96,000	\$ 94,769	\$ (1,231)
Interest Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,442</u>	<u>1,442</u>
Total Revenues Before Prior Year Fund Balance	<u>108,000</u>	<u>(12,000)</u>	<u>96,000</u>	<u>96,211</u>	<u>211</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>8,999</u>	<u>104,991</u>	<u>113,990</u>	<u>-</u>	<u>(113,990)</u>
Total Revenues and Prior Year Fund Balance	<u>116,999</u>	<u>92,991</u>	<u>209,990</u>	<u>96,211</u>	<u>(113,779)</u>
<u>EXPENDITURES AND ENCUMBRANCES</u>					
Public Works:					
Road Construction and Maintenance	<u>56,000</u>	<u>(8,075)</u>	<u>47,925</u>	<u>43,122</u>	<u>4,803</u>
Total Public Works	<u>56,000</u>	<u>(8,075)</u>	<u>47,925</u>	<u>43,122</u>	<u>4,803</u>
Excess (Deficiency) of Revenue over Expenditures	60,999	101,066	162,065	53,089	(108,976)
Fund Balance - July 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,990</u>	<u>113,990</u>
Fund Balance - June 30, 2018	<u>\$ 60,999</u>	<u>\$ 101,066</u>	<u>\$ 162,065</u>	<u>\$ 167,079</u>	<u>\$ 5,014</u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF PROSPECT, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON
BUDGETARY REPORTING
JUNE 30, 2018

Budgets and the Budgetary Process

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Encumbrances

As previously disclosed, the City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Reconciliation

Certain expenditures are required to be reported as capital outlay on the fund financial statements regardless of the department or function within general government that acquires the capital item. For budgetary purposes however, the City budgets for those expenditures on specific lines of the department or function from which payment will be made. Differences between the budgetary bases as reported in the required supplementary information differs from the fund financial statements in the following areas:

Budgetary Fund/Department/Line Item	Reported as Capital Outlay in the Fund Financials	
	General Fund	Special Revenue Fund
General Government:		
Maintenance and Repair		
Facilities Maintenance	\$ 30,094	\$ -
Capital Outlay		
Other Capital Outlay	33,037	-
Public Safety:		
Capital Outlay		
Police Equipment	5,900	-
New Police Vehicles	35,484	-
Public Works:		
Street Maintenance		
Paving	5,559	
Community Development:		
Parks and Recreation		
Special Projects - Other	4,195	
Structures	5,995	
Parks MSD Allocated Funds	33,287	-
	<u>\$ 153,551</u>	<u>\$ -</u>

CITY OF PROSPECT, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON
BUDGETARY REPORTING - CONTINUED
JUNE 30, 2018

Stewardship

Expenditures exceeded budget in the following departments within the general fund:

<u>Department</u>	<u>Amount Over Budget</u>
Public Safety	\$ 7,396
Public Works	\$ 4,945
Solid Waste	\$ 200
Community Development	\$ 15,976

CITY OF PROSPECT, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

<u>Year Ended June 30th</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
Non-Hazardous:					
2018	Not Available	Not Available	\$ 361,302	Not Available	Not Available
2017	0.013184%	\$ 771,700	\$ 455,908	169.27%	53.30%
2016	0.012419%	\$ 611,487	\$ 431,618	141.67%	55.50%
2015	0.011109%	\$ 477,653	\$ 277,749	171.97%	59.97%
2014	0.010346%	\$ 335,680	\$ 221,930	151.25%	66.80%
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available
Hazardous:					
2018	Not Available	Not Available	\$ 164,402	Not Available	Not Available
2017	0.031376%	\$ 701,969	\$ 172,236	407.56%	49.80%
2016	0.033375%	\$ 572,704	\$ 174,895	327.46%	53.95%
2015	0.045129%	\$ 692,773	\$ 329,672	210.14%	57.52%
2014	0.061890%	\$ 743,814	\$ 331,379	224.46%	63.46%
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

CITY OF PROSPECT, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE COUNTY
EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

<u>Year Ended June 30th</u>	<u>Contractually required contribution</u>	<u>Contribution relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
Non-Hazardous:					
2018	\$ 52,317	\$ 52,317	\$ -	\$ 361,302	14.48%
2017	\$ 63,599	\$ 63,599	\$ -	\$ 455,908	13.95%
2016	\$ 53,607	\$ 53,607	\$ -	\$ 431,618	12.42%
2015	\$ 35,413	\$ 35,413	\$ -	\$ 277,749	12.75%
2014	\$ 30,493	\$ 30,493	\$ -	\$ 221,930	13.74%
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available
Hazardous:					
2018	\$ 36,497	\$ 36,497	\$ -	\$ 164,402	22.20%
2017	\$ 37,393	\$ 37,393	\$ -	\$ 172,236	21.71%
2016	\$ 35,434	\$ 35,434	\$ -	\$ 174,895	20.26%
2015	\$ 68,341	\$ 68,341	\$ -	\$ 329,672	20.73%
2014	\$ 72,141	\$ 72,141	\$ -	\$ 331,379	21.77%
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

CITY OF PROSPECT, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – ACCOUNTING POLICIES

For purposes of determining net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B – CHANGES OF BENEFIT TERMS

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

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

NOTE C – CHANGES OF ASSUMPTIONS

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%
- The asset valuation method was changed from the 5 year smoothed method to 20% of the difference between the market value of assets and the expected actuarial value of assets.

