

CITY OF DRY RIDGE, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

CITY OF DRY RIDGE, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

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CITY OF DRY RIDGE, KENTUCKY

CITY OFFICIALS

June 30, 2018

Mayor

Jim Wells

Council Members

Kenny Edmondson

Clay Crupper

James Hendy

Sara Cummins

Carisa Hughett

Ronald Maddox

Legal Counsel

Pete W. Whaley

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Council
City of Dry Ridge, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Dry Ridge, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 opinion.



-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City of Dry Ridge, Kentucky as of June 30, 2017 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Implementation of New GASB Accounting Standard

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

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–9, the budgetary comparison schedules on pages 42-43 and the pension and OPEB disclosures on pages 44-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the City of Dry Ridge, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dry Ridge, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 26, 2018

Management's Discussion and Analysis

Our discussion and analysis of the City of Dry Ridge's financial performance for the fiscal year ended June 30, 2018, is intended to compliment the formal financial statements that begin on page 10. The formal financial statements, upon which the audit firm renders their opinion, can be fairly complex. The Notes to the Financial Statements, which are in the last section of the report, must also comply with structured professional standards and can be difficult for a non-accounting professional to understand. This "management's discussion" portion is intended to assist our citizens and other stakeholders in gaining a clearer understanding of the information in the Annual Financial Reports.

OVERVIEW OF THIS ANNUAL REPORT

This Annual Report consists of:

1. The Audit Opinion, pages 2 and 3.
2. This section, Management's Discussion and Analysis.
3. Formal financial statements and supporting schedules, pages 10 thru 17.
4. Notes and supplementary information.
5. Compliance and other matters.

The City's financial statements are presented in two formats, each with a different perspective of the City's finances. Government-wide statements present the finances of the City as one complete entity, while the Fund financial statements attempt to isolate various departments or activities within the City's structure and provide greater detail. Both approaches are useful in understanding the City's financial structure.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

Government-wide financial statements provide us with the total net position of the City and the changes in them from prior periods. One can think of the City's net position—the difference between assets and liabilities—in the same way as one would calculate their personal net worth. The year-end net position of the city, its equity, can be compared to prior years to determine if the City's equity is growing or shrinking. This is an important measurement of how the City is doing financially. Of course the financial results of any entity must be evaluated in conjunction with the local economic environment and a host of non-financial factors such as, population growth, infrastructure asset conditions, new or changed government legislation, and the types and levels of services to be provided.

Both of the government-wide financial statements distinguish functions of the City of Dry Ridge that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Dry Ridge include general government, public safety, fire and EMS, highways and streets, and recreation. The business-type activities of the City of Dry Ridge include the Water and Sewer Service. The government-wide financial statements can be found on pages 10-11 of this report.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation familiar. The focus of these financial statements is on the City's various funds. The fund financial statements provide more information about the City's funds but not the City as a whole. The funds of the City of Dry Ridge can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds

The City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided funds statement that explains the relationship (or differences) between them. The City of Dry Ridge has two "governmental funds". The largest is the General Fund, which uses general revenues to provide city services and cover operating expenses. The Municipal Road Aid Fund houses grant receipts to be used only for specific purposes in accordance with Kentucky Revised Statutes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund. These basic governmental fund financial statements can be found on pages 12-14 of this report.

The City of Dry Ridge adopts an annual appropriated budget for all funds. Budgetary comparison statements have been provided for each fund to demonstrate compliance with this budget.

Proprietary funds

The City of Dry Ridge maintains one proprietary fund: the Water & Sewer Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 15-17 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2018, net position changed as follows:

	2018	2017
Beginning net position	\$ 2,814,728	\$ 2,793,105
Prior period adjustments	(708,933)	28,559
Change in net position	301,791	(6,936)
Ending net position	<u>\$ 2,407,586</u>	<u>\$ 2,814,728</u>

Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 2,941,297	\$ 2,349,339	\$ 825,928	\$ 387,116	\$ 3,767,225	\$ 2,736,455
Capital assets	1,949,721	1,540,451	1,506,016	1,582,664	3,455,737	3,123,115
Deferred outflows	1,541,571	626,409	208,914	97,160	1,750,485	723,569
Total Assets	<u>6,432,589</u>	<u>4,516,199</u>	<u>2,540,858</u>	<u>2,066,940</u>	<u>8,973,447</u>	<u>6,583,139</u>
Current liabilities	370,961	221,747	303,040	299,734	674,001	521,481
Long-term liabilities	4,577,843	2,375,693	1,019,062	871,237	5,596,905	3,246,930
Deferred inflows	259,753	-	35,202	-	294,955	-
Total Liabilities	<u>5,208,557</u>	<u>2,597,440</u>	<u>1,357,304</u>	<u>1,170,971</u>	<u>6,565,861</u>	<u>3,768,411</u>
Net Position:						
Net investment in						
capital assets	1,289,711	1,358,448	1,016,454	1,060,395	2,306,165	2,418,843
Restricted	37,436	56,309	-	-	37,436	56,309
Unrestricted	(103,115)	504,002	167,100	(164,426)	63,985	339,576
Total Net Position	<u>\$ 1,224,032</u>	<u>\$ 1,918,759</u>	<u>\$ 1,183,554</u>	<u>\$ 895,969</u>	<u>\$ 2,407,586</u>	<u>\$ 2,814,728</u>

At the end of the current fiscal year, the City of Dry Ridge is able to report positive net position balances both for the government as a whole, as well as for its separate governmental and business-type activities. The combined \$63,985 unrestricted net position balance is available to meet ongoing obligations to citizens and creditors.

