

CITY OF OLIVE HILL, KENTUCKY

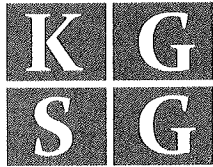
**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2019

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, and the Special Revenue Fund – Municipal Road Aid for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7, and the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 39 through 42 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 supplemental 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 January 16, 2020, on our consideration of the City of Olive Hill, 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's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 16, 2020

**City of Olive Hill, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2019**

The discussion and analysis of the City of Olive Hill, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Government exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by \$10,482,096 (net position). Governmental activities' unrestricted net position was negative \$129,827 and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was negative \$637,563.
- The Government's total net position decreased by \$583,600. Net position of governmental activities increased by \$44,115 and net position of business-type activities decreased by \$627,715.
- At June 30, 2019, the governmental activities had \$2,839,440 in assets and deferred outflows of resources and \$1,320,375 in liabilities and deferred inflows of resources. Business-type activities had \$25,701,701 in assets and deferred outflows of resources and \$16,738,670 in liabilities and deferred inflows of resources.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, and recreation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The fund financial statements can be found on pages 10-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,482,096 at the close of the most recent fiscal year. The City's net position decreased 5.27% percent which is reported as the change in net position in the statement of activities.

City of Olive Hill, Kentucky's Net Position

	<u>Government- type Activities</u> 2019	<u>Business-type Activities</u> 2019	<u>Government- type Activities</u> 2018	<u>Business-type Activities</u> 2018
Current assets	\$ 666,296	\$ 12,129,127	\$ 620,855	\$ 2,056,222
Capital assets	1,899,119	13,132,961	1,750,678	10,855,714
Total assets	<u>2,565,415</u>	<u>25,262,088</u>	<u>2,371,533</u>	<u>12,911,936</u>
Deferred Outflows	<u>274,025</u>	<u>439,613</u>	<u>236,627</u>	<u>683,463</u>
Current liabilities	280,136	2,508,570	149,183	811,057
Long-term liabilities	961,454	14,103,708	915,350	2,995,234
Total liabilities	<u>1,241,590</u>	<u>16,612,278</u>	<u>1,064,533</u>	<u>3,806,291</u>
Deferred Inflows	<u>78,785</u>	<u>126,392</u>	<u>68,677</u>	<u>198,362</u>
Net position:				
Investment in capital assets	1,648,892	9,396,594	1,608,943	9,616,248
Restricted	-	204,000	-	204,000
Unrestricted	(129,827)	(637,563)	(133,993)	(229,502)
Total net position	<u>\$ 1,519,065</u>	<u>\$ 8,963,031</u>	<u>\$ 1,474,950</u>	<u>\$ 9,590,746</u>

By far the largest portion of the City net position reflects its investment in capital assets (e.g., land, utility plants, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal year June 30, 2019 and 2018, respectively.

	<u>Government- type Activities</u> 2019	<u>Business-type Activities</u> 2019	<u>Government- type Activities</u> 2018	<u>Business-type Activities</u> 2018
Revenues:				
Charges for services	\$ -	\$ 4,856,536	\$ -	\$ 4,846,550
Tax levies	286,319	-	270,649	-
Occupational licenses	297,501	-	284,389	-
Licenses, fees and permits	14,076	-	7,961	-
Franchise fees	53,158	-	59,345	-
Grants/contributions	206,975	6,250	151,806	7,650
Rental income	78,887	-	85,660	-
Alcohol fees	99,302	-	92,304	-
Coal and mine severance	11,038	-	9,279	-
Interest income	470	1,450	236	1,207
Miscellaneous	31,636	-	47,141	-
Gain on sale of assets	15,000	-	-	-
Sanitation residual equity transfer	(27,765)	27,765	2,278	(2,278)
Transfers	-	-	-	-
Total revenues	<u>1,066,597</u>	<u>4,892,001</u>	<u>1,011,048</u>	<u>4,853,139</u>
Expenses:				
General government	154,175	-	135,812	-
Fire	75,540	-	179,279	-
Police	582,822	-	535,433	-
Highways and streets	89,324	-	71,929	-
Recreation	44,179	-	61,297	-
Community development	-	-	-	-
Library	25,000	-	18,000	-
Senior Center	12,817	-	12,817	-
Interest on debt	38,625	-	25,774	-
Utilities	-	5,519,716	-	5,032,414
Total expenses	<u>1,022,482</u>	<u>5,519,716</u>	<u>1,040,341</u>	<u>5,032,414</u>
Change in net position	<u>\$ 44,115</u>	<u>\$ (627,715)</u>	<u>\$ (29,293)</u>	<u>\$ (179,275)</u>

Government-type activity. Government-type activity net position increased by \$44,115 or 2.99%.

Business-type activity. Business-type activity net position decreased by \$627,715 or 6.55%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

Governmental funds. Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

Proprietary funds. The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

Enterprise fund. The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self-supported from user charges.

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2019, amounts to \$15,032,080 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 23.11%, before current depreciation.

The main capital asset events during the current fiscal year was the purchase of some heavy equipment, fire equipment, a bucket truck, a 2017 Chevrolet Malibu, a fire truck, a fire rescue vehicle, and a small parcel of land. In addition to these items there was also some gas pipeline, water line, and the energy project work during the year.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

Debt Administration

At the end of the current fiscal year, the City had total debt outstanding of \$12,425,057, net of discount. This is an increase of \$11,043,856. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

Budget Comparisons

- General fund revenues were \$35,266 less than budgeted primarily due to the net effect of the City budgeting for grant revenue that was not earned and collected during the year, sanitation fees being less than budgeted, and other revenues being less than budgeted. General fund expenditures were \$101,814 more than budgeted primarily due to financed capital outlay being under budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$92,188 less than budgeted. Expenditures were \$123,970 less than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

In considering the City budget for the fiscal year 2020, the City expects no significant changes, except for additional occupational license fees and alcohol license fees revenues. In addition, utility rates will be re-evaluated due to increased costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Jerry Callihan, Mayor or Chimila Hargett, City Clerk/Treasurer at 225 Roger Patton Dr., Olive Hill, Kentucky 41164 or phone (606) 286-5532.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 424,880	\$ 629,495	\$ 1,054,375
Accounts receivable:			
Unbilled receivables	-	134,805	134,805
Customers	-	855,857	855,857
Property taxes	60,714	-	60,714
Grants	40,668	-	40,668
Interest	-	153	153
Other	197,192	-	197,192
Allowance for doubtful accounts	(59,122)	(333,140)	(392,262)
Inventory for supplies	1,964	174,899	176,863
Investments - certificates of deposit	-	164,004	164,004
Restricted assets -			
Cash - bond issuance	-	10,299,054	10,299,054
Investments - certificates of deposit	-	204,000	204,000
Nondepreciable capital assets	598,619	1,870,869	2,469,488
Depreciable capital assets	3,393,937	22,504,786	25,898,723
Accumulated depreciation	(2,093,437)	(11,242,694)	(13,336,131)
Total assets	2,565,415	25,262,088	27,827,503
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB related	77,319	124,042	201,361
Deferred outflows - pension related	196,706	315,571	512,277
Total deferred outflows of resources	274,025	439,613	713,638
LIABILITIES			
Accounts payable	38,066	2,087,237	2,125,303
Accrued wages	8,816	13,353	22,169
Other accrued liabilities	71,304	19,077	90,381
Current portion of long-term debt	160,794	187,937	348,731
Customer deposits	-	199,534	199,534
Accrued interest payable	1,156	1,432	2,588
Compensated absences, long-term	20,926	37,175	58,101
Net OPEB liability	162,476	499,316	661,792
Net pension liability	688,619	1,580,324	2,268,943
Long-term debt, net of current portion (net of discounts)	89,433	11,986,893	12,076,326
Total liabilities	1,241,590	16,612,278	17,853,868
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows OPEB related	48,227	77,369	125,596
Deferred inflows - pension related	30,558	49,023	79,581
Total deferred inflows of resources	78,785	126,392	205,177
NET POSITION			
Net investment in capital assets	1,648,892	9,396,594	11,045,486
Restricted	-	204,000	204,000
Unrestricted	(129,827)	(637,563)	(767,390)
Total net position	\$ 1,519,065	\$ 8,963,031	\$ 10,482,096

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental Activities							
General government	\$ 154,175	\$ -	\$ 109,903	\$ -	\$ (44,272)	\$ -	\$ (44,272)
Fire	75,540	-	-	-	(75,540)	-	(75,540)
Police	582,822	-	65,391	-	(517,431)	-	(517,431)
Highways and streets	89,324	-	31,681	-	(57,643)	-	(57,643)
Recreation	44,179	-	-	-	(44,179)	-	(44,179)
Library	25,000	-	-	-	(25,000)	-	(25,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	38,625	-	-	-	(38,625)	-	(38,625)
Total governmental activities	<u>1,022,482</u>	<u>-</u>	<u>206,975</u>	<u>-</u>	<u>(815,507)</u>	<u>-</u>	<u>(815,507)</u>
Business-Type Activities							
Utility fund	5,519,716	4,856,536	-	6,250	-	(656,930)	(656,930)
Total business-type activities	<u>5,519,716</u>	<u>4,856,536</u>	<u>-</u>	<u>6,250</u>	<u>-</u>	<u>(656,930)</u>	<u>(656,930)</u>
Total primary government	<u>\$ 6,542,198</u>	<u>\$ 4,856,536</u>	<u>\$ 206,975</u>	<u>\$ 6,250</u>	<u>\$ (815,507)</u>	<u>\$ (656,930)</u>	<u>\$ (1,472,437)</u>
General Revenues:							
Property and other local taxes					\$ 286,319	\$ -	\$ 286,319
Occupational licenses					297,501	-	297,501
Franchise fees					53,158	-	53,158
Rent income					78,887	-	78,887
Licenses, fees and permits					14,076	-	14,076
Alcohol fees					99,302	-	99,302
Coal and mine severance					11,038	-	11,038
Other revenues					31,636	-	31,636
Gain on sale of assets					15,000	-	15,000
Interest income					470	1,450	1,920
Sanitation residual equity transfer					(27,765)	27,765	-
Transfers					-	-	-
Total general revenues and transfers					859,622	29,215	888,837
Change in net position					44,115	(627,715)	(583,600)
Net position, June 30, 2018					1,474,950	9,590,746	11,065,696
Net position, June 30, 2019					<u>\$ 1,519,065</u>	<u>\$ 8,963,031</u>	<u>\$ 10,482,096</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Municipal Road Aid	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ 301,076	\$ 123,804	\$ 424,880
Taxes receivable	60,714	-	60,714
Allowance for doubtful accounts	(59,122)	-	(59,122)
Grant receivable	40,668	-	40,668
Other receivables	197,192	-	197,192
Inventory for supplies	1,964	-	1,964
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 542,492</u>	<u>\$ 123,804</u>	<u>\$ 666,296</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 38,066	\$ -	\$ 38,066
Accrued wages	8,816	-	8,816
Accrued interest payable	1,156	-	1,156
Other accrued liabilities	71,304	-	71,304
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>119,342</u>	<u>-</u>	<u>119,342</u>
Fund Balances:			
Nonspendable	1,964	-	1,964
Assigned	-	123,804	123,804
Unassigned	421,186	-	421,186
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>423,150</u>	<u>123,804</u>	<u>546,954</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 542,492</u>	<u>\$ 123,804</u>	<u>\$ 666,296</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balance - Governmental Funds	\$	546,954
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$3,992,556 net of accumulated depreciation of \$2,093,437 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		1,899,119
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		166,148
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		29,092
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Net OPEB liabilities		(162,476)
Net pension liabilities		(688,619)
Long-term debt		(250,227)
Compensated absences		(20,926)
		1,519,065
Net position, end of year - Governmental Activities	\$	1,519,065

The accompanying notes to financial statement
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General	Municipal Road Aid	Total Governmental Funds
Revenues			
Taxes:			
Insurance	\$ 201,128	\$ -	\$ 201,128
Property	85,191	-	85,191
Occupational licenses	297,501	-	297,501
Franchise fees	53,158	-	53,158
Alcohol fees	99,302	-	99,302
Intergovernmental revenue:			
Base court	6,467	-	6,467
KLEPF	34,497	-	34,497
FADE	30,894	-	30,894
Grants	103,436	-	103,436
License, fees, & permits	14,076	-	14,076
Municipal road aid	-	31,681	31,681
Coal and mine severance	11,038	-	11,038
Pole rental	14,502	-	14,502
Rent income	64,385	-	64,385
Interest income	369	101	470
Other revenues	31,636	-	31,636
Total revenues	<u>1,047,580</u>	<u>31,782</u>	<u>1,079,362</u>
Expenditures			
General government	121,572	-	121,572
Fire	95,512	-	95,512
Police	558,509	-	558,509
Highways and streets	82,473	-	82,473
Recreation	33,922	-	33,922
Library	25,000	-	25,000
Debt service	38,625	-	38,625
Capital outlay	285,282	-	285,282
Total expenditures	<u>1,240,895</u>	<u>-</u>	<u>1,240,895</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(193,315)</u>	<u>31,782</u>	<u>(161,533)</u>
Other Financing Sources			
Loan proceeds	194,400	-	194,400
Proceeds from the sale of assets	15,000	-	15,000
Sanitation residual equity transfer	(27,765)	-	(27,765)
Transfers	-	-	-
Total other financing sources	<u>181,635</u>	<u>-</u>	<u>181,635</u>
Net change in fund balances	(11,680)	31,782	20,102
Fund balances, beginning of year	<u>434,830</u>	<u>92,022</u>	<u>526,852</u>
Fund balances, end of year	<u>\$ 423,150</u>	<u>\$ 123,804</u>	<u>\$ 546,954</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, 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, 2019

Net change in fund balances - Governmental Funds \$ 20,102

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was less than depreciation expense in the current period.

Capital outlay	285,282	
Depreciation expense	(136,841)	148,441

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions or OPEB, and investment experience.