CITY OF PROSPECT, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
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 percent
Salary increase	4.00, average including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

NOTE E – MEASUREMENT DATE

As allowed by current audit standards, CERS has used a measurement date of June 30, 2017 for reporting information to the City.

CITY OF PROSPECT, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB
LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30th	City's proportion of the net OPEB liability	City's proportionate share of the net OPEB liability (asset)	City's covered employee payroll	City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
Non-Hazardous:					
2018	Not Available	Not Available	\$ 361,302	Not Available	Not Available
2017	0.013184%	\$ 265,043	\$ 455,908	58.14%	52.40%
2016	Not Available	\$ 207,892	\$ 431,618	48.17%	Not Available
2015-2009	Not Available	Not Available	Not Available	Not Available	Not Available
Hazardous:					
2018	Not Available	Not Available	\$ 164,402	Not Available	Not Available
2017	0.031376%	\$ 259,376	\$ 172,236	150.59%	59.00%
2016	Not Available	\$ 154,987	\$ 174,895	88.62%	Not Available
2015-2009	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.

CITY OF PROSPECT, KENTUCKY
SCHEDULE OF THE CITY'S INSURANCE CONTRIBUTIONS TO THE COUNTY
EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

<u>Year ended June 30th</u>	<u>Contractually required contribution</u>	<u>Contribution relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
Non-Hazardous:					
2018	\$ 16,981	\$ 16,981	\$ -	\$ 361,302	4.70%
2017	\$ 21,565	\$ 21,565	\$ -	\$ 455,908	4.73%
2016	\$ 20,027	\$ 20,027	\$ -	\$ 431,618	4.64%
2015-2009	Not Available	Not Available	Not Available	Not Available	Not Available
Hazardous:					
2018	\$ 15,372	\$ 15,372	\$ -	\$ 164,402	9.35%
2017	\$ 16,104	\$ 16,104	\$ -	\$ 172,236	9.35%
2016	\$ 22,194	\$ 22,194	\$ -	\$ 174,895	12.69%
2015-2009	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on OPEB reporting.

CITY OF PROSPECT, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON OPEB REPORTING
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – ACCOUNTING POLICIES

For purposes of determining net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms during this period.

NOTE C – CHANGES OF ASSUMPTIONS

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.50% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary increase	2.00% average including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

Healthcare Trend Rates:

- Pre 65 – Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over 5 years.
- Post 65 – Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over 2 years.

NOTE E – MEASUREMENT DATE

As allowed by current audit standards, CERS has used a measurement date of June 30, 2017 for reporting information to the City.

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

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Mayor and City Council
City of Prospect, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Prospect, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Prospect, Kentucky's basic financial statements and have issued our report thereon dated February 11, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Prospect, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Prospect, Kentucky's Response to Findings

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

Purpose of this Report

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

Stephens & Lawson CPAs

Louisville, Kentucky
February 11, 2019

**CITY OF PROSPECT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Findings:

2018-1 *Condition:* The City does not have internal controls in place that enable it to prepare complete financial statements, including footnote disclosures, in compliance with generally accepted accounting principles

Criteria: Generally accepted accounting principles require that an entity have internal controls in place that enable it to prepare complete financial statements, including note disclosures.

Cause: The City lacks personnel with the expertise to prepare its financial statements, including note disclosures, in conformity with generally accepted accounting principles.

Effect: Management engaged the auditor to prepare draft financial statements, including related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements, or review the financial statements as drafted by the auditor, for compliance with generally accepted accounting principles.

Management's Response: Management has determined that the most efficient way to resolve this issue is to have the auditors, as allowed by their professional standards, to render assistance in the drafting of the financial statements and related notes to the financial statements.

**CITY OF PROSPECT, KENTUCKY
LIST OF CITY OFFICIALS
JUNE 30, 2018**

<u>NAME</u>	<u>POSITION</u>	<u>ADDRESS</u>	<u>TERM EXPIRES</u>
John Evans	Mayor	Prospect, KY 40059	December 31, 2018
Laura Taylor	City Administrator	Prospect, KY 40059	
Jeff Stovall	Council Member	Prospect, KY 40059	December 31, 2018
Luke Schmidt	Council Member	Prospect, KY 40059	December 31, 2018
Frank Fulcher	Council Member	Prospect, KY 40059	December 31, 2018
Sandra Leonard	Council Member	Prospect, KY 40059	December 31, 2018
Dr. Stuart Miles	Council Member	Prospect, KY 40059	December 31, 2018
Susan Nicholson	Council Member	Prospect, KY 40059	December 31, 2018

**CITY OF PROSPECT, KENTUCKY
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
FUNDS CERTIFICATION
JUNE 30, 2018**

We certify, that as part of our audit of the basic financial statements of the City of Prospect, Kentucky, that the local government economic assistance funds were expended, in all material respects, for the purpose intended.