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 402,930	\$ 649,869	\$ 2,141,925	\$ 1,410,877	\$ 2,544,855	\$ 2,060,746
Operating grants	138,396	65,247	-	-	138,396	65,247
Capital grants	-	149,066	-	-	-	149,066
General Revenues:						
Property taxes	500,648	522,311	-	-	500,648	522,311
Other taxes	88,153	98,132	-	-	88,153	98,132
Licenses & permits	1,706,275	1,585,673	-	-	1,706,275	1,585,673
Interest	8,582	9,150	1,545	926	10,127	10,076
Contributed assets	335,851	-	-	-	335,851	-
Miscellaneous	31,698	68,517	13,421	18,081	45,119	86,598
Total Revenues	<u>3,212,533</u>	<u>3,147,965</u>	<u>2,156,891</u>	<u>1,429,884</u>	<u>5,369,424</u>	<u>4,577,849</u>
Expenses:						
General government	382,461	380,675	-	-	382,461	380,675
IT	133,516	207,747	-	-	133,516	207,747
Police	483,737	419,500	-	-	483,737	419,500
Fire	1,662,313	1,359,110	-	-	1,662,313	1,359,110
Public works	306,561	283,105	-	-	306,561	283,105
Code enforcement	41,604	18,871	-	-	41,604	18,871
Recreation	220,516	138,319	-	-	220,516	138,319
Water & Sewer	-	-	1,806,838	1,753,940	1,806,838	1,753,940
Interest expense	10,765	5,707	19,322	17,811	30,087	23,518
Total Expenses	<u>3,241,473</u>	<u>2,813,034</u>	<u>1,826,160</u>	<u>1,771,751</u>	<u>5,067,633</u>	<u>4,584,785</u>
Increase in						
Net Position	(28,940)	334,931	330,731	(341,867)	301,791	(6,936)
Prior period adjustment	(665,787)	27,660	(43,146)	899	(708,933)	28,559
Beginning Net Position	<u>1,918,759</u>	<u>1,556,168</u>	<u>895,969</u>	<u>1,236,937</u>	<u>2,814,728</u>	<u>2,793,105</u>
Ending Net Position	<u>\$ 1,224,032</u>	<u>\$ 1,918,759</u>	<u>\$ 1,183,554</u>	<u>\$ 895,969</u>	<u>\$ 2,407,586</u>	<u>\$ 2,814,728</u>

Payroll taxes and insurance premium taxes are the primary source of income to the City and increased \$120,602 or 7.6%. Property tax decreased \$21,633; -4.1%.

The majority of the City's expenses are dedicated to Public Safety (66.2%), Public Works and Recreation (16.3%), and Administration (11.8%). Overall net expenses increased by \$428,439 (15.2%) for the fiscal year. This increase is primarily attributable to increased personnel and pension costs, depreciation and improvements related to the Ghana TIF project.

The City has a conservative budget approach and usually encounters favorable budget variances at the end of its fiscal years. 2018 General Fund revenues were \$484,754 above budgeted revenues. Expenditures were \$106,997 under budgeted expenditures; and all budget line items except general government were less than budgeted. Municipal Road Aid fund revenues also reflected a positive budget variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets were reported for the fiscal years ended as follows:

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Land	\$ 80,000	\$ 80,000	\$ 2,000	\$ 2,000
Work in progress	333,265	-		
Buildings	567,815	567,815	74,561	74,561
Utility system	-	-	4,402,454	4,300,485
Infrastructure	319,376	319,376	-	-
Improvements	440,746	371,099	-	-
Vehicles	1,510,946	1,304,427	-	-
Equipment	2,040,570	1,991,126	386,393	381,293
Furniture & fixtures	162,325	162,325	-	-
Totals	<u>\$ 5,455,043</u>	<u>\$ 4,796,168</u>	<u>\$ 4,865,408</u>	<u>\$ 4,758,339</u>

This year's net increase of \$658,875 in Governmental capital assets and \$107,069 in Business-type capital assets include:

	Governmental Activities	Business-type Activities
Park improvements	\$ 69,647	\$ -
Fire engines and equipment	226,618	-
Police vehicles and equipment	29,345	-
Work in progress - Ghana project	333,265	-
Infrastructure	-	101,969
General equipment	-	5,100
	<u>\$ 658,875</u>	<u>\$ 107,069</u>

Additional information on the City's capital assets can be found in Note E on pages 24-25.

Long-term Debt

At June 30, 2018, the City had \$1,149,572 in outstanding debt. The following is a summary of the City's debt transactions during the year ended June 30, 2018:

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Notes payable	\$ 660,011	\$ 182,003	\$ 315,662	\$ 344,869	\$ 975,673	\$ 526,872
Bonds payable	-	-	173,900	177,400	173,900	177,400
Totals	<u>\$ 660,011</u>	<u>\$ 182,003</u>	<u>\$ 489,562</u>	<u>\$ 522,269</u>	<u>\$ 1,149,573</u>	<u>\$ 704,272</u>

Additional information on the City of Dry Ridge's long-term debt can be found in Note G on pages 26-28 of this report.

PRIOR PERIOD ADJUSTMENT

The City has recorded an adjustment to the Beginning Net Position of (\$708,933) to account for the estimated net other post-employment benefits (OPEB) liability for health insurance at June 30, 2017 in accordance with Government Accounting Standards Board Statement No. 75.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2019 budget should be adequate to continue the City's delivery of high quality public service in a manner consistent with previous years. Care will be taken that all expenditures are prudent and that the City can maintain its strong financial position.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Clerk/Treasurer at 31 Broadway, Dry Ridge, Kentucky.