CERS expense - pension		(34,040)
CERS contributions - pension		10,969
CERS expense - OPEB		6,943
CERS contributions - OPEB		3,548

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Bond and capital lease proceeds	(194,400)	
Bond and capital lease payments	85,908	
Change in compensated absences	(3,356)	(111,848)

Change in net position of Governmental Activities \$ 44,115

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Business Type Activities
ASSETS	
Cash and cash equivalents	\$ 629,495
Accounts receivable:	
Unbilled receivables	134,805
Customers	855,857
Interest	153
Allowance for doubtful accounts	(333,140)
Inventory for supplies	174,899
Investments - certificates of deposit	164,004
Restricted assets -	
Cash - bond issuance	10,299,054
Investment - certificates of deposit	204,000
Nondepreciable capital assets	1,870,869
Depreciable capital assets	22,504,786
Accumulated depreciation	(11,242,694)
	<u>25,262,088</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - OPEB related	124,042
Deferred outflows - pension related	315,571
Total deferred outflows of resources	<u>439,613</u>
 LIABILITIES	
Accounts payable	2,087,237
Accrued wages	13,353
Other accrued liabilities	19,077
Current portion of long-term debt	187,937
Customer deposits	199,534
Accrued interest payable	1,432
Compensated absences	37,175
Net OPEB liability	499,316
Net pension liability	1,580,324
Long-term debt, net of current portion (net of discounts)	11,986,893
	<u>16,612,278</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - OPEB related	77,369
Deferred inflows - pension related	49,023
Total deferred inflows of resources	<u>126,392</u>
 NET POSITION	
Net investment in capital assets	9,396,594
Restricted	204,000
Unrestricted	(637,563)
	<u>\$ 8,963,031</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Business Type Activities
OPERATING REVENUES	
Electric	\$ 2,811,490
Water	1,051,471
Gas	510,968
Sewer	278,753
Sanitation	203,854
Total operating revenues	4,856,536
OPERATING EXPENSES	
Electric:	
Electric purchases	2,095,786
Salaries and benefits	493,781
Contractual services	106,051
Depreciation	63,676
Materials and supplies	86,408
Other operating expenses	39,377
	2,885,079
Water:	
Water purchases	14,810
Salaries and benefits	518,551
Contractual services	238,476
Depreciation	247,361
Materials and supplies	168,401
Other operating expenses	26,459
	1,214,058
Gas:	
Gas purchases	205,777
Salaries and benefits	156,944
Contractual services	59,413
Depreciation	55,453
Materials and supplies	23,922
Other operating expenses	14,641
	516,150

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

Sewer:	
Salaries and benefits	157,422
Contractual services	131,604
Depreciation	120,536
Materials and supplies	35,445
Other operating expenses	25,131
	470,138
Sanitation:	
Salaries and benefits	101,227
Contractual services	83,210
Materials and supplies	21,452
Other operating expenses	28,008
	233,897
Total operating expenses	5,319,322
OPERATING LOSS	(462,786)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(200,001)
Amortization expense	(393)
Interest income	1,450
Capital grant revenues	-
Sanitation residual equity transfer	27,765
Total non-operating revenues (expenses)	(171,179)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(633,965)
CAPITAL CONTRIBUTIONS (TAP FEES)	6,250
DECREASE IN NET POSITION	(627,715)
NET POSITION, JUNE 30, 2018	9,590,746
NET POSITION, JUNE 30, 2019	\$ 8,963,031

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Business Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,865,867
Cash payments to suppliers for goods and services	(1,568,303)
Cash payments to employees	(1,186,407)
Net cash provided by operating activities	2,111,157
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	27,765
Net cash provided by non-capital financing activities	27,765
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,764,273)
Capital contributions	6,250
Interest income	1,450
Capital grant revenues	-
Issuance of debt	11,250,377
Principal paid on long-term debt	(315,406)
Interest paid on long-term debt	(200,001)
Net cash provided capital and related financing activities	7,978,397
Net increase in cash and cash equivalents	10,117,319
Cash and cash equivalents, June 30, 2018	1,179,234
Cash and cash equivalents, June 30, 2019	\$ 11,296,553
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (462,786)
Adjustments:	
Depreciation	487,026
Net OPEB adjustment	37,081
Net pension adjustment	198,761
Changes in assets and liabilities:	
Change in accounts receivable	16,956
Change in inventory	27,458
Change in prepaid items	-
Change in accounts payable	1,833,193
Change in accrued wages	608
Change in other accrued liabilities	(24,583)
Change in compensated absences	5,068
Change in customer deposits	(7,625)
Net cash provided by operating activities	\$ 2,111,157

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes:					
Insurance	\$ 165,000	\$ 30,450	\$ 195,450	\$ 201,128	\$ 5,678
Property	90,000	50	90,050	85,191	(4,859)
Occupational licenses	240,000	49,850	289,850	297,501	7,651
Alcohol revenue	85,000	6,250	91,250	99,302	8,052
Franchise fees	48,000	5,150	53,150	53,158	8
Intergovernmental revenues:					
Base court	4,000	2,200	6,200	6,467	267
KLEFPF	28,000	6,400	34,400	34,497	97
FADE	-	-	-	30,894	30,894
State and county fire aid	11,000	22,000	33,000	-	(33,000)
Grants	120,000	12,200	132,200	103,436	(28,764)
License, fees, & permits	8,000	(650)	7,350	14,076	6,726
Coal and mine severance	-	-	-	11,038	11,038
Pole rental	24,400	(9,900)	14,500	14,502	2
Rent income	60,000	-	60,000	64,385	4,385
Sanitation fees	220,000	2,500	222,500	203,854	(18,646)
Interest income	-	-	-	369	369
Other revenues	30,000	26,800	56,800	31,636	(25,164)
Total revenues	1,133,400	153,300	1,286,700	1,251,434	(35,266)
Expenditures					
General government	111,400	7,300	118,700	121,572	(2,872)
Fire	101,000	(5,000)	96,000	95,512	488
Police	475,000	112,000	587,000	558,509	28,491
Highways and streets	90,000	1,000	91,000	82,473	8,527
Library	25,000	-	25,000	25,000	-
Sanitation	220,000	18,000	238,000	231,619	6,381
Community development	11,000	22,000	33,000	-	33,000
Capital outlay	134,000	-	134,000	285,282	(151,282)
Debt service	-	-	-	38,625	(38,625)
Recreation	50,000	(2,000)	48,000	33,922	14,078
Total expenditures	1,217,400	153,300	1,370,700	1,472,514	(101,814)
Excess (deficiency) of revenues over (under) expenditures	(84,000)	-	(84,000)	(221,080)	(137,080)
Other Financing Sources					
Loan Proceeds	84,000	-	84,000	194,400	110,400
Proceeds from the sale of assets	-	-	-	15,000	15,000
Transfers	-	-	-	-	-
Total other financing sources	84,000	-	84,000	209,400	125,400
Net change in fund balances	-	-	-	(11,680)	(11,680)
Fund balance, beginning of year	-	-	-	434,830	434,830
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 423,150</u>	<u>\$ 423,150</u>
Adjustments to Generally Accepted Accounting Principles -					
Sanitation fees included as Proprietary Fund				(203,854)	
Sanitation expenditures included as Proprietary Fund				231,619	
Sanitation residual equity transfer				(27,765)	
Fund balance, end of year (GAAP basis)				<u>\$ 423,150</u>	

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MUNICIPAL ROAD AID
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Municipal road aid	\$ 123,970	\$ -	\$ 123,970	\$ 31,681	\$ (92,289)
Other revenues	-	-	-	101	101
Total revenues	<u>123,970</u>	<u>-</u>	<u>123,970</u>	<u>31,782</u>	<u>(92,188)</u>
Expenditures					
Highways and streets	123,970	-	123,970	-	123,970
Total expenditures	<u>123,970</u>	<u>-</u>	<u>123,970</u>	<u>-</u>	<u>123,970</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	31,782	31,782
Other financing sources (uses)					
Transfers	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	31,782	31,782
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,022</u>	<u>92,022</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,804</u>	<u>\$ 123,804</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Olive Hill (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety (police and fire), public works (street and sanitation), recreation, and utilities (water, sewer, electric, and gas). The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon these criteria, the City has no component units to be reported in these financial statements.

B. Government-Wide and Fund 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 activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are 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*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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 liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one special revenue fund: Municipal Road Aid.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for gas, water, wastewater (sewer), electric, and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budget and Budgetary Accounting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data. The budget was amended during the year ended June 30, 2019 subsequent to original adoption.

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the sanitation department is budgeted in the General Fund; however, GAAP requires that it be presented as a proprietary fund. In addition, financed insurance premiums are netted in the budget, since it is a non-cash item when financed.

E. Deposits and Investments

Investments are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

F. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

G. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	40 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-20 years
Buildings and improvements	15-50 years
Street paving	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

H. Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

J. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

K. Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

L. Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance - amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

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

M. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Proprietary Funds consider all cash and highly liquid investments, such as certificates of deposit (including restricted assets) to be cash equivalents.

N. Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Activities will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Pension and Other Post-Employment Benefits (OPEB)

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

R. Recent Accounting Pronouncements

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective

acceleration clauses. GASB 88 will be effective for the City beginning with its year ending June 30, 2019. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2021. Management is currently evaluating the impact of this Statement on its financial statements.

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2019, the City had \$11,932,549 in financial institutions, of which \$1,000,934 was insured, and \$10,932,549 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2019 are as follows:

Type of Investments	Fair Value	Cost	Interest Rate	Maturity Date
Business-type activities:				
First National Bank of Grayson:				
Certificate of deposit	\$ 100,000	\$ 100,000	0.20%	8/21/2019
Certificate of deposit	46,509	46,509	0.25	11/16/2019
Certificate of deposit	17,495	17,495	0.20	9/26/2019
	<u>\$ 164,004</u>	<u>\$ 164,004</u>		
Commercial Bank of Grayson:				
Certificate of deposit	204,000	204,000	0.20	6/19/2020
	<u>\$ 368,004</u>	<u>\$ 368,004</u>		

(3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the City.

Real property, tangible, and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2019 assessed value for real property was \$36,610,650. Assessed value of tangible property was \$4,780,510. The tax rate adopted was \$0.239 per \$100 valuation.

(4) RESTRICTED ASSETS

Reserve for Depreciation

The “Depreciation Fund” is being maintained as required by the 1980 Series bond. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$204,000 at June 30, 2019.

2019A Bond Issuance

As part of the 2019A Bond Issuance the City has \$10,299,054 in restricted cash at June 30, 2019. This restricted cash is made up of 1) Capitalized Interest Fund - \$376,581, 2) Debt Service Reserve Fund - \$424,600, and 3) Construction Funds - \$9,497,873.

(5) CAPITAL ASSETS

A summary of changes in the City’s capital assets is as follows:

<u>Governmental Activities</u>	<u>June 30,</u> <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2019</u>
Capital Assets, Not Depreciated:				
Land	\$ 521,337	\$ 5,000	\$ -	\$ 526,337
Construction in progress	-	72,282	-	72,282
Capital Assets, Depreciated:				
Buildings	1,183,274	-	-	1,183,274
Street paving and improvement	212,513	-	-	212,513
Vehicles	1,010,661	101,000	30,000	1,081,661
Machinery and equipment	593,564	107,000	-	700,564

Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	-	-	181,342
Totals	3,737,274	285,282	30,000	3,992,556
Less: Accumulated Depreciation	1,986,596	136,841	30,000	2,093,437
Governmental Activities				
Capital Assets, Net	<u>\$ 1,750,678</u>	<u>\$ 148,441</u>	<u>\$ -</u>	<u>\$ 1,899,119</u>

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 10,278	\$ -	\$ -	\$ 10,278
Construction in progress	-	1,860,591	-	1,860,591

Capital Assets, Depreciated:

Buildings	147,931	-	-	147,931
Vehicles	758,863	135,600	-	894,463
Furniture and equipment	456,905	-	-	456,905
Operating plant and distribution system	20,156,502	768,082	-	20,924,584
Improvements	80,903	-	-	80,903
Totals	21,611,382	2,764,273	-	24,375,655
Less: Accumulated Depreciation	10,755,668	487,026	-	11,242,694

Business-type Activities

Capital Assets, Net	<u>\$ 10,855,714</u>	<u>\$ 2,277,247</u>	<u>\$ -</u>	<u>\$13,132,961</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 34,718
Police	31,449
Fire	13,507
Public works	31,684
Senior center	12,817
Park	12,666
	<u>\$ 136,841</u>

Business-type activities:

Utilities	\$ 487,026
	<u>\$ 487,026</u>

(6) DEBT

Short-Term

Loan Payable

The following is a summary of changes in short-term debt of the City for the year ended June 30, 2019:

<u>Governmental Activities</u>	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019
5.0% Note payable - Due February 19, 2020				
Fire vehicles	\$ -	\$ 77,400	\$ 77,400	\$ -

This loan was paid off early with the \$110,400 loan listed below.

Long-Term

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2019:

<u>Governmental Activities</u>	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 37,781	\$ -	\$ 9,867	\$ 27,914
5.0% Note payable - Due February 19, 2027 Refinance and additional funds Fire vehicles and equipment	-	110,400	13,411	96,989
6.85% Note payable - Due August 30, 2023 Heavy equipment	-	84,000	12,914	71,086
4.0% Capital lease - Due December 19, 2018 Pierce Fire truck	10,201	-	10,201	-
2.99% Capital lease - Due November 4, 2020 2016 Kenworth Garbage Truck	63,046	-	26,482	36,564
2.45% Note payable - Due November 21, 2020 Two 2017 police cars	<u>30,707</u>	<u>-</u>	<u>13,033</u>	<u>17,674</u>
Total Governmental Activities	<u>\$ 141,735</u>	<u>\$ 271,800</u>	<u>\$ 163,308</u>	<u>\$ 250,227</u>

<u>Business-type Activities</u>	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>
Notes payable	\$ 1,131,466	\$ 775,485	\$ 207,406	\$ 1,699,545
Bonds payable	108,000	10,615,000	108,000	10,615,000
Less: Discount on bond	<u>-</u>	<u>(140,108)</u>	<u>(393)</u>	<u>(139,715)</u>
Total Business-type Activities	<u>\$ 1,239,466</u>	<u>\$ 11,250,377</u>	<u>\$ 315,013</u>	<u>\$ 12,174,830</u>

The 2019A bond issuance was sold at a discount of \$140,108. This amount is being amortized over the life of the debt.

