

CITY OF OLIVE HILL, KENTUCKY

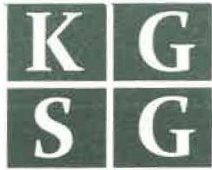
**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

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	2,616,265	23,007,093	25,623,358
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	320,114	663,231	983,345
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	1,669,926	14,944,174	16,614,100
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	96,822	200,602	297,424
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	\$ 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
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)
Net position, end of year - Governmental Activities	<u>\$ 1,169,631</u>

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	<u>1,055,003</u>	<u>31,885</u>	<u>1,086,888</u>
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	<u>1,594,412</u>	<u>-</u>	<u>1,594,412</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(539,409)</u>	<u>31,885</u>	<u>(507,524)</u>
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	<u>399,350</u>	<u>-</u>	<u>399,350</u>
Net change in fund balances	(140,059)	31,885	(108,174)
Fund balances, beginning of year	<u>423,150</u>	<u>123,804</u>	<u>546,954</u>
Fund balances, end of year	<u>\$ 283,091</u>	<u>\$ 155,689</u>	<u>\$ 438,780</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, 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	<u>4,764,310</u>
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
	<u>2,595,277</u>
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
	<u>1,186,481</u>
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
	<u>371,670</u>

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
	<u>455,121</u>
Sanitation:	
Salaries and benefits	144,323
Contractual services	89,820
Depreciation	21,059
Materials and supplies	60,758
	<u>315,960</u>
Total operating expenses	<u>4,924,509</u>
OPERATING LOSS	<u>(160,199)</u>
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)	<u>(280,809)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(441,008)
CAPITAL CONTRIBUTIONS - TAP FEES	<u>3,525</u>
DECREASE IN NET POSITION	(437,483)
NET POSITION, JUNE 30, 2019	<u>8,963,031</u>
NET POSITION, JUNE 30, 2020	<u>\$ 8,525,548</u>

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

	Utility Fund
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	1,137,575	(90,750)	1,046,825	1,055,003	8,178
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	1,137,575	(47,352)	1,090,223	1,594,412	(504,189)
Excess (deficiency) of revenues over (under) expenditures	-	(43,398)	(43,398)	(539,409)	(496,011)
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	84,000	-	-	399,350	399,350
Net change in fund balances	84,000	(43,398)	(43,398)	(140,059)	(96,661)
Fund balance, beginning of year	-	99,000	99,000	423,150	324,150
Fund balance, end of year	\$ 84,000	\$ 55,602	\$ 55,602	\$ 283,091	\$ 227,489

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	82,000	(50,263)	31,737	31,885	148
Expenditures					
Highways and streets	155,784	(155,784)	-	-	-
Other expenditures	50,000	(50,000)	-	-	-
Total expenditures	205,784	(205,784)	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(123,784)	155,521	31,737	31,885	148
Other financing sources (uses)					
Transfers	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(123,784)	155,521	31,737	31,885	148
Fund balance, beginning of year	123,784	-	123,784	123,804	20
Fund balance, end of year	\$ -	\$ 155,521	\$ 155,521	\$ 155,689	\$ 168

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:

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	0.80%	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>	June 30, 2019	Increases	Decreases	June 30, 2020
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>

Business-type Activities

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>
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* 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>
<u>Business-type Activities</u>	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due within One Year
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	(139,715)	-	(4,723)	(134,992)	-
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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
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	202,782	-
	<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	3,202
	<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	100.00%	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)	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)
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	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**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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	<u>202,782</u>	<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	\$1,050,684	\$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	<u>50,013</u>	<u>53,085</u>	<u>43,844</u>	<u>43,523</u>			
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