CITY OF DRY RIDGE, KENTUCKY STATEMENT OF NET POSITION June 30, 2018
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	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 2,183,487	\$ 454,228	\$ 2,637,715
Receivables:			
Property taxes	391,216	-	391,216
Accounts	30,743	371,700	402,443
Prepays	-	-	-
Note receivable	335,851		335,851
Capital assets:			
Capital assets not being depreciated	80,000	2,000	82,000
Other capital assets, net	1,869,721	1,504,016	3,373,737
Total Assets	4,891,018	2,331,944	7,222,962
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources, pensions and OPEB	1,541,571	208,914	1,750,485
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	6,432,589	2,540,858	8,973,447
Liabilities			
Current liabilities:			
Accounts payable	147,113	163,514	310,627
Accrued liabilities	98,284	11,688	109,972
Customer deposits	-	94,127	94,127
Due within one year	125,564	33,711	159,275
Noncurrent liabilities:			
Compensated absences	66,929	24,320	91,249
Due in more than one year	534,446	455,851	990,297
Net pension and OPEB liability	3,976,468	538,891	4,515,359
Total Liabilities	4,948,804	1,322,102	6,270,906
DEFERRED INFLOW OF RESOURCES			
Deferred inflow of resources, pensions and OPEB	259,753	35,202	294,955
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	5,208,557	1,357,304	6,565,861
Net Position			
Net investment in capital assets	1,289,711	1,016,454	2,306,165
Restricted for Municipal Road Aid	37,436	-	37,436
Unrestricted	(103,115)	167,100	63,985
Total Net Position	\$ 1,224,032	\$ 1,183,554	\$ 2,407,586

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

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Net (Expense) Revenue and Changes in Net Position					
	Primary Government					
	Program Revenues					
Functions/Programs:	Operating		Capital		Governmental	
Primary government:	Grants and	Contributions	Grants and	Contributions	Activities	Business-type
	Charges for		Contributions		Activities	Activities
	Expenses	Services				Total
Governmental activities:						
General government	\$ 382,461	\$ 1,730	\$ -	\$ -	\$ (380,731)	\$ (380,731)
Information systems	133,516	-	-	-	(133,516)	(133,516)
Police	483,737	48,226	4,224	-	(431,287)	(431,287)
Fire	1,662,313	314,481	89,975	-	(1,257,857)	(1,257,857)
Public works	306,561	6,068	44,197	-	(256,296)	(256,296)
Code enforcement	41,604	-	-	-	(41,604)	(41,604)
Recreation	220,516	32,425	-	-	(188,091)	(188,091)
Interest on long-term debt	10,765	-	-	-	(10,765)	(10,765)
Total governmental activities	3,241,473	402,930	138,396	-	(2,700,147)	(2,700,147)
Business-type activities:						
Water & sewer	1,826,160	2,141,925	-	-	-	315,765
Total Business-type activities:	1,826,160	2,141,925	-	-	-	315,765
Total primary government	\$ 5,067,633	\$ 2,544,855	\$ 138,396	\$ -	(2,700,147)	(2,384,382)
General revenues:						
Taxes:						
Property taxes					500,648	-
Other taxes					88,151	-
Licenses:						
Payroll					1,203,091	-
Insurance Premium					343,220	-
Other licenses, fees & permits					159,965	-
Contributed assets					335,851	
Miscellaneous					31,697	13,421
Interest					8,582	1,545
Total general revenues/transfers					2,671,205	14,966
Change in net position					(28,942)	330,731
Net position - beginning					1,918,759	895,969
Prior period adjustment					(665,787)	(43,146)
Net position - ending					\$ 1,224,030	\$ 1,183,554
						\$ 2,407,584

CITY OF DRY RIDGE, KENTUCKY BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2018

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,148,085	\$ 35,402	\$ 2,183,487
Taxes Receivable	391,216	-	391,216
Miscellaneous Receivable	27,230	3,513	30,743
Total Assets	<u>2,566,531</u>	<u>38,915</u>	<u>2,605,446</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	145,634	1,479	147,113
Accrued liabilities	98,284	-	98,284
Total liabilities	<u>243,918</u>	<u>1,479</u>	<u>245,397</u>
Fund balances:			
Unassigned	2,322,613	-	2,322,613
Restricted	-	37,436	37,436
Total fund balances	<u>2,322,613</u>	<u>37,436</u>	<u>2,360,049</u>
Total Liabilities and Fund Balances	<u>\$ 2,566,531</u>	<u>\$ 38,915</u>	<u>\$ 2,605,446</u>

Reconciliation of Fund Balances to the Statement of Net Position

Total Fund Balance for Governmental Funds	\$ 2,360,049
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,949,721
Long-term notes receivable are not current resources in the funds.	335,851
Long-term liabilities, including compensated absences and net pension liability, are not payable from current resources are not reported in the funds.	
Compensated absences	(66,929)
Long-term debt	(660,010)
Net pension liability	(3,976,468)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore not reportable in the funds:	
Deferred outflow of resources	1,541,571
Deferred inflow of resources	(259,753)
Net Position of Governmental Activities	<u><u>\$ 1,224,032</u></u>

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

CITY OF DRY RIDGE, KENTUCKY**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS****For the Year Ended June 30, 2018**

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Revenues			
Taxes	\$ 588,800	\$ -	\$ 588,800
Licenses and permits	1,706,276	-	1,706,276
Intergovernmental	142,425	44,197	186,622
Charges for services	354,704	-	354,704
Interest	8,427	155	8,582
Miscellaneous	31,697	-	31,697
Total Revenues	2,832,329	44,352	2,876,681
Expenditures			
General government	347,466	-	347,466
Information systems	125,674	-	125,674
Police	333,864	-	333,864
Fire	1,205,025	-	1,205,025
Public works	214,764	63,225	277,989
Parks and recreation	181,749	-	181,749
Code enforcement	33,494	-	33,494
Capital outlay	658,875	-	658,875
Debt service - Principal	92,030	-	92,030
- Interest	10,765	-	10,765
Total Expenditures	3,203,706	63,225	3,266,931
Excess of expenditures over revenues	(371,377)	(18,873)	(390,250)
Other Financing Sources			
Proceeds from loans	569,824	-	569,824
Total Other Financing Sources	569,824	-	569,824
Net change in fund balances	198,447	(18,873)	179,574
Fund balances - beginning	2,124,165	56,309	2,180,474
Fund balances - ending	\$ 2,322,612	\$ 37,436	\$ 2,360,048

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

CITY OF DRY RIDGE, KENTUCKY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$ 179,574
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Capital asset purchases capitalized	658,875
Depreciation expense	(249,605)

The issuance of long-term debt provides current financial resources for the governmental funds and thus contributes to the change in fund balance. In the statement of net position, however, proceeds from loans and subsequent repayment of the debt is reported as an adjustment to long-term liabilities.	335,851
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Principal payments on loan	92,030
Proceeds from loans	(569,824)