Governmental Activities

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2019 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 160,794	\$ 4,835	\$ 165,629
2021	43,766	2,476	46,242
2022	24,604	1,393	25,997
2023	17,998	496	18,494
2024	<u>3,065</u>	<u>15</u>	<u>3,080</u>
	<u>\$ 250,227</u>	<u>\$ 9,215</u>	<u>\$ 259,442</u>

Business-Type Activities

The Utility's notes payable at June 30, 2019 consisted of the following:

The Commercial Bank of Grayson, payable in monthly installments of \$4,769, including interest of 3.75%, final payment due March 2023, unsecured.	\$ 195,719
U.S. Bank, payable in monthly installments of \$2,480, including interest of 3.71%, final payment due March 2024, collateralized by a utility bucket truck.	127,320
Kentucky Infrastructure Authority, payable in semi-annual installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.	357,143
Republic Bank & Trust Company, payable in semi-annual installments of principal with interest of 3.38%, final payment due December 2025, collateralized by service revenues.	301,850
US Bank, payable in monthly installments of \$2,370, including interest of 2.85%, final payment due November 2020, collateralized by gas meters purchased.	37,162
US Bank, payable in monthly installments of \$1,120, including interest of 2.45%, final payment due December 2019, collateralized by 2016 Ram 4500 purchased.	14,355
Kentucky Infrastructure Authority construction loan, in the amount of \$883,000 (not fully drawn at June 30, 2019), semi-annual installments of \$15,285, including interest at 0.25%, final payment due December 1, 2049 collateralized by service revenues.	639,632
FIVCO Area Development, payable in monthly installments estimated at \$1,012, including interest at 4.00%, final payment due October 15, 2021, unsecured.	<u>26,364</u>
Total Utility Fund Notes Payable	<u>\$ 1,699,545</u>

The annual requirements to amortize all Proprietary Fund notes payable, excluding revenue bonds payable outstanding as of June 30, 2019, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 187,937	\$ 26,956	\$ 214,893
2021	186,668	21,888	208,556
2022	167,909	16,756	184,665
2023	157,680	11,925	169,605
2024	108,247	8,437	116,684
2025-2029	310,693	19,675	330,368
2030-2034	223,742	9,418	233,160
2035-2039	127,293	3,787	131,080
2040-2044	108,453	2,258	110,711
2045-2049	109,816	895	110,711

2050	11,107	14	11,121
Totals	<u>\$ 1,699,545</u>	<u>\$ 122,009</u>	<u>\$ 1,821,554</u>

The following is a summary of the long-term bond transactions of the City of Olive Hill's business-type activities for the year ended June 30, 2019:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2018	\$ 108,000
Bonds Issued	10,615,000
Bonds Retired	(108,000)
Bonds Payable - June 30, 2019	<u>\$ 10,615,000</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:

\$10,615,000 Utilities Revenue Bonds, 2019A series, maturing through January 1, 2049, with interest of 2.50% to 3.25%	<u>\$ 10,615,000</u>
Total Utility Fund Bonds Payable	<u>\$ 10,615,000</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance, the Series 2019A Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2019 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2019, including interest payments are as follows:

Year	Principal	Interest	Total
2020	\$ -	\$ 213,637	\$ 213,637
2021	20,000	325,888	345,888
2022	40,000	325,388	365,388
2023	50,000	324,388	374,388
2024	55,000	323,138	378,138
2025-2029	465,000	1,586,463	2,051,463
2030-2034	1,075,000	1,484,613	2,559,613
2035-2039	2,160,000	1,263,813	3,423,813
2040-2044	3,080,000	875,463	3,955,463
2045-2049	3,670,000	364,309	4,034,309
Totals	<u>\$ 10,615,000</u>	<u>\$ 7,087,100</u>	<u>\$ 17,702,100</u>

(7) CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. Two of the lawsuits relate to flood damages, three allege injury, and one is related to an easement dispute. It is anticipated that any liability will be covered by insurance for these three lawsuits.

In addition, the City is a defendant in a class action lawsuit alleging violation of the Kentucky Constitution by applying increases to the electric utility rates without public notice. The City's insurer has filed an action to determine coverage of this claim. The ultimate outcome of this matter cannot be determined at this time.

The City intends to aggressively defend all of the lawsuits; however, an adverse decision in one or more of such matters could have a material adverse effect on the financial position of the City.

The City had construction commitments related to the downtown water line project in the amount of \$243,418 and related to the energy savings project in the amount of \$8,754,409 at June 30, 2019.

(8) RISK MANAGEMENT

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(9) PENSION PLAN

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2019, employers were required to contribute 21.48% (16.22% - pension, 5.26% insurance) of the member's salary. During the year ending June 30, 2019, the City contributed \$163,678 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the City's proportion was 0.037255%.

For the year ended June 30, 2019, the City recognized pension expense of \$385,510. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 74,007	\$ 33,213
Changes of assumptions	221,742	-
Net difference between projected and actual earnings on investments	-	27,205
Changes in proportion and differences between City contributions and proportionate share of contributions	52,850	19,163
City contributions subsequent to the measurement date	163,678	-
	<u>\$ 512,277</u>	<u>\$ 79,581</u>

The \$163,678 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	
2020	\$ 196,042
2021	103,042
2022	(17,889)
2023	(12,177)
	<u>\$ 269,018</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, closed
Payroll growth	2.00%
Asset Valuation Method	5-year smoothed market
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one 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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	6.09%

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 benefit payments to determine the total pension liability.

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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
City's proportionate share of the net pension liability	\$ 2,856,364	\$ 2,268,943	\$ 1,776,787

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2019, there was a payable to the CERS Pension Plan of \$12,729.

(10) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS

County Employees Retirement System

Plan description: The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2019, CERS allocated 5.26% of the 21.48%

actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2019, the City contributed \$53,085 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At June 30, 2019, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the City's proportion was 0.037274%.

For the year ended June 30, 2019, the City recognized OPEB expense of \$87,573, including an implicit subsidy of \$7,898. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 77,123
Changes of assumptions	132,170	1,529
Net difference between projected and actual earnings on investments	-	45,585
Changes in proportion and differences between City contributions and proportionate share of contributions	16,106	1,359
City contributions subsequent to the measurement date	53,085	-
	<u>\$ 201,361</u>	<u>\$ 125,596</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$53,085 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

Year	
2020	\$ 5,076
2021	5,076

2022	5,076
2023	13,930
2024	(3,035)
Thereafter	(3,443)
	<u>\$ 22,680</u>

Actuarial Methods and Assumptions: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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

The 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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	<u>1% Decrease (4.85%)</u>	<u>Current discount rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
City's proportionate share of the net OPEB liability	\$ 859,562	\$ 661,792	\$ 493,329

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates: The following presents the City's proportionate share of the

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

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>trend rate</u>	<u>1%</u> <u>Increase</u>
City's proportionate share of the net OPEB liability	\$ 492,711	\$ 661,792	\$ 861,091

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the OPEB plan: At June 30, 2019, there was a payable to the CERS OPEB Plan of \$4,128.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF OLIVE HILL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:					
City's proportionate share of the net pension liability	0.037255%	0.035949%	0.037070%	0.035392%	0.036007%
City's proportionate share of the net pension liability	\$ 2,268,943	\$ 2,104,205	\$ 1,825,263	\$ 1,521,681	\$ 1,168,000
City's covered-employee payroll	\$ 933,094	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	243.163%	228.664%	199.565%	176.905%	141.387%
Plan fiduciary net position as a percentage of the total pension liability	53.540%	53.300%	55.500%	59.970%	66.800%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:					
City's proportionate share of the net pension liability	0.037274%	0.035949%			
City's proportionate share of the net pension liability	\$ 661,792	\$ 722,698			
City's covered-employee payroll	\$ 933,094	\$ 920,215			
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.924%	78.536%			
Plan fiduciary net position as a percentage of the total pension liability	57.600%	52.400%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018	2017	2016	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:						
Contractually required contribution	\$ 163,678	\$ 135,112	\$ 128,370	\$ 113,596	\$ 109,672	\$ 113,506
Contributions in relation to the contractually required contribution	<u>163,678</u>	<u>135,112</u>	<u>128,370</u>	<u>113,596</u>	<u>109,672</u>	<u>113,506</u>
Contribution deficiency (excess)	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,009,112	\$ 933,094	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:						
Contractually required contribution	\$ 53,085	\$ 43,844	\$ 43,523			
Contributions in relation to the contractually required contribution	<u>53,085</u>	<u>43,844</u>	<u>43,523</u>			
Contribution deficiency (excess)	-	-	-			
City's covered-employee payroll	\$ 1,009,112	\$ 933,094	\$ 920,215			
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	5.26%	4.70%	4.73%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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

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

The were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

CERS – Insurance Fund

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS - PENSION

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

CERS – Insurance Fund

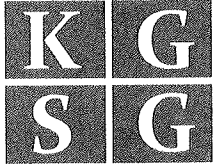
The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2018:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare 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.
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.

(3) CHANGES OF BENEFITS

CERS

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



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**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**

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, 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 Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 16, 2020.

Internal Control Over Financial Reporting

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

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

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. 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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 City'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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 16, 2020

CITY OF OLIVE HILL, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2020

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, and the Special Revenue Fund – Municipal Road Aid for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 35 through 39 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 supplemental 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 July 15, 2024, on our consideration of the City of Olive Hill, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.


Ashland, Kentucky
July 15, 2024

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 330,132	\$ 776,803	\$ 1,106,935
Accounts receivable:			
Unbilled receivables	-	137,463	137,463
Customers	-	562,339	562,339
Property taxes	62,720	-	62,720
Other	163,292	-	163,292
Allowance for doubtful accounts	(60,985)	(54,298)	(115,283)
Inventory for supplies	-	220,245	220,245
Investments - certificates of deposit	-	164,484	164,484
Restricted assets -			
Cash - bond issuance	-	6,534,429	6,534,429
Nondepreciable capital assets	598,619	3,871,892	4,470,511
Depreciable capital assets	3,718,580	22,637,579	26,356,159
Accumulated depreciation	(2,196,093)	(11,843,843)	(14,039,936)
 Total assets	 <u>2,616,265</u>	 <u>23,007,093</u>	 <u>25,623,358</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB related	96,381	199,687	296,068
Deferred outflows - pension related	223,733	463,544	687,277
Total deferred outflows of resources	<u>320,114</u>	<u>663,231</u>	<u>983,345</u>
LIABILITIES			
Accounts payable	36,885	49,530	86,415
Accrued wages	10,241	20,611	30,852
Other accrued liabilities	684	18,163	18,847
Current portion of long-term debt	62,827	201,616	264,443
Customer deposits	-	224,519	224,519
Accrued interest payable	8,569	28,996	37,565
Compensated absences, long-term	15,582	36,030	51,612
Net OPEB liability	217,914	451,487	669,401
Net pension liability	911,431	1,888,354	2,799,785
Long-term debt, net of current portion (net of discounts)	405,793	12,024,868	12,430,661
 Total liabilities	 <u>1,669,926</u>	 <u>14,944,174</u>	 <u>16,614,100</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB related	76,199	157,873	234,072
Deferred inflows - pension related	20,623	42,729	63,352
Total deferred inflows of resources	<u>96,822</u>	<u>200,602</u>	<u>297,424</u>
NET POSITION			
Net investment in capital assets	1,652,486	8,973,573	10,626,059
Restricted	-	-	-
Unrestricted	(482,855)	(448,025)	(930,880)
 Total net position	 <u>\$ 1,169,631</u>	 <u>\$ 8,525,548</u>	 <u>\$ 9,695,179</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 348,074	\$ -	\$ 56,862	\$ -	\$ (291,212)	\$ -	\$ (291,212)
Fire	141,753	-	22,000	-	(119,753)	-	(119,753)
Police	830,718	-	60,728	-	(769,990)	-	(769,990)
Highways and streets	147,086	-	31,737	-	(115,349)	-	(115,349)
Recreation	39,445	-	-	-	(39,445)	-	(39,445)
Library	25,000	-	-	-	(25,000)	-	(25,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	3,479	-	-	-	(3,479)	-	(3,479)
Total governmental activities	1,548,372	-	171,327	-	(1,377,045)	-	(1,377,045)
Business-Type Activities							
Utility fund	5,224,326	4,764,310	-	3,525	-	(456,491)	(456,491)
Total business-type activities	5,224,326	4,764,310	-	3,525	-	(456,491)	(456,491)
Total primary government	\$ 6,772,698	\$ 4,764,310	\$ 171,327	\$ 3,525	(1,377,045)	(456,491)	(1,833,536)
General Revenues:							
Property and other local taxes					324,440	-	324,440
Occupational licenses					287,076	-	287,076
Franchise fees					51,050	-	51,050
Rent income					80,108	-	80,108
Licenses, fees and permits					7,709	-	7,709
Alcohol fees					123,672	-	123,672
Coal and mine severance					12,000	-	12,000
Other revenues					28,544	-	28,544
Gain on sale of assets					23,166	-	23,166
Interest income					962	107,892	108,854
Transfers					88,884	(88,884)	-
Total general revenues and transfers					1,027,611	19,008	1,046,619
Change in net position					(349,434)	(437,483)	(786,917)
Net position, June 30, 2019					1,519,065	8,963,031	10,482,096
Net position, June 30, 2020					\$ 1,169,631	\$ 8,525,548	\$ 9,695,179

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General	Municipal Road Aid	Total Governmental Funds
Assets			
Cash	\$ 174,443	\$ 155,689	\$ 330,132
Taxes receivable	62,720	-	62,720
Allowance for doubtful accounts	(60,985)	-	(60,985)
Other receivables	163,292	-	163,292
Total assets	\$ 339,470	\$ 155,689	\$ 495,159
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 36,885	\$ -	\$ 36,885
Accrued wages	10,241	-	10,241
Accrued interest payable	8,569	-	8,569
Other accrued liabilities	684	-	684
Total liabilities	56,379	-	56,379
Fund Balances:			
Nonspendable	-	-	-
Assigned	-	155,689	155,689
Unassigned	283,091	-	283,091
Total fund balances	283,091	155,689	438,780
Total liabilities and fund balances	\$ 339,470	\$ 155,689	\$ 495,159

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balance - Governmental Funds	\$	438,780
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$4,317,199 net of accumulated depreciation of \$2,196,093 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		2,121,106
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		203,110
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		20,182
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Net OPEB liabilities		(217,914)
Net pension liabilities		(911,431)
Long-term debt		(468,620)
Compensated absences		(15,582)
		1,169,631
Net position, end of year - Governmental Activities	\$	1,169,631

The accompanying notes to financial statement
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General	Municipal Road Aid	Total Governmental Funds
Revenues			
Taxes:			
Insurance	\$ 223,812	\$ -	\$ 223,812
Property	100,628	-	100,628
Occupational licenses	287,076	-	287,076
Franchise fees	51,050	-	51,050
Alcohol fees	123,672	-	123,672
Intergovernmental revenue:			
Base court	6,376	-	6,376
KLEPF	34,510	-	34,510
FADE	26,218	-	26,218
State fire aid	22,000	-	22,000
Grants	50,486	-	50,486
License, fees, & permits	7,709	-	7,709
Municipal road aid	-	31,737	31,737
Coal and mine severance	12,000	-	12,000
Pole rental	14,502	-	14,502
Rent income	65,606	-	65,606
Interest income	814	148	962
Other revenues	28,544	-	28,544
Total revenues	1,055,003	31,885	1,086,888
Expenditures			
General government	155,123	-	155,123
Fire	180,980	-	180,980
Police	631,405	-	631,405
Highways and streets	109,203	-	109,203
Recreation	23,752	-	23,752
Library	25,000	-	25,000
Debt service	3,479	-	3,479
Capital outlay	465,470	-	465,470
Total expenditures	1,594,412	-	1,594,412
Excess (deficiency) of revenues over (under) expenditures	(539,409)	31,885	(507,524)
Other Financing Sources			
Loan proceeds	399,936	-	399,936
Proceeds from the sale of assets	23,166	-	23,166
Transfer Sanitation Department to Utility Fund	(23,752)	-	(23,752)
Total other financing sources	399,350	-	399,350
Net change in fund balances	(140,059)	31,885	(108,174)
Fund balances, beginning of year	423,150	123,804	546,954
Fund balances, end of year	\$ 283,091	\$ 155,689	\$ 438,780

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, 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, 2020**

Net change in fund balances - Governmental Funds \$ (108,174)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was less than depreciation expense in the current period.