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

Costs of benefits earned	(472,303)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences.	<u>(3,539)</u>
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Change in net position of governmental activities	<u><u>\$ (28,941)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DRY RIDGE, KENTUCKY STATEMENT OF NET POSITION - PROPRIETARY FUND June 30, 2018

Assets
Current assets:

Cash and cash equivalents	\$ 454,228
Accounts receivable	371,700
Prepaid expenses	-

Total current assets	825,928
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Noncurrent assets:

Capital assets:

Land	2,000
Building	74,561
Utility system	4,402,454
Equipment	386,393
Less accumulated depreciation	(3,359,392)

Total noncurrent assets	1,506,016
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Total Assets	2,331,944
---------------------	------------------

Deferred outflows	208,914
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Total Assets including Deferred Outflows	2,540,858
---	------------------

Liabilities
Current liabilities:

Accounts payable	163,514
Accrued liabilities	11,688
Customer deposits	94,127
Bonds payable - current	33,711

Total current liabilities	303,040
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Noncurrent liabilities:

Compensated absences	24,320
Bonds payable	455,851
Net pension liability	538,891

Total noncurrent liabilities	1,019,062
-------------------------------------	------------------

Total Liabilities	1,322,102
--------------------------	------------------

Deferred inflows	35,202
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Total Liabilities including Deferred Inflows	1,357,304
---	------------------

Net Position

Invested in capital assets, net of related debt	1,016,454
Unrestricted	167,100

Total Net Position	\$ 1,183,554
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The accompanying notes are an integral part of these financial statements.

CITY OF DRY RIDGE, KENTUCKY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND For the Year Ended June 30, 2018
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Operating revenues:

Sewer service	\$ 1,174,202
Water service	865,515
Water station	1,881
Waste collection	76,521
Penalties	23,806
Miscellaneous	13,421

Total operating revenues	<u>2,155,346</u>
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Operating expenses:

Cost of sales and services	1,559,115
Depreciation	183,717

Total operating expenses	<u>1,742,832</u>
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Operating income	<u>412,514</u>
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Nonoperating revenues (expenses):

Interest income	1,545
Interest expense	(19,322)
Net change in share of pension expense	(64,006)

Total nonoperating revenues (expenses)	<u>(81,783)</u>
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Change in net position	330,731
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Total net position - beginning	895,969
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Prior period adjustment	<u>(43,146)</u>
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Total net position - ending	<u><u>\$ 1,183,554</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DRY RIDGE, KENTUCKY STATEMENT OF CASH FLOWS - PROPRIETARY FUND For the Year Ended June 30, 2018
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Cash Flows From Operating Activities

Receipts from customers and users	\$ 1,905,957
Payments to suppliers	(1,441,140)
Payments to employees	(125,078)

Net Change in Cash from Operating Activities	<u>339,739</u>
---	----------------

Cash Flows From Capital And Related Financing Activities

Principal paid on capital debt	(32,707)
Interest paid on capital debt	(19,322)

Net Change in Cash from Capital And Related Financing Activities	<u>(52,029)</u>
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Cash Flows From Investing Activities

Purchase of fixed assets	(107,069)
Interest income	1,545

Net Change in Cash from Investing Activities	<u>(105,524)</u>
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Net Change in Cash	182,186
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Cash - beginning of period	<u>272,042</u>
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Cash - end of period	<u><u>\$ 454,228</u></u>
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Reconciliation of Operating Income to Net Change in Cash from Operating Activities

Operating income (loss)	\$ 412,514
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	183,717
(Increase) decrease in accounts receivable	(256,627)
Increase (decrease) in accounts payable	(11,015)
Increase (decrease) in accrued liabilities	3,912
Increase (decrease) in customer deposits	7,238
Total adjustments	<u>(72,775)</u>

Net Change in Cash from Operating Activities	<u><u>\$ 339,739</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Dry Ridge, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Dry Ridge is a municipality governed by an elected Mayor and six-member City Council. As defined by GAAP, and established by GASB, the financial reporting entity consists of the primary government (The City of Dry Ridge, Kentucky as legally defined). Potential component units were considered for inclusion in the financial reporting entity. Component units are separate organizations for which the elected officials of the primary government would be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose its will is held by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. A component unit which is fiscally dependent upon the primary government even when the primary government does not have a voting majority of the component unit's board is also to be included in the statements of the primary government.

The City does not have any component units to be included in its financial report.

BASIS OF PRESENTATION***Government-Wide Financial Statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City's utility fund operations are reported as business-type activities.

The statement of activities demonstrates the degree to which direct expenses, of a given function or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The City uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The City's major governmental funds are as follows:

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Special Revenue Fund – This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains a special revenue fund for Municipal Aid funds. The Municipal Aid Fund is used to account for the receipt and disbursement of funds in accordance with Kentucky Revised Statutes for the Kentucky Municipal Road Aid Fund.

Proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges. The government reports the activities their water and sewer operations as a proprietary fund.

BASIS OF ACCOUNTING

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, license fees, interest, and other revenues associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. No allowance for doubtful accounts is required for any receivables as of June 30, 2018.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. In accordance with GASB Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for enterprise funds and business-type activities.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City. The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Banker's acceptances.
4. Commercial paper.
5. Bonds of other states or local governments.
6. Mutual funds.

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1. Property tax rates for the year ended June 30, 2018, were \$.262 per \$100 valuation for real property and \$.2030 per \$100 valuation for personal property. The assessed value of property on which the levy for 2017 was based was \$160,870,987 for real property and \$44,811,581 for personal property.

Short-Term Inter-fund Receivables/Payables

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables". The General Fund had one receivable of \$933, payable from the Proprietary Fund at June 30, 2018.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Fixed Asset Account Group. Infrastructure such as streets, traffic signals, and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the respective balance sheet.