Transfer net book value of truck to Proprietary Funds for Sanitation Fund	(28,078)	
Capital outlay	429,936	
Depreciation expense	(179,871)	221,987

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions or OPEB, and investment experience.

CERS expense - pension		(281,068)
CERS contributions - pension		12,729
CERS expense - OPEB		(84,441)
CERS contributions - OPEB		(1,000)
Transfer net OPEB liability and deferred inflows/outflows to Proprietary Funds for Sanitation Fund		21,093
Transfer net Pension liability and deferred inflows/outflows to Proprietary Funds for Sanitation Fund		82,489

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Bond and capital lease proceeds	(399,936)	
Transfer debt to Proprietary Funds for Sanitation Fund	36,564	
Bond and capital lease payments	144,979	
Transfer compensated absences to Proprietary Funds for Sanitation Fund	568	
Change in compensated absences	4,776	(213,049)

Change in net position of Governmental Activities \$ (349,434)

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	Utility Fund
ASSETS	
Cash and cash equivalents	\$ 776,803
Accounts receivable:	
Unbilled receivables	137,463
Customers	562,339
Allowance for doubtful accounts	(54,298)
Inventory for supplies	220,245
Investments - certificates of deposit	164,484
Restricted assets -	
Cash - bond issuance	6,534,429
Nondepreciable capital assets	3,871,892
Depreciable capital assets	22,637,579
Accumulated depreciation	(11,843,843)
Total assets	23,007,093
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - OPEB related	199,687
Deferred outflows - pension related	463,544
Total deferred outflows of resources	663,231
LIABILITIES	
Accounts payable	49,530
Accrued wages	20,611
Other accrued liabilities	18,163
Current portion of long-term debt	201,616
Customer deposits	224,519
Accrued interest payable	28,996
Compensated absences	36,030
Net OPEB liability	451,487
Net pension liability	1,888,354
Long-term debt, net of current portion (net of discounts)	12,024,868
Total liabilities	14,944,174
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - OPEB related	157,873
Deferred inflows - pension related	42,729
Total deferred inflows of resources	200,602
NET POSITION	
Net investment in capital assets	8,973,573
Restricted	-
Unrestricted	(448,025)
Total net position	\$ 8,525,548

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Utility Fund
OPERATING REVENUES	
Electric	\$ 2,757,410
Water	1,022,843
Gas	430,123
Sewer	283,304
Sanitation	270,630
Total operating revenues	4,764,310
OPERATING EXPENSES	
Electric:	
Electric purchases	2,010,312
Salaries and benefits	365,873
Contractual services	109,231
Depreciation	64,566
Materials and supplies	36,875
Other operating expenses	8,420
	2,595,277
Water:	
Water purchases	14,687
Salaries and benefits	451,329
Contractual services	227,757
Depreciation	263,350
Materials and supplies	192,664
Other operating expenses	36,694
	1,186,481
Gas:	
Gas purchases	134,436
Salaries and benefits	127,885
Contractual services	48,972
Depreciation	54,875
Materials and supplies	2,200
Other operating expenses	3,302
	371,670

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

Sewer:	
Salaries and benefits	157,531
Contractual services	141,402
Depreciation	120,084
Materials and supplies	34,670
Other operating expenses	1,434
	455,121
Sanitation:	
Salaries and benefits	144,323
Contractual services	89,820
Depreciation	21,059
Materials and supplies	60,758
	315,960
Total operating expenses	4,924,509
OPERATING LOSS	(160,199)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(295,094)
Amortization expense	(4,723)
Interest income	107,892
Capital grant revenues	-
Transfer Sanitation Department from General Fund to Utility Fund	(88,884)
Total non-operating revenues (expenses)	(280,809)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(441,008)
CAPITAL CONTRIBUTIONS - TAP FEES	3,525
DECREASE IN NET POSITION	(437,483)
NET POSITION, JUNE 30, 2019	8,963,031
NET POSITION, JUNE 30, 2020	\$ 8,525,548

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,801,466
Cash payments to suppliers for goods and services	(5,236,687)
Cash payments to employees	(1,235,099)
Net cash used for operating activities	<u>(1,670,320)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers from other funds	23,752
Net cash provided by non-capital financing activities	<u>23,752</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,028,523)
Capital contributions	3,525
Capital grant revenues	-
Issuance of debt	233,463
Principal paid on long-term debt	(223,096)
Interest paid on long-term debt	(267,530)
Net cash used for capital and related financing activities	<u>(2,282,161)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	107,892
Net cash provided by investing activities	<u>107,892</u>
Net decrease in cash and cash equivalents	(3,820,837)
Cash and cash equivalents, June 30, 2019	<u>11,296,553</u>
Cash and cash equivalents, June 30, 2020	<u>\$ 7,475,716</u>
The following provides a reconciliation of cash and restricted cash reported within the Statement of Net Position - Proprietary Funds that sum to the total of the same amounts shown in the Statement of Cash Flows - Proprietary Funds	
Cash and cash equivalents	\$ 776,803
Investments - certificates of deposit	164,484
Restricted assets - Cash - bond issuance	6,534,429
	<u>\$ 7,475,716</u>
Supplemental Disclosure - Non-cash transaction - Transfer the Sanitation Department from the General Fund in the Governmental Activities to the Utility Fund in Business-Type Activities	
	<u>\$ 88,884</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (160,199)
Adjustments:	
Depreciation	523,934
Net pension and OPEB adjustment	7,211
Changes in assets and liabilities:	
Change in accounts receivable	12,171
Change in inventory	(45,346)
Change in accounts payable	(2,037,707)
Change in accrued wages	7,258
Change in other accrued liabilities	(914)
Change in compensated absences	(1,713)
Change in customer deposits	24,985
Net cash used for operating activities	<u>\$ (1,670,320)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes:					
Insurance	\$ 180,000	\$ 44,300	\$ 224,300	\$ 223,812	\$ (488)
Property	89,000	18,000	107,000	100,628	(6,372)
Occupational licenses	280,000	14,160	294,160	287,076	(7,084)
Alcohol revenue	90,000	31,150	121,150	123,672	2,522
Franchise fees	50,000	1,050	51,050	51,050	-
Intergovernmental revenues:					
Base court	4,000	4,780	8,780	6,376	(2,404)
KLEFPF	30,000	4,450	34,450	34,510	60
FADE	-	-	-	26,218	26,218
State and county fire aid	20,175	(9,175)	11,000	22,000	11,000
Grants	50,000	200	50,200	50,486	286
License, fees, & permits	10,000	(2,900)	7,100	7,709	609
Coal and mine severance	-	-	-	12,000	12,000
Pole rental	24,400	(11,115)	13,285	14,502	1,217
Rent income	60,000	-	60,000	65,606	5,606
Sanitation fees	220,000	(220,000)	-	-	-
Interest income	-	-	-	814	814
Other revenues	30,000	34,350	64,350	28,544	(35,806)
Total revenues	<u>1,137,575</u>	<u>(90,750)</u>	<u>1,046,825</u>	<u>1,055,003</u>	<u>8,178</u>
Expenditures					
General government	100,000	52,655	152,655	155,123	(2,468)
Fire	130,175	6,123	136,298	180,980	(44,682)
Police	522,400	151,344	673,744	631,405	42,339
Highways and streets	90,000	(9,899)	80,101	109,203	(29,102)
Library	25,000	-	25,000	25,000	-
Sanitation	220,000	(220,000)	-	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	465,470	(465,470)
Debt service	-	-	-	3,479	(3,479)
Recreation	50,000	(27,575)	22,425	23,752	(1,327)
Total expenditures	<u>1,137,575</u>	<u>(47,352)</u>	<u>1,090,223</u>	<u>1,594,412</u>	<u>(504,189)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(43,398)</u>	<u>(43,398)</u>	<u>(539,409)</u>	<u>(496,011)</u>
Other Financing Sources					
Loan Proceeds	84,000	-	-	399,936	399,936
Proceeds from the sale of assets	-	-	-	23,166	23,166
Transfers	-	-	-	(23,752)	(23,752)
Total other financing sources	<u>84,000</u>	<u>-</u>	<u>-</u>	<u>399,350</u>	<u>399,350</u>
Net change in fund balances	<u>84,000</u>	<u>(43,398)</u>	<u>(43,398)</u>	<u>(140,059)</u>	<u>(96,661)</u>
Fund balance, beginning of year	<u>-</u>	<u>99,000</u>	<u>99,000</u>	<u>423,150</u>	<u>324,150</u>
Fund balance, end of year	<u>\$ 84,000</u>	<u>\$ 55,602</u>	<u>\$ 55,602</u>	<u>\$ 283,091</u>	<u>\$ 227,489</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MUNICIPAL ROAD AID
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Municipal road aid	\$ 32,000	\$ (263)	\$ 31,737	\$ 31,737	\$ -
Other revenues	50,000	(50,000)	-	148	148
Total revenues	<u>82,000</u>	<u>(50,263)</u>	<u>31,737</u>	<u>31,885</u>	<u>148</u>
Expenditures					
Highways and streets	155,784	(155,784)	-	-	-
Other expenditures	50,000	(50,000)	-	-	-
Total expenditures	<u>205,784</u>	<u>(205,784)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(123,784)</u>	<u>155,521</u>	<u>31,737</u>	<u>31,885</u>	<u>148</u>
Other financing sources (uses)					
Transfers	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(123,784)	155,521	31,737	31,885	148
Fund balance, beginning of year	<u>123,784</u>	<u>-</u>	<u>123,784</u>	<u>123,804</u>	<u>20</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 155,521</u>	<u>\$ 155,521</u>	<u>\$ 155,689</u>	<u>\$ 168</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Olive Hill (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety (police and fire), public works (street and sanitation), recreation, and utilities (water, sewer, electric, and gas). The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon these criteria, the City has no component units to be reported in these financial statements.

B. Government-Wide and Fund 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 activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are 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*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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 liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one special revenue fund: Municipal Road Aid.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for gas, water, wastewater (sewer), electric, and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budget and Budgetary Accounting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data. The budget was amended during the year ended June 30, 2020 subsequent to original adoption.

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the sanitation department is budgeted in the General Fund; however, GAAP requires that it be presented as a proprietary fund. In addition, financed insurance premiums are netted in the budget, since it is a non-cash item when financed.

E. Deposits and Investments

Investments are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

F. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

G. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	40 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-20 years
Buildings and improvements	15-50 years
Street paving	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

H. Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

J. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

K. Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

L. Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance - amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

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

M. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Proprietary Funds consider all cash and highly liquid investments, such as certificates of deposit (including restricted assets) to be cash equivalents.

N. Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Pension and Other Post-Employment Benefits (OPEB)

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

R. Recent Accounting Pronouncements

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2021. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2022 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2021. Management is currently evaluating the impact of this Statement on its financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* ("GASB 92"). GASB 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Provisions related to insurance-related activities of public entity risk pools and derivative instruments were effective upon issuance. All other provisions will be effective for the City beginning with its year ending June 30, 2022. Adoption of the provisions required upon issuance did not have a material effect on the City's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be effective for the City beginning with its year ending June 30, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2020, the City had \$8,139,886 in financial institutions, of which \$750,000 was insured, and \$7,389,886 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2020 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Business-type activities:				
First National Bank of Grayson:				
Certificate of deposit	\$ 100,000	\$ 100,000	0.80%	8/21/2020
Certificate of deposit	46,858	46,858	0.65	11/16/2020
Certificate of deposit	17,626	17,626	0.75	9/26/2020
	<u>\$ 164,484</u>	<u>\$ 164,484</u>		

(3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the City.

Real property, tangible, and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2020 assessed value for real property was \$37,242,831. Assessed value of tangible property was \$5,080,889. The tax rate adopted was \$0.236 per \$100 valuation.

(4) RESTRICTED ASSETS

2019A Bond Issuance

As part of the 2019A Bond Issuance the City has \$6,534,429 in restricted cash at June 30, 2020. This restricted cash is made up of 1) Capitalized Interest Fund - \$148,953, 2) Debt Service Reserve Fund - \$429,710, and 3) Construction Funds - \$5,955,766.