The range of lives used for depreciation purposes for each fixed asset class is as follows:

Buildings	40 years
Public Domain Infrastructure	10-40 years
Improvements	10 years
Vehicles	7 years
Machinery & Equipment	5 years
Furniture & Fixtures	5 years

Compensated Absences

The City reports compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations and retirements. The general fund has typically been used to liquidate compensated absences as they become due and payable.

Long-term Obligations

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

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Pensions

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

Other Post-Employment Benefits – Health Insurance Plan

For purposes of measuring the net liability for other post-employment benefits – health insurance plan (OPEB), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the OPEB. For this purpose, benefit payments are recognized when due and payable. In accordance with the benefit terms. Investments are reported at fair value.

Fund Equity

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

Non-spendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form – long-term receivables and prepaid items; or (b) legally or contractually required to be maintained intact.

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

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

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

Assigned fund balance – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. The City Council has set a General Fund minimum fund balance target at 30% of expenditures and recurring transfers. No other fund balance policies exist.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned and unassigned – in order as needed. The City has no outstanding encumbrances as of June 30, 2018.

Estimates and Uncertainties

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance prior to June 1, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain taxpayer comment.
- C. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- D. The Mayor is required by Kentucky Revised Statute to present a quarterly report to the City Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council authorizes supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the department level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council; however, with proper approval by the Council, budgetary transfers between departments can be made. The Council adopted three supplementary appropriation ordinances. All appropriations lapse at fiscal year-end. Annual budgets are adopted on a basis consistent with GAAP.

Deficit net position – No funds of the City ended the fiscal year in a deficit net position.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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NOTE C – DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits – For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. As allowed by law, the depository bank must pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The City's deposit policy maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The City's bank balances are entirely insured or collateralized with securities held by the financial institution in the City's behalf, as required by state legal requirements.

As of June 30, 2018, the City had cash and cash equivalents of \$2,637,715. All cash balances not covered by FDIC insurance are fully collateralized.

Interest rate risk – In accordance with the City's investment policy, interest rate risk is minimized by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

NOTE D – NOTE RECEIVABLE

The City has recorded a receivable from the Developer of the Ghana TIF Project equal to the outstanding principal and interest drawn on loan as described in Note K. As of June 30, 2018 the note receivable is \$335,851.

NOTE E – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Retirements/ Deletions/	Balance June 30, 2018
Governmental activities:				
Land	\$ 80,000	-	\$ -	\$ 80,000
Buildings	567,815	-	-	567,815
Improvements	371,099	69,647	-	440,746
Infrastructure	319,376	-	-	319,376
Vehicles	1,304,428	206,518	-	1,510,946
Equipment	1,991,126	49,445	-	2,040,571
Furniture & fixtures	162,324	-	-	162,324
Work in progress	-	333,265	-	333,265
Subtotal	4,796,168	658,875	-	5,455,043
Accumulated depreciation:				
Buildings	(468,877)	(6,304)	-	(475,181)
Improvements	(222,832)	(19,665)	-	(242,497)
Infrastructure	(112,415)	(6,668)	-	(119,083)
Vehicles	(1,159,764)	(82,384)	-	(1,242,148)
Equipment	(1,237,203)	(107,327)	-	(1,344,530)
Furniture & fixtures	(54,626)	(27,257)	-	(81,883)
Subtotal	(3,255,717)	(249,605)	-	(3,505,322)
Net capital assets	\$ 1,540,451	\$ 409,270	\$ -	\$ 1,949,721

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 4,852
Police	40,974
Fire	161,080
Public works	14,441
Recreation	28,258
Total governmental activities depreciation expense	<u>\$ 249,605</u>

The following is a summary of changes in fixed assets in the proprietary fund:

	Balance June 30, 2017	Additions	Retirements/ Deletions	Balance June 30, 2018
Business-type activities:				
Not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Subtotal	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Other capital assets:				
Buildings	74,561	-	-	74,561
Utility system	4,300,485	101,969	-	4,402,454
Equipment	381,293	5,100	-	386,393
Subtotal	<u>4,756,339</u>	<u>107,069</u>	<u>-</u>	<u>4,863,408</u>
Accumulated depreciation:				
Buildings	(20,019)	(1,864)	-	(21,883)
Utility system	(2,839,012)	(154,206)	-	(2,993,218)
Equipment	(316,645)	(27,646)	-	(344,291)
Subtotal	<u>(3,175,676)</u>	<u>(183,716)</u>	<u>-</u>	<u>(3,359,392)</u>
Net capital assets	<u>\$ 1,582,663</u>	<u>\$ (76,647)</u>	<u>\$ -</u>	<u>\$ 1,506,016</u>

NOTE F – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE G – LONG-TERM DEBT

A summary of the changes in the long-term debt obligations is as follows:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018	Current Portion
Governmental activities -					
Heritage Bank Lease	\$ 182,003	\$ -	\$ (52,882)	\$ 129,121	\$ 54,337
Forcht Bank - Ghana Loan	-	\$ 332,824	\$ -	\$ 332,824	\$ 25,932
Forcht Bank Lease	-	237,213	(39,148)	198,065	45,295
Total governmental activities	<u>\$ 182,003</u>	<u>\$ 570,037</u>	<u>\$ (92,030)</u>	<u>\$ 660,010</u>	<u>\$ 125,564</u>
Business-type activities -					
2003 USDA Rural Dev	\$ 177,400	\$ -	\$ (3,500)	\$ 173,900	\$ 3,700
Heritage Bank Lease	32,718	-	(9,508)	23,210	9,770
Heritage Bank Lease	312,151	-	(19,669)	292,482	20,241
Total business-type activities	<u>\$ 522,269</u>	<u>\$ -</u>	<u>\$ (32,677)</u>	<u>\$ 489,592</u>	<u>\$ 33,711</u>

Heritage Bank Lease - (Governmental Activities and Business Activities)

On October 2, 2015, the City entered into a \$315,000 lease agreement with Heritage Bank for the purpose of acquiring police cruisers, an ambulance (governmental activities) and a service truck (business-type activities). The lease is secured by the vehicles, carries a fixed interest rate of 2.68% and requires a monthly principal and interest payment of \$5,621 which is pro-rated between the governmental and business-type activities. Final payment will be October 2, 2020. The remaining debt service is as follows:

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities		Total Debt Service
	Principal	Interest	Principal	Interest	
2019	\$ 54,337	\$ 2,836	\$ 9,770	\$ 510	\$ 67,453
2020	55,830	1,343	10,038	242	67,453
2021	18,954	108	3,402	18	67,453
Total	<u>\$ 129,121</u>	<u>\$ 4,287</u>	<u>\$ 23,210</u>	<u>\$ 770</u>	<u>\$ 202,359</u>

Forcht Bank – Ghana Loan – (Governmental Activities)

On June 12, 2017, the City signed a promissory note for \$430,000 to finance the capital infrastructure improvements for the Ghana TIF project described in Note K. The Note is secured by the real property included in the Ghana TIF project and requires monthly interest payments and an annual principal payment. The note carries an interest rate of 2.62% until October 2020 at which time the interest rate is converted to the Wall Street Journal Prime Rate Index less 1.4%. Final payment will be December 21, 2022. The developer for the Ghana project has in turn signed a promissory note to the City to pay the City an amount equal to the outstanding balance, principal and interest, due on the loan. At June 30, 2018 the outstanding balance on this promissory note is \$332,824 with interest payments made in the amount of \$3,027.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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The remaining debt service is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 25,000	\$ 9,235	\$ 34,235
2020	40,000	8,335	48,335
2021	50,000	7,827	57,827
2022	50,000	6,270	56,270
2023	167,824	5,874	173,698
Total	<u>\$ 332,824</u>	<u>\$ 37,541</u>	<u>\$ 370,365</u>

Forcht Bank Lease – (Governmental Activities)

On December 27, 2017, the City entered into a lease agreement with Forcht Bank for the purchase of an ambulance capitalized at a cost of \$237,213. This lease is secured by the vehicle, carries an interest rate of 2.99% and requires monthly payments of \$4,286. Final payment will be December 27, 2022. The remaining debt service is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 45,295	\$ 5,895	\$ 51,190
2020	46,676	4,514	51,190
2021	48,122	3,068	51,190
2022	49,602	1,588	51,190
2023	8,370	17,225	25,595
Total	<u>\$ 198,065</u>	<u>\$ 32,290</u>	<u>\$ 230,355</u>

Heritage Bank Lease – (Business-type Activities)

On October 2, 2015, the City entered into a \$343,800 lease agreement with Heritage Bank to fund a Project of purchasing water reading equipment and repairing water towers. The lease is secured by the Project, carries a fixed interest rate of 2.68% until October 2, 2020, then adjusts every 3 years to a rate equal to the then current year US Treasury Bill rate plus 3.00%, and requires a monthly principal and interest payment of \$2,328. Final payment will be October 2, 2030. The remaining debt service is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 20,041	\$ 7,896	\$ 27,937
2020	20,780	7,157	27,937
2021	21,370	6,567	27,937
2022	21,958	5,979	27,937
2023	22,561	5,376	27,937
2024-2028	122,451	17,236	139,687
2029-2031	63,291	1,896	65,187
Total	<u>\$ 292,452</u>	<u>\$ 52,107</u>	<u>\$ 344,559</u>

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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City of Dry Ridge Utilities System Revenue Bonds, Series 2003 – (Business-type Activities)

On September 25, 2003, the City sold \$209,000 of revenue bonds for the purpose of financing the cost of water and sewer line improvements. All bonds mature on January 1st of each year beginning in 2006 and ending in 2043. Interest is payable on January 1st and July 1st each year and principal is due in annual installments on January 1st through 2043. Revenues from the water and sewer system are pledged for collateral. The remaining debt service is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2019	\$ 3,700	\$ 6,213	\$ 9,913
2020	3,900	6,090	9,990
2021	4,100	5,961	10,061
2022	4,300	5,824	10,124
2023	4,500	5,681	10,181
2024-2028	25,900	25,814	51,714
2029-2033	33,000	20,126	53,126
2034-2038	41,700	14,173	55,873
2039-2043	52,800	5,724	58,524
Totals	<u>\$ 173,900</u>	<u>\$ 95,606</u>	<u>\$ 269,506</u>

NOTE H – EMPLOYEE RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System (Plan)

General information about the County Employees Retirement System ("CERS")

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications.

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits. *Contributions* – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	8%
Tier 2	8%
Tier 3	8%

Contributions

For non-hazardous duty employees, the City contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018. For hazardous duty employees, the City contributed 31.55%, of which 22.20% was for the pension fund and 9.35% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$53,205. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$130,272.

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

At June 30, 2018, the City reported a liability of \$3,314,388 (\$909,604 – non-hazardous and \$2,404,784 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's non-hazardous employer allocation proportion was 0.01554% of the total CERS non-hazardous duty employees and 0.107487% of the total CERS hazardous duty employees. For the year ended June 30, 2018, the City recognized pension expense of \$437,571 in addition to its \$183,477 pension contribution.

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

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 1,128	\$ (23,090)	\$ 88,205	\$ -	\$ 89,333	\$ (23,090)
Net difference between projected actual earnings on plan investments	72,040	(60,789)	157,734	(136,720)	229,774	(197,509)
Changes of assumptions	167,847	-	479,699	-	647,546	-
Changes in proportion and differences between contributions and proportionate share of contributions	50,735	-	81,751	-	132,486	-
Contributions subsequent to the measurement date	53,205	-	130,272	-	183,477	-
	<u>\$ 344,955</u>	<u>\$ (83,879)</u>	<u>\$ 937,661</u>	<u>\$ (136,720)</u>	<u>\$ 1,282,616</u>	<u>\$ (220,599)</u>

The City's contributions subsequent to the measurement date of \$183,477 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	Net
June 30,	Deferral
2019	\$ 393,168
2020	383,334
2021	139,957
2022	(37,919)
	<u>\$ 878,540</u>

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:

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

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 (1 year set-back 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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. 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.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- 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.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

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 contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 1,147,207	\$ 909,604	\$ 710,851
Hazardous	3,023,580	2,404,784	1,893,748
Total	4,170,787	3,314,388	2,604,599

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees and 9.35% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the City were \$17,269 for non-hazardous duty employees and \$54,867 for hazardous duty employees for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the City's proportion of the non-hazardous plan was .01554%, which was 0.00106% higher than the City's proportion at the previous measurement date. At June 30, 2017, the City's proportion of the hazardous plan was 0.107487%, which was 0.001117% higher than the City's proportion at the previous measurement date.