(5) CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

<u>Governmental Activities</u>	<u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Capital Assets, Not Depreciated:				
Land	\$ 526,337	\$ -	\$ -	\$ 526,337
Construction in progress	72,282	30,000	-	102,282
Capital Assets, Depreciated:				
Buildings	1,183,274	-	-	1,183,274
Street paving and improvement	212,513	-	-	212,513
Vehicles	1,081,661	399,936	105,293	1,376,304
Machinery and equipment	700,564	-	-	700,564

Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	-	-	181,342
Totals	3,992,556	429,936	105,293	4,317,199
Less: Accumulated Depreciation	2,093,437	179,871	77,215	2,196,093
Governmental Activities				
Capital Assets, Net	<u>\$ 1,899,119</u>	<u>\$ 250,065</u>	<u>\$ 28,078</u>	<u>\$ 2,121,106</u>
<i>Business-type Activities</i>				
Capital Assets, Not Depreciated:				
Land	\$ 10,278	\$ -	\$ -	\$ 10,278
Construction in progress	1,860,591	2,001,023	-	3,861,614
Capital Assets, Depreciated:				
Buildings	147,931	-	-	147,931
Vehicles	894,463	118,293	-	1,012,756
Furniture and equipment	456,905	14,500	-	471,405
Operating plant and distribution system	20,924,584	-	-	20,924,584
Improvements	80,903	-	-	80,903
Totals	24,375,655	2,133,816	-	26,509,471
Less: Accumulated Depreciation	11,242,694	601,149*	-	11,843,843
Business-type Activities				
Capital Assets, Net	<u>\$ 13,132,961</u>	<u>\$ 1,532,667</u>	<u>\$ -</u>	<u>\$14,665,628</u>

* This includes \$77,215 of accumulated depreciation transferred from Governmental Activities from the transfer of the Sanitation Department assets to the Utility Fund in Business-Type Activities as of July 1, 2019.

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:		
General government		\$ 37,518
Police		38,320
Fire		67,924
Public works		10,626
Senior center		12,817
Park		12,666
		<u>\$ 179,871</u>
Business-type activities:		
Utilities		\$ 523,934
		<u>\$ 523,934</u>

(6) DEBT

Long-Term

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2020:

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due within</u> <u>One Year</u>
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 27,914	\$ -	\$ 10,162	\$ 17,752	\$ 10,467
5.0% Note payable - Due February 19, 2027 Refinance and additional funds Fire vehicles and equipment	96,989	-	96,989	-	-

6.85% Note payable - Due August 30, 2023 Heavy equipment	71,086	-	15,683	55,403	16,669
3.90% Note payable - Due August 30, 2023 2, 2020 Police Tahoes	-	74,936	4,471	70,465	14,024
Prime less 0.75% Note payable - Due November 22, 2034 Fire Trucks	-	325,000	-	325,000	21,667
2.99% Note payable - Due November 4, 2020 2016 Kenworth Garbage Truck	36,564	-	**36,564	-	-
2.45% Note payable - Due November 21, 2020 Two 2017 police cars	17,674	-	17,674	-	-
Total Governmental Activities	<u>\$ 250,227</u>	<u>\$ 399,936</u>	<u>\$ 181,543</u>	<u>\$ 468,620</u>	<u>\$ 62,827</u>
	Balance			Balance	Due within
<u>Business-type Activities</u>	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>One Year</u>
Notes payable	\$ 1,699,545	\$ **270,027	\$ 223,096	\$ 1,746,476	\$ 181,616
Bonds payable	10,615,000	-	-	10,615,000	20,000
Less: Discount on bond	<u>(139,715)</u>	<u>-</u>	<u>(4,723)</u>	<u>(134,992)</u>	<u>-</u>
Total Business-type Activities	<u>\$ 12,174,830</u>	<u>\$ 270,027</u>	<u>\$ 218,373</u>	<u>\$ 12,226,484</u>	<u>\$ 201,616</u>

** The Sanitation Department was transferred from General Fund in Governmental Activities to the Utility Fund in Business-Type Activities effective July 1, 2019. As a result, debt in the amount of \$36,564 was transferred as of that date and is shown in additions and deletions, as applicable for each activity type.

The 2019A bond issuance was sold at a discount of \$140,108. This amount is being amortized over the life of the debt.

Governmental Activities

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2020 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 62,827	\$ 18,070	\$ 80,897
2022	60,852	15,634	76,486
2023	54,825	13,279	68,104
2024	40,845	11,317	52,162
2025	32,605	9,851	42,456
2026-2030	108,333	35,165	143,498
2031-2035	108,333	13,188	121,521
	<u>\$ 468,620</u>	<u>\$ 116,504</u>	<u>\$ 585,124</u>

Business-Type Activities

The Utility's notes payable at June 30, 2020 consisted of the following:

The Commercial Bank of Grayson, payable in monthly installments of \$4,769, including interest of 3.75%, final payment due March 2023, unsecured.	\$ 149,305
U.S. Bank, payable in monthly installments of \$2,480, including interest of 3.71%, final payment due March 2024, collateralized by a utility bucket truck.	107,138
Kentucky Infrastructure Authority, payable in semi-annual installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.	336,453
Republic Bank & Trust Company, payable in semi-annual installments of principal with interest of 3.38%, final payment due December 2025, collateralized by service revenues.	264,736
Kentucky Infrastructure Authority construction loan, in the amount of \$883,000 (not fully drawn at June 30, 2020), semi-annual installments of \$15,285, including interest at 0.25%, final payment due December 1, 2049 collateralized by service revenues.	873,095
FIVCO Area Development, payable in monthly installments estimated at \$1,012, including interest at 4.00%, final payment due October 15, 2021, unsecured.	<u>15,749</u>
Total Utility Fund Notes Payable	<u>\$ 1,746,476</u>

The annual requirements to amortize all Proprietary Fund notes payable, excluding revenue bonds payable outstanding as of June 30, 2020, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 181,616	\$ 22,395	\$ 204,011
2022	176,421	17,330	193,751
2023	165,553	12,480	178,033
2024	119,260	8,972	128,232
2025	98,321	6,767	105,088
2026-2030	304,315	18,159	322,474
2031-2035	261,665	9,748	271,413
2036-2040	148,240	4,606	152,846
2041-2045	150,104	2,743	152,847
2046-2050	140,981	856	141,837
Totals	<u>\$ 1,746,476</u>	<u>\$ 104,056</u>	<u>\$ 1,850,532</u>

The following is a summary of the long-term bond transactions of the City of Olive Hill's business-type activities for the year ended June 30, 2020:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2019	\$ 10,615,000
Bonds Issued	-
Bonds Retired	-
Bonds Payable - June 30, 2020	<u>\$ 10,615,000</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:	
\$10,615,000 Utilities Revenue Bonds, 2019A series, maturing through January 1, 2049, with interest of 2.50% to 3.25%	\$ 10,615,000
Total Utility Fund Bonds Payable	<u>\$ 10,615,000</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance, the Series 2019A Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2020 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2020, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 20,000	\$ 325,888	\$ 345,888
2022	40,000	325,388	365,388
2023	50,000	324,388	374,388
2024	55,000	323,138	378,138
2025	60,000	321,763	381,763
2026-2030	555,000	1,572,513	2,127,513
2031-2035	1,245,000	1,452,363	2,697,363
2036-2040	2,410,000	1,199,013	3,609,013
2041-2045	3,190,000	782,244	3,972,244
2046-2049	2,990,000	246,769	3,236,769
Totals	<u>\$ 10,615,000</u>	<u>\$ 6,873,467</u>	<u>\$ 17,488,467</u>

(7) CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. Two of the lawsuits relate to flood damages, three allege injury, and one is related to an easement dispute. It is anticipated that any liability will be covered by insurance for these three lawsuits.

In addition, the City is a defendant in a class action lawsuit alleging violation of the Kentucky Constitution by applying increases to the electric utility rates without public notice. The City's insurer has filed an action to determine coverage of this claim. The ultimate outcome of this matter cannot be determined at this time.

The City intends to aggressively defend all of the lawsuits; however, an adverse decision in one or more of such matters could have a material adverse effect on the financial position of the City.

The City had construction commitments related to the downtown water line project in the amount of \$9,905 and related to the energy savings project in the amount of \$6,986,846 at June 30, 2020.

(8) **RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(9) **PENSION PLAN**

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2020, employers were required to contribute 24.06% (19.30% - pension, 4.76% - insurance) of the member's salary. During the year ending June 30, 2020, the City contributed \$202,782 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At June 30 2019, the City's proportion was 0.039809%.

For the year ended June 30, 2020, the City recognized pension expense of \$542,395. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 71,487	\$ 11,830
Changes of assumptions	283,370	-
Net difference between projected and actual earnings on investments	-	45,134

Changes in proportion and differences between City contributions and proportionate share of contributions	129,638	6,388
City contributions subsequent to the measurement date	<u>202,782</u>	<u>-</u>
	<u>\$ 687,277</u>	<u>\$ 63,352</u>

The \$202,782 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	
2021	\$ 250,719
2022	121,740
2023	45,482
2024	<u>3,202</u>
	<u>\$ 421,143</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	24 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected market value is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation. These assumptions are fully documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018.”

The mortality table used for active members is PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 is utilized. For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male

and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	3.89%

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 benefit payments to determine the total pension liability.

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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current discount rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City's proportionate share of the net pension liability	\$ 3,501,737	\$ 2,799,785	\$ 2,214,715

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2020, there was a payable to the CERS Pension Plan of \$15,607.

(10) **OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS**

County Employees Retirement System

Plan description: The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems’ (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member’s years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member’s health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2020, CERS allocated 4.76% of the 24.06% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2020, the City contributed \$50,013 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At June 30 2019, the City's proportion was 0.039799%.

For the year ended June 30, 2020, the City recognized OPEB expense of \$83,032, including an implicit subsidy of \$11,641. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 201,974
Changes of assumptions	198,082	1,325
Net difference between projected and actual earnings on investments	-	29,732
Changes in proportion and differences between City contributions and proportionate share of contributions	47,973	1,041
City contributions subsequent to the measurement date	50,013	-
	<u>\$ 296,068</u>	<u>\$ 234,072</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$50,013 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

<u>Year</u>	
2021	\$ 4,364
2022	4,364
2023	13,817
2024	(4,313)
2025	(5,715)
Thereafter	(534)
	<u>\$ 11,983</u>

Actuarial Methods and Assumptions: The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	24 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	

Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Pre-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation. These assumptions are fully documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018."

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity		
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	3.89%

Discount rate - The discount rate used to measure the total OPEB liability was 5.68%. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease (4.68%)	Current discount rate (5.68%)	1% Increase (6.68%)
City's proportionate share of the net OPEB liability	\$ 896,722	\$ 669,401	\$ 482,104

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

	1% Decrease	Current trend rate	1% Increase
City's proportionate share of the net OPEB liability	\$ 497,837	\$ 669,401	\$ 877,443

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at <https://kyret.ky.gov>.

Payables to the OPEB plan: At June 30, 2020, there was a payable to the CERS OPEB Plan of \$3,849.

(11) SUBSEQUENT EVENTS

During 2021 the City purchased a new fire truck in the amount of \$99,950 and a new Chevy Tahoe for the police department in the amount of \$59,926.

During 2021 and 2022, the City spent roughly \$241,000 on renovations and additions to the building purchased for the police department.

On May 18, 2021 the City purchased property located at 273 Hitchens Avenue, Olive Hill, Kentucky in the amount of \$110,000.

On January 1, 2021 the City started paying the police department's CERS contributions at the hazardous class.

In January 2021 the City started paying part-time fire fighters.

In 2023 the City was awarded a FEMA grant for roughly \$245,000 to purchase air bags for the fire department.

On February 6, 2024 the City entered into a 2024 Tax and Revenue Anticipation Note with an interest rate of 4.95% with The Commercial Bank of Grayson to help pay for expenses. The loan matures on June 30, 2024.

(12) TRANSFER

As of July 1, 2019, the City transferred the Sanitation Department from the General Fund in Governmental Activities to the Utility Fund in Business-Type Activities. As a result, the following assets, deferred outflows of resources, liabilities, and deferred inflows of resources were transferred:

Cash	\$	23,752
Truck		105,293
Accumulated depreciation		(77,215)
Deferred outflows of resources		44,180
Compensated absences		(568)
Note payable		(36,564)
Net pension liability		(109,277)
Net OPEB liability		(25,783)
Deferred inflows of resources		(12,702)
	\$	<u>(88,884)</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF OLIVE HILL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2020**

	Reporting Fiscal Year (Measurement Date)	2019 (2018)	Reporting Fiscal Year (Measurement Date)	2018 (2017)	Reporting Fiscal Year (Measurement Date)	2017 (2016)	Reporting Fiscal Year (Measurement Date)	2016 (2015)	Reporting Fiscal Year (Measurement Date)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:										
City's proportion of the net pension liability	0.039809%	0.037255%	0.035949%	0.037070%	0.035392%	0.036007%				
City's proportionate share of the net pension liability	\$ 2,799,785	\$ 2,268,943	\$ 2,104,205	\$ 1,825,263	\$ 1,521,681	\$ 1,168,000				
City's covered-employee payroll	\$ 1,009,112	\$ 933,094	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102				
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	277.450%	243.163%	228.664%	199.565%	176.905%	141.387%				
Plan fiduciary net position as a percentage of the total pension liability	50.450%	53.540%	53.300%	55.500%	59.970%	66.800%				
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:										
City's proportion of the net pension liability	0.039799%	0.037274%	0.035949%							
City's proportionate share of the net pension liability	\$ 669,401	\$ 661,792	\$ 722,698							
City's covered-employee payroll	\$ 1,009,112	\$ 933,094	\$ 920,215							
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	66.336%	70.924%	78.536%							
Plan fiduciary net position as a percentage of the total pension liability	60.440%	57.600%	52.400%							

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019	2018	2017	2016	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:							
Contractually required contribution	\$ 202,782	\$ 163,678	\$ 135,112	\$ 128,370	\$ 113,596	\$ 109,672	\$ 113,506
Contributions in relation to the contractually required contribution	202,782	163,678	135,112	128,370	113,596	109,672	113,506
Contribution deficiency (excess)	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,050,684	\$ 1,009,112	\$ 933,094	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:							
Contractually required contribution	\$ 50,013	\$ 53,085	\$ 43,844	\$ 43,523			
Contributions in relation to the contractually required contribution	50,013	53,085	43,844	43,523			
Contribution deficiency (excess)	-	-	-	-			
City's covered-employee payroll	\$ 1,050,684	\$ 1,009,112	\$ 933,094	\$ 920,215			
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	4.76%	5.26%	4.70%	4.73%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020**

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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

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

The were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

CERS – Insurance Fund

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS - PENSION

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended 2018, determined as of July 1, 2017. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates for the year ending June 30, 2019:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	26 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

CERS – Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2019:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	26 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Phase-in Provision

Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

(3) CHANGES OF BENEFITS

CERS - PENSION

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2019 is determined using these updated benefit provisions.

CERS – Insurance Fund

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.



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**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**

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, 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 Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 15, 2024.