For the year ended June 30, 2018, the City recognized an OPEB expense of \$98,738. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ -	\$ (868)	\$ -	\$ (2,071)	\$ -	\$ (2,939)
Net difference between projected actual earnings on plan investments	-	(14,764)	-	(55,750)	-	(70,514)
Changes of assumptions	67,978	-	327,754	-	395,732	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(725)	-	(177)	-	(902)
Contributions subsequent to the measurement date	17,269	-	54,867	-	72,136	-
	<u>\$ 85,247</u>	<u>\$ (16,357)</u>	<u>\$ 382,621</u>	<u>\$ (57,998)</u>	<u>\$ 467,868</u>	<u>\$ (74,355)</u>

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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The City's contributions subsequent to the measurement date, \$14,417 for non-hazardous duty employees and \$27,602 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2019	\$ 86,895
2020	86,895
2021	86,895
2022	44,598
2023	12,573
Thereafter	3,523
	<u>\$ 321,379</u>

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, unless otherwise specified:

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method:	Level, percent of pay
Amortization period:	28 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%
Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare trend rates (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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

Changes of Assumptions

In 2015, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%
- For the hazardous plan, the single discount rate changed from 7.37% to 5.96%
- 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).

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the non-hazardous plan and 5.96% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following table presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.84% for the non-hazardous plan and 5.96% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.84%	5.84%	6.84%
Net OPEB liability, non-hazardous	\$ 397,521	\$ 312,407	\$ 241,579
Discount rate, hazardous	4.96%	5.96%	6.96%
Net OPEB liability, hazardous	1,190,798	888,564	641,288
Total	\$ 1,588,319	\$ 1,200,971	\$ 882,867

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

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 239,632	\$ 312,407	\$ 407,010
Net OPEB liability, hazardous	629,001	888,564	1,209,813
Total	\$ 868,633	\$ 1,200,971	\$ 1,616,823

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601

NOTE I – CONTINGENT LIABILITIES

The City is from time to time a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the government. As of June 30, 2018, the City is a defendant in four lawsuits. The first lawsuit involves a breach of contract dispute with a contractor, this claim has a potential of up to \$200,000 in damages, although the city expects a mediated settlement at a significantly lower amount. The second involves a suit against a developer, and a subsequent counterclaim, that proper improvements were not accomplish in new development. The developer argues that they are due Tax Increment Financing funds from the City to complete the work. This suit is currently in discovery. The third involves a structure that was condemned and demolished by the City. The owners claim they did not receive notice of the issues and countersued for the demolition of the structure. Mediation is scheduled for November 2018. The last case involves the City's water supplier, the City of Williamstown, arbitrarily and discriminatorily increased the rate. The City is cautiously optimistic that the likelihood of a favorable judgement is high.

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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NOTE J – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City pays an annual premium to Kentucky League of Cities Insurance Services (KLCIS) for its general and liability insurance, and workers' compensation coverage. KLCIS is self-sustaining through member premiums and will reinsure through a commercial companies for claims in excess of \$10 million for each insured event. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City's attorney estimates that the amount of actual potential claims against the City as of June 30, 2018, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past four fiscal years.

NOTE K – TAX ABATEMENTS

In accordance with GASB 77, the City must disclose tax abatements and incentives provided within the City. The City has one Tax Increment Financing (TIF) District on which tax abatements are provided to fund the cost to develop infrastructure in the City.

Ghana Project

The local participation TIF district for the Ghana Project was created in 2018 and requires the City to pay for basic infrastructure such as water, sewer, sidewalks and streets to support the project which will contain at least 2 hotels and 2 out-lot restaurants. The City has secured bank financing for this project as described in Note G. The Developer has signed an unsecured note receivable in the amount of \$335,851 with the City to pay for a portion of the cost through Tax Increment Financing. The City will apply the incremental increase in property tax and 37.5% of the payroll taxes generated by this project toward the loan balance (principal and interest), and simultaneously reduce the receivable from the Developer.

NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the City.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018
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NOTE M – FUTURE ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 87 – *Leases* – Implementation in FY 2021

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

NOTE N – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$708,720) at June 30, 2018. This adjustment accounts for the estimated net OPEB liability at June 30, 2017 and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

NOTE O – SUBSEQUENT EVENTS

The City's management has evaluated and considered the need to recognize or disclose subsequent events through November 26, 2018, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended June 30, 2017, have not been evaluated by the City's management. The City has no significant events to disclose.

CITY OF DRY RIDGE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual	Variance with Final Budget Positive (Negative)
	Original	Amendments	Final	Amounts	
Budgetary fund balance, July 1.	\$1,419,303	\$ 677,202	\$2,096,505	\$2,124,165	\$ 27,660
Resources (inflows)					
Taxes	582,300	(2,368)	579,932	588,800	8,868
Licenses and permits	1,172,300	125,103	1,297,403	1,706,276	408,873
Intergovernmental	88,250	11,549	99,799	142,425	42,626
Charges for service	607,200	(248,684)	358,516	354,704	(3,812)
Interest	4,600	3,687	8,287	8,427	140
Other income	241,520	359,603	601,123	601,522	399
Amount available for appropriation	<u>4,115,473</u>	<u>926,092</u>	<u>5,041,565</u>	<u>5,526,319</u>	<u>484,754</u>
Charges to appropriations (outflows):					
General government	341,821	609	342,430	347,466	(5,036)
Information systems	146,204	(11,324)	134,880	125,674	9,206
Police	442,935	(73,309)	369,626	363,209	6,417
Fire	1,455,666	21,096	1,476,762	1,431,643	45,119
Public works	264,514	376,862	641,376	548,029	93,347
Parks and recreation	201,795	23,146	224,941	251,396	(26,455)
Code enforcement	30,849	3,444	34,293	33,494	799
Debt service:	110,173	(23,778)	86,395	102,795	(16,400)
Total charges to appropriation	<u>2,993,957</u>	<u>316,746</u>	<u>3,310,703</u>	<u>3,203,706</u>	<u>106,997</u>
Budgetary fund balance, June 30	<u>\$1,121,516</u>	<u>\$ 609,346</u>	<u>\$1,730,862</u>	<u>\$2,322,613</u>	<u>\$ 591,751</u>

CITY OF DRY RIDGE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual	Variance with
	Original	Amendments	Final	Amounts	Final Budget
					Positive
					(Negative)
Budgetary fund balance, July 1.	\$ -	\$ 56,309	\$ 56,309	\$ 56,309	\$ -
Resources (inflows)					
Intergovernmental	42,150	-	42,150	44,197	2,047
Interest	-	-	-	155	155
Amount available for appropriation	42,150	56,309	98,459	100,661	2,202
Charges to appropriations (outflows):					
Public works	42,150	19,596	61,746	63,225	(1,479)
Total charges to appropriation	42,150	19,596	61,746	63,225	(1,479)
Budgetary fund balance, June 30	\$ -	\$ 36,713	\$ 36,713	\$ 37,436	\$ 723

CITY OF DRY RIDGE, KY

MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - NON-HAZARDOUS Last Ten Fiscal Years

	Schedule of the City's Proportionate Share of the Net Pension Liability									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.015540%	0.014480%	0.013400%	0.013110%						
Proportionate share of the net pension liability (asset)	\$ 909,604	\$ 713,052	\$ 576,130	\$ 425,329						
Covered payroll in year of measurement	\$ 384,394	\$ 325,918	\$ 296,141	\$ 301,288						
Share of the net pension liability (asset) as a percentage of its covered payroll	236.63%	218.78%	194.55%	141.17%						
Plan fiduciary net position as a percentage of total pension liability	53.30%	59.97%	59.97%	66.80%						
Schedule of the City's Contributions County Employees' Retirement System (CERS)										
Contractually required contribution	\$ 53,205	\$ 53,623	\$ 40,479	\$ 37,758	\$ 41,397					
Actual contribution	53,205	53,623	40,479	37,758	41,397					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	\$ 367,435	\$ 384,394	\$ 325,918	\$ 296,141	\$ 301,288					
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%	13.74%					

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE G in the Notes to the Financial Statements.

CITY OF DRY RIDGE, KENTUCKY
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - HAZARDOUS
Last Ten Fiscal Years

	Schedule of the City's Proportionate Share of the Net Pension Liability									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.107487%	0.106370%	0.096850%	0.093178%						
Proportionate share of the net pension liability (asset)	\$ 2,404,784	\$ 1,825,318	\$ 1,514,912	\$ 1,119,835						
Covered payroll in year of measurement	\$ 591,400	\$ 560,400	\$ 462,719	\$ 467,134						
Share of the net pension liability (asset) as a percentage of its covered payroll	406.63%	325.72%	327.39%	239.72%						
Plan fiduciary net position as a percentage of total pension liability	49.80%	53.95%	57.52%	63.46%						
Schedule of the City's Contributions										
County Employees' Retirement System (CERS)										
Contractually required contributio	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	\$ 130,272	\$ 128,393	\$ 113,537	\$ 106,194	\$ 101,695					
Actual contribution	130,272	128,393	113,537	106,194	101,695					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	\$ 586,812	\$ 591,400	\$ 560,400	\$ 462,719	\$ 467,134					
Contributions as a percentage of covered payroll	22.20%	21.71%	20.26%	22.95%	21.77%					

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE G in the Notes to

CITY OF DRY RIDGE, KY
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - NON-HAZARDOUS
Last Ten Fiscal Years

	Schedule of the City's Proportionate Share of the Net OPEB Liability									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.015540%									
Proportionate share of the net OPEB liability (asset)	\$ 312,407									
Covered payroll in year of measurement	\$ 384,394									
Share of the net OPEB liability (asset) as a percentage of its covered payroll	81.27%									
Plan fiduciary net position as a percentage of total OPEB liability	52.40%									

	Schedule of the City's Contributions									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 17,269	\$ 18,182								
Actual contribution	17,269	18,182								
Contribution deficiency (excess)	-	-								
Covered payroll	\$ 367,435	\$ 384,394								
Contributions as a percentage of covered payroll	4.70%	4.73%								

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE G in the Notes to the Financial Statements.

CITY OF DRY RIDGE, KY
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - HAZARDOUS
Last Ten Fiscal Years

	Schedule of the City's Proportionate Share of the Net OPEB Liability									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.107487%									
Proportionate share of the net OPEB liability (asset)	\$ 888,564									
Covered payroll in year of measurement	\$ 591,400									
Share of the net OPEB liability (asset) as a percentage of its covered payroll	150.25%									
Plan fiduciary net position as a percentage of total OPEB liability	59.00%									

	Schedule of the City's Contributions									
	County Employees' Retirement System (CERS)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 54,867	\$ 55,296								
Actual contribution	54,867	55,296								
Contribution deficiency (excess)	-	-								
Covered payroll	\$ 586,812	\$ 591,400								
Contributions as a percentage of covered payroll	9.35%	9.35%								

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE G in the Notes to the Financial Statements.

**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 Honorable Mayor and
Members of Council of
City of Dry Ridge, Kentucky**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Dry Ridge, Kentucky as of June 30, 2018 and the related notes to the financial statements which collectively comprise the City of Dry Ridge, Kentucky's financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Dry Ridge, 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 City of Dry Ridge, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Dry Ridge, 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dry Ridge, 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 26, 2018