Internal Control Over Financial Reporting

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

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

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. 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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 City'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.

Kelley Galloway Smith Gooby, PSC

Ashland, Kentucky
July 15, 2024

CITY OF OLIVE HILL, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2021

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, and the Special Revenue Fund – Municipal Road Aid for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 38 through 44 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2025, on our consideration of the City of Olive Hill, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
December 5, 2025

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 28,306	\$ 520,727	\$ 549,033
Accounts receivable:			
Unbilled receivables	-	118,907	118,907
Customers	-	626,537	626,537
Property taxes	63,067	-	63,067
Other	199,202	-	199,202
Allowance for doubtful accounts	(60,347)	(97,913)	(158,260)
Interfund receivable (payable)	34,274	(34,274)	-
Inventory for supplies	-	175,528	175,528
Investments - certificates of deposit	-	146,858	146,858
Restricted assets -			
Cash - bond issuance	-	6,412,648	6,412,648
Nondepreciable capital assets	654,465	3,871,892	4,526,357
Depreciable capital assets	3,896,920	22,815,956	26,712,876
Accumulated depreciation	(2,404,906)	(12,252,826)	(14,657,732)
Total assets	2,410,981	22,304,040	24,715,021
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB related - nonhazardous	115,407	357,505	472,912
Deferred outflows - pension related - nonhazardous	146,840	454,879	601,719
Deferred outflows - OPEB related - hazardous	11,802	-	11,802
Deferred outflows - pension related - hazardous	37,265	-	37,265
Total deferred outflows of resources	311,314	812,384	1,123,698
LIABILITIES			
Accounts payable	55,299	243,924	299,223
Accrued wages	17,003	27,170	44,173
Other accrued liabilities	15,979	3,280	19,259
Current portion of long-term debt	54,600	188,085	242,685
Customer deposits	-	239,239	239,239
Accrued interest payable	8,569	28,996	37,565
Compensated absences, long-term	6,089	29,388	35,477
Net OPEB liability - nonhazardous	242,154	750,141	992,295
Net pension liability - nonhazardous	769,334	2,383,232	3,152,566
Long-term debt, net of current portion (net of discounts)	392,359	11,857,064	12,249,423
Total liabilities	1,561,386	15,750,519	17,311,905
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB related - nonhazardous	40,923	126,772	167,695
Deferred inflows - pension related - nonhazardous	-	-	-
Total deferred inflows of resources	40,923	126,772	167,695
NET POSITION			
Net investment in capital assets	1,699,520	8,802,521	10,502,041
Restricted	-	-	-
Unrestricted	(579,534)	(1,563,388)	(2,142,922)
Total net position	\$ 1,119,986	\$ 7,239,133	\$ 8,359,119

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General government	\$ 269,782	\$ -	\$ 212,219	\$ -	\$ (57,563)	\$ -	\$ (57,563)
Fire	291,988	-	20,000	-	(271,988)	-	(271,988)
Police	444,353	-	65,609	-	(378,744)	-	(378,744)
Highways and streets	320,625	-	51,881	-	(268,744)	-	(268,744)
Recreation	46,331	-	-	-	(46,331)	-	(46,331)
Library	25,000	-	-	-	(25,000)	-	(25,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	10,154	-	-	-	(10,154)	-	(10,154)
Total governmental activities	1,421,050	-	349,709	-	(1,071,341)	-	(1,071,341)
Business-Type Activities							
Utility fund	6,056,146	4,711,234	-	8,890	-	(1,336,022)	(1,336,022)
Total business-type activities	6,056,146	4,711,234	-	8,890	-	(1,336,022)	(1,336,022)
Total primary government	\$ 7,477,196	\$ 4,711,234	\$ 349,709	\$ 8,890	(1,071,341)	(1,336,022)	(2,407,363)
General Revenues:							
Property and other local taxes					338,407	-	338,407
Occupational licenses					306,793	-	306,793
Franchise fees					57,792	-	57,792
Rent income					76,940	-	76,940
Licenses, fees and permits					8,196	-	8,196
Alcohol fees					138,333	-	138,333
Coal and mine severance					9,692	-	9,692
Other revenues					27,003	-	27,003
Gain on sale of assets					105,000	-	105,000
Interest income					1,132	2,015	3,147
Total general revenues					1,069,288	2,015	1,071,303
Transfers					(47,592)	47,592	-
Total general revenues and transfers					1,021,696	49,607	1,071,303
Change in net position					(49,645)	(1,286,415)	(1,336,060)
Net position, June 30, 2020					1,169,631	8,525,548	9,695,179
Net position, June 30, 2021					\$ 1,119,986	\$ 7,239,133	\$ 8,359,119

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General	Municipal Road Aid	Total Governmental Funds
Assets			
Cash	\$ 22,082	\$ 6,224	\$ 28,306
Taxes receivable	63,067	-	63,067
Allowance for doubtful accounts	(60,347)	-	(60,347)
Interfund receivable	34,274	-	34,274
Other receivables	163,501	22,415	185,916
Total assets	\$ 222,577	\$ 28,639	\$ 251,216
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 55,299	\$ -	\$ 55,299
Accrued wages	17,003	-	17,003
Accrued interest payable	8,569	-	8,569
Other accrued liabilities	15,979	-	15,979
Total liabilities	96,850	-	96,850
Fund Balances:			
Nonspendable	-	-	-
Assigned	-	28,639	28,639
Unassigned	125,727	-	125,727
Total fund balances	125,727	28,639	154,366
Total liabilities and fund balances	\$ 222,577	\$ 28,639	\$ 251,216

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total fund balance - Governmental Funds	\$	154,366
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$4,551,385 net of accumulated depreciation of \$2,404,906 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		2,146,479
Pole rental funds were not collected within the current period and therefore are not reported in the governmental funds.		13,286
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		184,105
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		86,286
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Net OPEB liabilities		(242,154)
Net pension liabilities		(769,334)
Long-term debt		(446,959)
Compensated absences		(6,089)
		1,119,986
Net position, end of year - Governmental Activities	\$	1,119,986

The accompanying notes to financial statement
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General	Municipal Road Aid	Total Governmental Funds
Revenues			
Taxes:			
Insurance	\$ 227,363	\$ -	\$ 227,363
Property	111,044	-	111,044
Occupational licenses	306,793	-	306,793
Franchise fees	57,792	-	57,792
Alcohol fees	138,333	-	138,333
Intergovernmental revenue:			
Base court	4,990	-	4,990
KLEPF	30,497	-	30,497
FADE	35,112	-	35,112
State fire aid	20,000	-	20,000
Grants	207,229	-	207,229
License, fees, & permits	8,196	-	8,196
Municipal road aid	-	51,881	51,881
Coal and mine severance	9,692	-	9,692
Pole rental	1,825	-	1,825
Rent income	61,829	-	61,829
Interest income	1,053	79	1,132
Other revenues	27,003	-	27,003
Total revenues	<u>1,248,751</u>	<u>51,960</u>	<u>1,300,711</u>
Expenditures			
General government	174,739	-	174,739
Fire	196,231	-	196,231
Police	641,636	-	641,636
Highways and streets	125,403	179,010	304,413
Recreation	33,412	-	33,412
Library	25,000	-	25,000
Debt service	131,815	-	131,815
Capital outlay	235,287	-	235,287
Total expenditures	<u>1,563,523</u>	<u>179,010</u>	<u>1,742,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(314,772)</u>	<u>(127,050)</u>	<u>(441,822)</u>
Other Financing Sources			
Loan proceeds	100,000	-	100,000
Proceeds from the sale of assets	105,000	-	105,000
Transfer to Utility Fund	(47,592)	-	(47,592)
Total other financing sources	<u>157,408</u>	<u>-</u>	<u>157,408</u>
Net change in fund balances	<u>(157,364)</u>	<u>(127,050)</u>	<u>(284,414)</u>
Fund balances, beginning of year	<u>283,091</u>	<u>155,689</u>	<u>438,780</u>
Fund balances, end of year	<u>\$ 125,727</u>	<u>\$ 28,639</u>	<u>\$ 154,366</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, 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, 2021**

Net change in fund balances - Governmental Funds \$ (284,414)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was less than depreciation expense in the current period.

Capital outlay	234,186	
Depreciation expense	<u>(208,813)</u>	<u>25,373</u>

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions or OPEB, and investment experience.

CERS expense - pension	88,469
CERS contributions - pension	34,623
CERS expense - OPEB	30,713
CERS contributions - OPEB	11,151

Pole rental funds were not collected within the current period and therefore are not reported in governmental funds in the current period. However, these funds were recorded in the statement of activities.

13,286

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Bond and capital lease proceeds	(100,000)	
Bond and capital lease payments	121,661	
Change in compensated absences	<u>9,493</u>	<u>31,154</u>

Change in net position of Governmental Activities \$ (49,645)

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Utility Fund
ASSETS	
Cash and cash equivalents	\$ 520,727
Accounts receivable:	
Unbilled receivables	118,907
Customers	626,537
Allowance for doubtful accounts ..	(97,913)
Inventory for supplies	175,528
Investments - certificates of deposit	146,858
Restricted assets -	
Cash - bond issuance	6,412,648
Nondepreciable capital assets	3,871,892
Depreciable capital assets	22,815,956
Accumulated depreciation	(12,252,826)
	22,338,314
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - OPEB related - nonhazardous	357,505
Deferred outflows - pension related - nonhazardous	454,879
Total deferred outflows of resources	812,384
 LIABILITIES	
Accounts payable	243,924
Accrued wages	27,170
Other accrued liabilities	3,280
Current portion of long-term debt	188,085
Customer deposits	239,239
Accrued interest payable	28,996
Compensated absences	29,388
Interfund payable	34,274
Net OPEB liability - nonhazardous	750,141
Net pension liability - nonhazardous	2,383,232
Long-term debt, net of current portion (net of discounts)	11,857,064
	15,784,793
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - OPEB related - nonhazardous	126,772
Deferred inflows - pension related - nonhazardous	-
Total deferred inflows of resources	126,772
 NET POSITION	
Net investment in capital assets	8,802,521
Restricted	-
Unrestricted	(1,563,388)
	\$ 7,239,133

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Utility Fund</u>
OPERATING REVENUES	
Electric	\$ 2,621,064
Water	1,113,278
Gas	466,717
Sewer	292,128
Sanitation	218,047
Total operating revenues	<u>4,711,234</u>
OPERATING EXPENSES	
Electric:	
Electric purchases	1,976,913
Salaries and benefits	733,773
Contractual services	98,670
Depreciation	59,501
Materials and supplies	103,536
Other operating expenses	33,568
	<u>3,005,961</u>
Water:	
Water purchases	48,619
Salaries and benefits	566,435
Contractual services	257,625
Depreciation	282,827
Materials and supplies	181,392
Other operating expenses	56,002
	<u>1,392,900</u>
Gas:	
Gas purchases	124,786
Salaries and benefits	134,169
Contractual services	41,125
Depreciation	55,499
Materials and supplies	53,731
Other operating expenses	6,880
	<u>416,190</u>

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

Sewer:	
Salaries and benefits	284,650
Contractual services	104,900
Depreciation	120,708
Materials and supplies	62,399
Other operating expenses	4,236
	576,893
Sanitation:	
Salaries and benefits	205,936
Contractual services	94,875
Depreciation	7,019
Materials and supplies	23,134
	330,964
Total operating expenses	5,722,908
OPERATING LOSS	(1,011,674)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(328,515)
Amortization expense	(4,723)
Interest income	2,015
Capital grant revenues	-
Transfer from General Fund	47,592
Total non-operating revenues (expenses)	(283,631)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,295,305)
CAPITAL CONTRIBUTIONS - TAP FEES	8,890
DECREASE IN NET POSITION	(1,286,415)
NET POSITION, JUNE 30, 2020	8,525,548
NET POSITION, JUNE 30, 2021	\$ 7,239,133

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,723,927
Cash payments to suppliers for goods and services	(2,999,006)
Cash payments to employees	(1,369,380)
Net cash provided by (used for) operating activities	355,541
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers from other funds	47,592
Net cash provided by (used for) non-capital financing activities	47,592
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(294,948)
Capital contributions	8,890
Capital grant revenues	-
Issuance of debt	6,630
Principal paid on long-term debt	(192,688)
Interest paid on long-term debt	(328,515)
Net cash provided by (used for) capital and related financing activities	(800,631)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	2,015
Net cash provided by (used for) investing activities	2,015
Net increase (decrease) in cash and cash equivalents	(395,483)
Cash and cash equivalents, June 30, 2020	7,475,716
Cash and cash equivalents, June 30, 2021	\$ 7,080,233
The following provides a reconciliation of cash and restricted cash reported within the Statement of Net Position - Proprietary Funds that sum to the total of the same amounts shown in the Statement of Cash Flows - Proprietary Funds	
Cash and cash equivalents	\$ 520,727
Investments - certificates of deposit	146,858
Restricted assets -	6,412,648
Cash - bond issuance	\$ 7,080,233
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating income (loss)	\$ (1,011,674)
Adjustments:	
Depreciation	525,554
Net pension and OPEB adjustment	570,549
Changes in assets and liabilities:	
Change in accounts receivable	(2,027)
Change in inventory	44,717
Change in accounts payable	194,394
Change in accrued wages	6,559
Change in other accrued liabilities	(14,883)
Change in compensated absences	(6,642)
Change in interfund payable	34,274
Change in customer deposits	14,720
Net cash provided by (used for) operating activities	\$ 355,541

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes	\$ 764,001	\$ 29,774	\$ 793,775	\$ 841,325	\$ 47,550
Intergovernmental revenues	50,000	-	50,000	297,828	247,828
License, fees, & permits	1,502	2,023	3,525	8,196	4,671
Rent income	78,360	(2,860)	75,500	63,654	(11,846)
Interest income	700	(100)	600	1,053	453
Other revenues	82,450	340,650	423,100	36,695	(386,405)
Total revenues	977,013	369,487	1,346,500	1,248,751	(97,749)
Expenditures					
General government	170,865	111,678	282,543	174,739	107,804
Fire	141,150	104,530	245,680	196,231	49,449
Police	570,129	106,762	676,891	641,636	35,255
Highways and streets	91,339	37,296	128,635	125,403	3,232
Library	25,000	-	25,000	25,000	-
Capital outlay	-	-	-	235,287	(235,287)
Debt service	-	-	-	131,815	(131,815)
Recreation	20,319	9,221	29,540	33,412	(3,872)
Total expenditures	1,018,802	369,487	1,388,289	1,563,523	(175,234)
Excess (deficiency) of revenues over (under) expenditures	(41,789)	-	(41,789)	(314,772)	(272,983)
Other Financing Sources					
Loan Proceeds	-	-	-	100,000	100,000
Proceeds from the sale of assets	-	-	-	105,000	105,000
Transfers	-	-	-	(47,592)	(47,592)
Total other financing sources	-	-	-	157,408	157,408
Net change in fund balances	(41,789)	-	(41,789)	(157,364)	(115,575)
Fund balance, beginning of year	41,789	-	41,789	283,091	241,302
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 125,727	\$ 125,727

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MUNICIPAL ROAD AID
FOR THE YEAR ENDED JUNE 30, 2021

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Municipal road aid	\$ 32,000	\$ 7,000	\$ 39,000	\$ 51,881	\$ 12,881
Other revenues	-	-	-	79	79
Total revenues	<u>32,000</u>	<u>7,000</u>	<u>39,000</u>	<u>51,960</u>	<u>12,960</u>
Expenditures					
Highways and streets	187,689	7,000	194,689	179,010	15,679
Other expenditures	-	-	-	-	-
Total expenditures	<u>187,689</u>	<u>7,000</u>	<u>194,689</u>	<u>179,010</u>	<u>15,679</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(155,689)</u>	<u>-</u>	<u>(155,689)</u>	<u>(127,050)</u>	<u>28,639</u>
Other financing sources (uses)					
Transfers	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(155,689)	-	(155,689)	(127,050)	28,639
Fund balance, beginning of year	<u>155,689</u>	<u>-</u>	<u>155,689</u>	<u>155,689</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,639</u>	<u>\$ 28,639</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Olive Hill (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety (police and fire), public works (street and sanitation), recreation, and utilities (water, sewer, electric, and gas). The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon these criteria, the City has no component units to be reported in these financial statements.

B. Government-Wide and Fund 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 activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are 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*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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 liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one special revenue fund: Municipal Road Aid.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for gas, water, wastewater (sewer), electric, and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budget and Budgetary Accounting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data. The budget was amended during the year ended June 30, 2021 subsequent to original adoption.

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the sanitation department is budgeted in the General Fund; however, GAAP requires that it be presented as a proprietary fund. In addition, financed insurance premiums are netted in the budget, since it is a non-cash item when financed.

E. Deposits and Investments

Investments are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

F. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

G. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	40 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-20 years
Buildings and improvements	15-50 years
Street paving	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

H. Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

J. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

K. Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

L. Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance - amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

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

M. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Proprietary Funds consider all cash and highly liquid investments, such as certificates of deposit (including restricted assets) to be cash equivalents.

N. Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Pension and Other Post-Employment Benefits (OPEB)

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

R. Recent Accounting Pronouncements

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 was effective for the City beginning with its year ending June 30, 2021. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2022 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2022. Management is currently evaluating the impact of this Statement on its financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations* (“GASB 91”), which aims to provide a single method of reporting conduit debt obligations by issuers and to eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB 91 achieves those objectives by (1) clarifying the existing definition of a conduit debt obligation; (2) establishing that a conduit debt obligation is not a liability of the issuer; (3) establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and (4) improving required note disclosures. This Statement addresses arrangements (i.e., often characterized as leases) that are associated with conduit debt obligations. In such arrangements, (1) capital assets are constructed or acquired from the proceeds of a conduit debt obligation and are used by third-party obligors in the course of their activities; (2) payments from third-party obligors are intended to cover and coincide with debt service payments; (3) issuers retain the titles to the capital assets, which may or may not pass to the obligors at the end of the arrangements, depending upon the circumstances; and (4) issuers should neither report those arrangements as leases, nor recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. Additionally, this Statement requires issuers to disclose general information concerning their conduit debt obligations, organized by type of commitment(s). Issuers that recognize liabilities related to conduit debt obligations also should disclose information concerning the amount recognized and the manner in which the liabilities changed during the reporting period. GASB 91 is effective for reporting periods beginning after December 15, 2021, with earlier application encouraged. Management is currently evaluating the impact of this Statement on its financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* (“GASB 92”). GASB 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Provisions related to insurance-related activities of public entity risk pools and derivative instruments were effective upon issuance. All other provisions will be effective for the City beginning with its year ending June 30, 2022. Adoption of the provisions required upon issuance did not have a material effect on the City’s financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (“GASB 96”). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be effective for the City beginning with its year ending June 30, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections* (an amendment of GASB Statement No. 62) (“GASB 100”), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general.

GASB 100 prescribes accounting and financial reporting for each category of accounting change and error corrections, requiring that:

- Changes in accounting principle and error corrections be reported retroactively by restating prior periods;
- Changes in accounting estimate be reported prospectively by recognizing the change in the current period; and
- Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.
- Requires that governments disclose the effects of each accounting change and error correction on beginning balances in a tabular format.

The requirements of GASB 100 will be effective for accounting changes and error corrections made by the City beginning with its year ending June 30, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 101, Compensated Absences (“GASB 101”), which supersedes the guidance in Statement No. 16, Accounting for Compensated Absences, issued in 1992. GASB 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Additionally, it establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. For example, a liability for leave that has not been used would be recognized if the leave:

- Is attributable to services already rendered;
- Accumulates; and
- Is more likely than not to be used for time off or otherwise paid or settled. Some exceptions to this general rule include parental leave, military leave and jury duty leave for which a liability would not be recognized until the leave commences.

Additionally, GASB 101 (1) provides an alternative to the existing requirement to disclose the gross annual increases and decreases in long-term liability for compensated absences, allowing governments to disclose only the net annual change in the liability as long as it is identified as such; and (2) removes the disclosure of the government funds used to liquidate the liability for compensated absences. The requirements of GASB 101 will be effective for the City beginning with its year ending June 30, 2025. Management is currently evaluating the impact of this Statement on its financial statements.

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2021, the City had \$7,210,732 in financial institutions, of which \$750,000 was insured, and \$6,460,732 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse

interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2021 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Business-type activities:				
First National Bank of Grayson:				
Certificate of deposit	\$ 100,000	\$ 100,000	0.35%	11/21/22
Certificate of deposit	46,858	46,858	0.30	11/16/22
	<u>\$ 146,858</u>	<u>\$ 146,858</u>		

(3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the City.

Real property, tangible, and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2021 fiscal year assessed value for real property was \$48,358,480. Assessed value of tangible property was \$4,923,137. The tax rate adopted was \$0.237 per \$100 valuation.

(4) RESTRICTED ASSETS

2019A Bond Issuance

As part of the 2019A Bond Issuance the City has \$6,412,648 in restricted cash at June 30, 2021. This restricted cash is made up of 1) Capitalized Interest Fund - \$167,756, 2) Debt Service Reserve Fund - \$429,731, and 3) Construction Funds - \$5,815,161.

(5) CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

	June 30, 2020	Increases	Decreases	June 30, 2021
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 526,337	\$ -	\$ -	\$ 526,337
Construction in progress	102,282	98,128	72,282	128,128
Capital Assets, Depreciated:				
Buildings	1,183,274	110,000	-	1,293,274
Street paving and improvement	212,513	-	-	212,513
Vehicles	1,376,304	15,000	-	1,391,304
Machinery and equipment	700,564	11,058	-	711,622
Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	72,282	-	253,624
Totals	4,317,199	306,468	72,282	4,551,385
Less: Accumulated Depreciation	2,196,093	208,813	-	2,404,906
Governmental Activities Capital Assets, Net	\$ 2,121,106	\$ 97,655	\$ 72,282	\$ 2,146,479
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 10,278	\$ -	\$ -	\$ 10,278
Construction in progress	3,861,614	-	-	3,861,614
Capital Assets, Depreciated:				
Buildings	147,931	-	-	147,931
Vehicles	1,012,756	118,130	108,402	1,022,484
Furniture and equipment	471,405	170,188	8,169	633,424
Operating plant and distribution system	20,924,584	6,630	-	20,931,214
Improvements	80,903	-	-	80,903
Totals	26,509,471	294,948	116,571	26,687,848
Less: Accumulated Depreciation	11,843,843	525,554	116,571	12,252,826
Business-type Activities Capital Assets, Net	\$ 14,665,628	\$ (230,606)	\$ -	\$ 14,435,022

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 38,210
Police	47,063
Fire	95,757
Public works	2,047
Senior center	12,817
Park	12,919
	<u>\$ 208,813</u>
Business-type activities:	
Utilities	\$ 525,554
	<u>\$ 525,554</u>

(6) LONG TERM LIABILITIES

Debt

The following is a summary of changes in long-term liabilities (including current portions) of the City for the year ended June 30, 2021:

<u>Governmental Activities</u>	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due within One Year
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 17,752	\$ -	\$ 10,467	\$ 7,285	\$ 7,285
6.85% Note payable - Due August 30, 2023 Heavy equipment	55,403	-	17,040	38,363	17,319
3.90% Note payable - Due August 30, 2023 2, 2020 Police Tahoes	70,465	-	70,465	-	-
Prime less 0.75% Note payable - Due November 22, 2034 Fire Trucks	325,000	-	21,667	303,333	21,667
4.00% Note payable - Due March 5, 2031 Unsecured	-	100,000	2,022	97,978	8,329
Total Governmental Activities	\$ 468,620	\$ 100,000	\$ 121,661	\$ 446,959	\$ 54,600
<u>Business-type Activities</u>	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due within One Year
Notes payable	\$ 1,746,476	\$ 6,630	\$ 156,021	\$ 1,597,085	\$ 143,918
Bonds payable	10,615,000	-	36,667	10,578,333	44,167
Less: Discount on bond	(134,992)	-	(4,723)	(130,269)	-
Total Business-type Activities	\$ 12,226,484	\$ 6,630	\$ 187,965	\$ 12,045,149	\$ 188,085

The 2019A bond issuance was sold at a discount of \$140,108. This amount is being amortized over the life of the debt.

Governmental Activities

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2021 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 54,600	\$ 17,516	\$ 72,116
2023	48,339	15,394	63,733
2024	33,736	13,685	47,421
2025	31,071	12,437	43,508
2026	31,460	11,143	42,603
2027-2031	161,087	36,150	197,237
2032-2035	86,666	8,794	95,460
	<u>\$ 446,959</u>	<u>\$ 115,119</u>	<u>\$ 562,078</u>

Business-Type Activities

The Utility's notes payable at June 30, 2021 consisted of the following:

The Commercial Bank of Grayson, payable in monthly installments of \$4,769, including interest of 3.75%,

final payment due March 2023, unsecured.	\$ 96,703
U.S. Bank, payable in monthly installments of \$2,480, including interest of 3.71%, final payment due March 2024, collateralized by a utility bucket truck.	81,826
Kentucky Infrastructure Authority, payable in semi-annual installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.	315,555
Republic Bank & Trust Company, payable in semi-annual installments of principal with interest of 3.38%, final payment due December 2025, collateralized by service revenues.	223,276
Kentucky Infrastructure Authority construction loan, in the amount of \$883,000 (not fully drawn at June 30, 2021), semi-annual installments of \$15,285, including interest at 0.25%, final payment due December 1, 2049 collateralized by service revenues.	<u>879,725</u>
Total Utility Fund Notes Payable	<u>\$ 1,597,085</u>

The annual requirements to amortize all Proprietary Fund notes payable including interest are listed below. The below schedule excludes revenue bonds payable outstanding and the Kentucky Infrastructure Authority note F17-007 in the amount \$883,000 (\$879,725 drawn as of June 30, 2021) due to the full amount not being drawn at this time and the amortization schedule not being available at this time.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 143,918	\$ 15,214	\$ 159,132
2023	136,922	10,468	147,390
2024	91,660	7,032	98,692
2025	69,621	4,898	74,519
2026	68,602	3,066	71,668
2027-2031	114,487	7,962	122,449
2032-2035	92,150	2,168	94,318
Totals	<u>\$ 717,360</u>	<u>\$ 50,808</u>	<u>\$ 768,168</u>

The following is a summary of the long-term bond transactions of the City of Olive Hill's business-type activities for the year ended June 30, 2021:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2020	\$ 10,615,000
Bonds Issued	-
Bonds Retired	<u>36,667</u>
Bonds Payable - June 30, 2021	<u>\$ 10,578,333</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:	
\$10,615,000 Utilities Revenue Bonds, 2019A series, maturing through January 1, 2049, with interest of 2.50% to 3.25%	<u>\$ 10,578,333</u>
Total Utility Fund Bonds Payable	<u>\$ 10,578,333</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance, the Series 2019A Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2021 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2021, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 44,167	\$ 324,971	\$ 369,138
2023	52,083	323,867	375,950
2024	57,083	322,565	379,648
2025	62,083	321,013	383,096
2026	77,500	319,150	396,650
2027-2031	720,000	1,547,488	2,267,488
2032-2036	1,546,667	1,396,825	2,943,492
2037-2041	2,692,083	1,094,025	3,786,108
2042-2046	3,347,917	642,563	3,990,480
2047-2049	1,978,750	119,532	2,098,282
Totals	<u>\$ 10,578,333</u>	<u>\$ 6,411,999</u>	<u>\$ 16,990,332</u>

Compensated Absences

The following is a summary of changes in compensated absences (including current portions) of the City for the year ended June 30, 2021:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Due within One Year</u>
Governmental Activities	\$ 15,582	\$ -	\$ 9,493	\$ 6,089	\$ -
Business-Type Activities	36,030	-	6,642	29,388	-
Total	<u>\$ 51,612</u>	<u>\$ -</u>	<u>\$ 16,135</u>	<u>\$ 35,477</u>	<u>\$ -</u>

(7) CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. One lawsuit relates to an automobile accident in which a City employee allegedly struck another motorist while he was driving in the normal course of employment. The second lawsuit alleges that the City's contractor unlawfully trespassed upon an individual's property and used it for storage and caused damages.

In addition, the City is a defendant in a class action lawsuit alleging violation of the Kentucky Constitution by applying increases to the electric utility rates without public notice. The City's insurer has filed an action to determine coverage of this claim. The ultimate outcome of this matter cannot be determined at this time.

The City intends to aggressively defend all of the lawsuits; however, an adverse decision in one or more of such matters could have a material adverse effect on the financial position of the City.

The City had construction commitments related to the downtown water line project in the amount of \$132,209 and related to the energy savings project in the amount of \$6,845,940 at June 30, 2021.

(8) RISK MANAGEMENT

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(9) PENSION PLAN

County Employees Retirement System

The City Council voted on October 20, 2020 to begin covering police and fire department full-time employees/positions as hazardous rather than nonhazardous. The change went into effect on January 1, 2021.

Plan description: Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous or hazardous positions of each county, city and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5.00% nonhazardous and 8.00% hazardous (6.00% and 9.00% for employees hired after September 1, 2008, respectively) of their salary through payroll deductions. The City's contractually required contribution rate for the year ended June 30, 2021 was 24.06% for nonhazardous (19.30% pension, 4.76%-insurance) and 39.58% for hazardous (30.06% pension, 9.52% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the City were \$191,953 and \$37,265 for Nonhazardous and Hazardous for the year ended June 30, 2021.

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

At June 30, 2021, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30, 2020, the City's proportion for nonhazardous and hazardous was 0.041103% and 0.00%, respectively.

For the year ended June 30, 2021, the City recognized pension expense of \$566,941. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ 78,615	\$ -
Changes of assumptions	123,102	-
Net difference between projected and actual earnings on investments	78,889	-
Changes in proportion and differences between City contributions and proportionate share of contributions	129,160	-
City contributions subsequent to the measurement date	191,953	-
	<u>\$ 601,719</u>	<u>\$ -</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	37,265	-
	<u>\$ 37,265</u>	<u>\$ -</u>

At June 30, 2021, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$191,953 and \$37,265 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2022	\$ 206,785	\$ -
2023	129,159	-
2024	42,140	-
2025	31,682	-
	<u>\$ 409,766</u>	<u>-</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected market value is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

The mortality table used for active members is PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 is utilized. For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private US Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	(0.25)%

Cash	1.00%	(0.75)%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	3.96%

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 benefit payments to determine the total pension liability.

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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current discount rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City's proportionate share of the net pension liability			
Nonhazardous	\$ 3,887,800	\$ 3,152,566	\$ 2,543,764
Hazardous	\$ -	\$ -	\$ -

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2021, there was a payable to the CERS Pension Plan of \$24,636 for nonhazardous and hazardous combined.

(10) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS

County Employees Retirement System

The City Council voted on October 20, 2020 to begin covering police and fire department full-time employees/positions as hazardous rather than nonhazardous. The change went into effect on January 1, 2021.

Plan description: The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. This system consists of two plans - *Nonhazardous* and *Hazardous*. Each Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2021, CERS allocated 4.76% of the 24.06% nonhazardous and 9.52% of the 39.58% hazardous actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2021, the City contributed \$47,342 and \$11,802 to the CERS Nonhazardous and Hazardous Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At June 30, 2021, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30 2020, the City's proportion for nonhazardous and hazardous was 0.041094% and 0.00%, respectively

For the year ended June 30, 2021, the City recognized OPEB expense of \$147,773, including an implicit subsidy of \$20,651. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ 165,792	\$ 165,921
Changes of assumptions	172,601	1,050
Net difference between projected and actual earnings on investments	32,981	-
Changes in proportion and differences between City contributions and proportionate share of contributions	54,196	724
City contributions subsequent to the measurement date	<u>47,342</u>	<u>-</u>
	<u>\$ 472,912</u>	<u>\$ 167,695</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>11,802</u>	<u>-</u>
	<u>\$ 11,802</u>	<u>\$ -</u>

At June 30, 2021, the City reported deferred outflows of resources related to OPEB for City contributions subsequent to the measurement date of \$47,342 and \$11,802 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2022	\$ 67,777	\$ -
2023	77,537	-
2024	58,809	-
2025	54,361	-
2026	<u>(609)</u>	<u>-</u>
	<u>\$ 257,875</u>	<u>\$ -</u>

Actuarial Methods and Assumptions: The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	24 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14years.
Post-65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023 gradually gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Pre-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private US Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	(0.25)%
Cash	1.00%	(0.75)%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	3.96%

Discount rate - The discount rate used to measure the total OPEB liability was 5.68%. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the Nonhazardous CERS Insurance Fund, calculated using the discount rate of 5.34%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	<u>1% Decrease (4.34%)</u>	<u>Current discount rate (5.34%)</u>	<u>1% Increase (6.34%)</u>
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 1,274,808	\$ 992,295	\$ 760,258

The following table presents the City's proportionate share of the collective net OPEB liability of the Hazardous CERS Insurance Fund, calculated using the discount rate of 5.30%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.30%) or 1-percentage-point higher (6.30%) than the current rate:

	1% Decrease (4.30%)	Current discount rate (5.30%)	1% Increase (6.30%)
City's proportionate share of the net OPEB liability			
Hazardous	\$ -	\$ -	\$ -

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

	1% Decrease	Current trend rate	1% Increase
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 768,284	\$ 992,295	\$ 1,264,137
Hazardous	\$ -	\$ -	\$ -

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at <https://kyret.ky.gov>.

Payables to the OPEB plan: At June 30, 2021, there was a payable to the CERS OPEB Plan of \$7,459 for nonhazardous and hazardous combined.

(11) SUBSEQUENT EVENTS

During the year ended June 30, 2022 the City spent roughly \$153,000 on renovations and additions to the building purchased for the police department.

In 2023 the City was awarded a FEMA grant for roughly \$245,000 to purchase air bags for the fire department.

On February 6, 2024 the City entered into a 2024 Tax and Revenue Anticipation Note with an interest rate of 4.95% with The Commercial Bank of Grayson to help pay for expenses in the amount of roughly \$450,000. The loan matured on June 30, 2024. The loan has been renewed annually with the most recent renewal having an interest rate of 4.95% and maturing on June 30, 2026.

On January 29, 2025, the City entered into an agreement with The Commercial Bank of Grayson in the amount of 236,771 with an interest rate of 4.95% to finance the cost of the acquisition and equipping of police cruisers. The maturity date is January 28, 2031.

On January 30, 2025, the City entered into a Master Equipment Lease Purchase Agreement with GM Financial in the amount of \$51,115 with an interest rate of 7.309% for a 2025 Chevrolet Silverado 2500 to be used by the Fire Department.

On July 11, 2025, the City leased two Bobcats in the amount of \$35,961 payable over 48 months.

On October 30, 2025, the City entered into a lease agreement with The Commercial Bank of Grayson for \$20,000 to finance the costs of acquiring and equipping two trucks. This is payable over 3 years with an interest rate of 7.0% and matures on October 30, 2028.

(12) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The composition of interfund balances as of June 30, 2021 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Utility Fund	\$ 34,274

Interfund Transfers

The following interfund transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Utility Fund	Operations	\$ 47,592

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF OLIVE HILL, KENTUCKY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2021

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)	
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:								
City's proportion of the net pension liability	0.041103%	0.00%	0.039809%	0.00%	0.037255%	0.00%	0.035949%	0.00%
City's proportionate share of the net pension liability	\$ 3,132,566	\$ -	\$ 2,799,785	\$ -	\$ 2,268,943	\$ -	\$ 2,104,205	\$ -
City's covered-employee payroll	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	300.049%	0.00%	277.450%	0.00%	243.163%	0.00%	228.664%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	44.11%	50.450%	46.63%	53.540%	49.26%	53.300%	49.80%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:								
City's proportion of the net pension liability	0.041094%	0.00%	0.039799%	0.00%	0.037274%	0.00%	0.035949%	0.00%
City's proportionate share of the net pension liability	\$ 992,295	\$ -	\$ 669,401	\$ -	\$ 661,792	\$ -	\$ 722,698	\$ -
City's covered-employee payroll	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	94.443%	0.00%	66.336%	0.00%	70.924%	0.00%	78.536%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	51.67%	58.84%	60.440%	64.44%	57.600%	64.24%	52.400%	59.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: The City entered the hazardous portion of the plan effective January 1, 2021.

**CITY OF OLIVE HILL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2021**

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)	
	2017 (2016)	2016 (2015)	2016 (2015)	2015 (2014)	2015 (2014)	2015 (2014)
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:						
City's proportion of the net pension liability	0.037070%	0.00%	0.035392%	0.00%	0.036007%	0.00%
City's proportionate share of the net pension liability	\$ 1,825,263	\$ -	\$ 1,521,681	\$ -	\$ 1,168,000	\$ -
City's covered-employee payroll	\$ 914,622	\$ -	\$ 860,170	\$ -	\$ 826,102	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	199.565%	0.00%	176.905%	0.00%	141.387%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	55.500%	53.95%	59.970%	57.52%	66.800%	63.46%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: The City entered the hazardous portion of the plan effective January 1, 2021.

CITY OF OLIVE HILL, KENTUCKY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2021

	2021		2020		2019		2018		2017	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:										
Contractually required contribution	\$ 191,953	\$ 37,265	\$ 202,782	\$ -	\$ 163,678	\$ -	\$ 135,112	\$ -	\$ 128,370	\$ -
Contributions in relation to the contractually required contribution	191,953	37,265	202,782	-	163,678	-	135,112	-	128,370	-
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 994,575	\$ 123,969	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	19.30%	30.06%	19.30%	0.00%	16.22%	0.00%	14.48%	0.00%	13.95%	0.00%
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:										
Contractually required contribution	\$ 47,342	\$ 11,802	\$ 50,013	\$ -	\$ 53,085	\$ -	\$ 43,844	\$ -	\$ 43,523	\$ -
Contributions in relation to the contractually required contribution	47,342	11,802	50,013	-	53,085	-	43,844	-	43,523	-
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 994,575	\$ 123,969	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	4.76%	9.52%	4.76%	0.00%	5.26%	0.00%	4.70%	0.00%	4.73%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: The City entered the hazardous portion of the plan effective January 1, 2021.

CITY OF OLIVE HILL, KENTUCKY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS (CONCLUDED)
 FOR THE YEAR ENDED JUNE 30, 2021

	2016		2015		2014	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:						
Contractually required contribution	\$ 113,596	\$ -	\$ 109,672	\$ -	\$ 113,506	\$ -
Contributions in relation to the contractually required contribution	113,596	-	109,672	-	113,506	-
Contribution deficiency (excess)	-	-	-	-	-	-
City's covered-employee payroll	\$ 914,622	\$ -	\$ 860,170	\$ -	\$ 826,102	\$ -
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	12.42%	0.00%	12.75%	0.00%	13.74%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: The City entered the hazardous portion of the plan effective January 1, 2021.

**CITY OF OLIVE HILL, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021**

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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

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

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% for nonhazardous and 3.55%-19.05% for hazardous (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

CERS – Insurance Fund

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% for nonhazardous and 3.55%-19.05% for hazardous (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

For the June 30, 2020 measurement date, the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The assumed impact of the Cadillac Tax (previously a 0.9% load on employer paid non-Medicare premiums for those who became participants prior to July 1, 2003) was removed to reflect its repeal since the prior valuation.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS - PENSION

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended 2018, determined as of July 1, 2017. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates for the year ending June 30, 2020:

Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, closed
Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55% (nonhazardous) and 3.05% to 18.55% (hazardous), varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

CERS – Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2020:

Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay

Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55% (nonhazardous) and 3.05% to 18.55% (hazardous), varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

(3) CHANGES OF BENEFITS

CERS - PENSION

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2019 is determined using these updated benefit provisions.

CERS – Insurance Fund

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.



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**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**

The Honorable Mayor and
City Council
City of Olive Hill
Olive Hill, 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 Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2025.

Internal Control Over Financial Reporting

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

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

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 may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

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

City's Responses to Findings

The City's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City'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.

Kelley Galloway Smith Goolbsy, PSC

Ashland, Kentucky
December 5, 2025

**CITY OF OLIVE HILL, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021**

CASH RECONCILIATIONS (Finding 2021-001)

Condition: When we began our audit procedures it was brought to our attention that the City's bank accounts had not been properly reconciled and agreed to the general ledger for the 2021 fiscal year until December 2024. It was also brought to our attention that many electronic transactions (both deposits and disbursements) were not being recorded at all since these transactions do not automatically post to the general ledger software.

Criteria: Bank accounts should be reconciled and agreed to the general ledger monthly. Electronic transactions should be recorded at the same time that the transaction occurs.

Effect: By not reconciling the bank accounts and recording electronic payments, there is a decrease in controls over cash that could result in an unauthorized use of the funds. Furthermore, if there are outages, it is more difficult to clear them as more time passes.

Recommendation: We recommend that bank accounts are reconciled and agreed to the general ledger monthly. We also recommend that all electronic transactions are recorded as they occur.

Management's Response and Corrective Action: Management acknowledges the finding. Once it was discovered that bank reconciliations had not been completed, the new City Clerk and staff immediately brought all outstanding reconciliations up to date. All prior months have now been fully reconciled. Going forward, all bank accounts will be reconciled on a monthly basis and agreed to the general ledger no later than the 25th of the following month. All electronic transactions—including ACH deposits, ACH withdrawals, automatic payments, and other electronic activity—will be recorded in the general ledger as they occur or, at minimum, during weekly transaction entry procedures. These reconciliations are now current and will continue to be part of our ongoing monthly closing process, completed timely each month.

ACCOUNT RECONCILIATIONS (Finding 2021-002)

Condition: During our audit procedures, it was noted that several general ledger asset and liability accounts had to be adjusted due to the accounts not being reconciled. The accounts included, but were not limited to, accounts receivable, due to other fund, due from other fund, accrued payroll liabilities, fixed assets, and debt.

Criteria: All general ledger asset and liability accounts should be reconciled and agreed to the general ledger on at least an annual basis.

Effect: By not reconciling the general ledger asset and liability accounts there is a decrease in controls over these accounts that could result in an unauthorized use or misappropriation of the City's assets or a significant understatement of the City's liabilities. Furthermore, if there are outages, it is more difficult to clear them as more time passes.

Recommendation: We recommend that general ledger asset and liability accounts are reconciled and agreed to the general ledger on at least an annual basis.

Management's Response and Corrective Action: Management agrees with this finding. All general ledger asset and liability accounts will be fully reconciled on an annual basis and agreed to the general ledger as part of the year-end closing procedures. This includes accounts such as accounts receivable, due to/from other funds, payroll liabilities, fixed assets, and debt balances to ensure accuracy. Staff will complete reconciliation training and will use standardized reconciliation forms developed for this purpose. Any adjustments identified during the annual reconciliation process will be reviewed and approved prior to finalizing the City's year-end financial statements. These steps will support improved accuracy and readiness for the City's bi-annual audit cycle.