

CITY OF OLIVE HILL, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2021

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplemental Information

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

Accounting principles generally accepted in the United States of America require that the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 38 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

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

Kelley Galloway Smith Goolsby, PSC
Ashland, Kentucky
December 5, 2025

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

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

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 269,782	\$ -	\$ 212,219	\$ -	\$ (57,563)	\$ -	\$ (57,563)
Fire	291,988	-	20,000	-	(271,988)	-	(271,988)
Police	444,353	-	65,609	-	(378,744)	-	(378,744)
Highways and streets	320,625	-	51,881	-	(268,744)	-	(268,744)
Recreation	46,331	-	-	-	(46,331)	-	(46,331)
Library	25,000	-	-	-	(25,000)	-	(25,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	10,154	-	-	-	(10,154)	-	(10,154)
Total governmental activities	<u>1,421,050</u>	<u>-</u>	<u>349,709</u>	<u>-</u>	<u>(1,071,341)</u>	<u>-</u>	<u>(1,071,341)</u>
Business-Type Activities							
Utility fund	<u>6,056,146</u>	<u>4,711,234</u>	<u>-</u>	<u>8,890</u>	<u>-</u>	<u>(1,336,022)</u>	<u>(1,336,022)</u>
Total business-type activities	<u>6,056,146</u>	<u>4,711,234</u>	<u>-</u>	<u>8,890</u>	<u>-</u>	<u>(1,336,022)</u>	<u>(1,336,022)</u>
Total primary government	<u>\$ 7,477,196</u>	<u>\$ 4,711,234</u>	<u>\$ 349,709</u>	<u>\$ 8,890</u>	<u>(1,071,341)</u>	<u>(1,336,022)</u>	<u>(2,407,363)</u>

General Revenues:

Property and other local taxes	338,407	-	338,407
Occupational licenses	306,793	-	306,793
Franchise fees	57,792	-	57,792
Rent income	76,940	-	76,940
Licenses, fees and permits	8,196	-	8,196
Alcohol fees	138,333	-	138,333
Coal and mine severance	9,692	-	9,692
Other revenues	27,003	-	27,003
Gain on sale of assets	105,000	-	105,000
Interest income	1,132	2,015	3,147
Total general revenues	<u>1,069,288</u>	<u>2,015</u>	<u>1,071,303</u>
Transfers	<u>(47,592)</u>	<u>47,592</u>	<u>-</u>
Total general revenues and transfers	<u>1,021,696</u>	<u>49,607</u>	<u>1,071,303</u>
Change in net position	<u>(49,645)</u>	<u>(1,286,415)</u>	<u>(1,336,060)</u>
Net position, June 30, 2020	<u>1,169,631</u>	<u>8,525,548</u>	<u>9,695,179</u>
Net position, June 30, 2021	<u>\$ 1,119,986</u>	<u>\$ 7,239,133</u>	<u>\$ 8,359,119</u>

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

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

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

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

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

Total fund balance - Governmental Funds	\$ 154,366
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$4,551,385 net of accumulated depreciation of \$2,404,906 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	2,146,479
Pole rental funds were not collected within the current period and therefore are not reported in the governmental funds.	13,286
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	184,105
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.	86,286
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Net OPEB liabilities	(242,154)
Net pension liabilities	(769,334)
Long-term debt	(446,959)
Compensated absences	<u>(6,089)</u>
Net position, end of year - Governmental Activities	<u><u>\$ 1,119,986</u></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, 2021

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

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

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

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

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

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

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

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

Pole rental funds were not collected within the current period and therefore are not reported in governmental funds in the current period.

However, these funds were recorded in the statement of activities. 13,286

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF OLIVE HILL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major Governmental Funds:

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

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

The City reports the following major Proprietary Fund:

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

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

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

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

D. Budget and Budgetary Accounting

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

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

E. Deposits and Investments

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

F. Inventories

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

G. Capital Assets and Depreciation

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

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

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

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

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

H. Encumbrances

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

I. Interfund Transactions

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

J. Interfund Receivables and Payables

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

K. Compensated Absences

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

L. Fund Balances

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

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

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

M. Cash and Cash Equivalents

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

N. Allowance for Doubtful Accounts

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

O. Use of Estimates

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

P. Deferred Outflows/Inflows of Resources

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

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

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

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

R. Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

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

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

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	0.35%	11/21/22
Certificate of deposit	46.858	46.858	0.30	11/16/22
	<u>\$ 146,858</u>	<u>\$ 146,858</u>		

(3) PROPERTY TAX REVENUES

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

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

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

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

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

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

(4) RESTRICTED ASSETS

2019A Bond Issuance

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

(5) CAPITAL ASSETS

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

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

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

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

(6) LONG TERM LIABILITIES

Debt

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

<u>Governmental Activities</u>	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due within One Year
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 17,752	\$ -	\$ 10,467	\$ 7,285	\$ 7,285
6.85% Note payable - Due August 30, 2023 Heavy equipment	55,403	-	17,040	38,363	17,319
3.90% Note payable - Due August 30, 2023 2, 2020 Police Tahoes	70,465	-	70,465	-	-
Prime less 0.75% Note payable - Due November 22, 2034 Fire Trucks	325,000	-	21,667	303,333	21,667
4.00% Note payable - Due March 5, 2031 Unsecured	-	100,000	2,022	97,978	8,329
Total Governmental Activities	\$ 468,620	\$ 100,000	\$ 121,661	\$ 446,959	\$ 54,600
<u>Business-type Activities</u>	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due within One Year
Notes payable	\$ 1,746,476	\$ 6,630	\$ 156,021	\$ 1,597,085	\$ 143,918
Bonds payable	10,615,000	-	36,667	10,578,333	44,167
Less: Discount on bond	(134.992)	-	(4.723)	(130,269)	-
Total Business-type Activities	\$ 12,226,484	\$ 6,630	\$ 187,965	\$ 12,045,149	\$ 188,085

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

Governmental Activities

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

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

Business-Type Activities

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

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

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

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

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

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

Utility Fund Revenue Bonds

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

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

Revenue Bonds:

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

Pledge of Utility Fund Revenues

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

Compliance with Bond Ordinances

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

Sinking Fund Requirements

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

Year	Principal	Interest	Total
2022	\$ 44,167	\$ 324,971	\$ 369,138
2023	52,083	323,867	375,950
2024	57,083	322,565	379,648
2025	62,083	321,013	383,096
2026	77,500	319,150	396,650
2027-2031	720,000	1,547,488	2,267,488
2032-2036	1,546,667	1,396,825	2,943,492
2037-2041	2,692,083	1,094,025	3,786,108
2042-2046	3,347,917	642,563	3,990,480
2047-2049	1,978.750	119.532	2,098.282
Totals	<u>\$ 10,578,333</u>	<u>\$ 6,411,999</u>	<u>\$ 16,990,332</u>

Compensated Absences

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

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

(7) CONTINGENCIES

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

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

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

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

(8) RISK MANAGEMENT

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

(9) PENSION PLAN

County Employees Retirement System

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

County Employees Retirement System

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	24 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023 gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality	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	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
Pre-retirement (non-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
Post-retirement (disabled)	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(11) SUBSEQUENT EVENTS

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

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

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

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

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

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

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

(12) INTERFUND TRANSACTIONS

Interfund Receivable and Payables

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

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

Interfund Transfers

The following interfund transfers were made during the year:

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)	
	2021 (2020)		2020 (2019)		2019 (2018)		2018 (2017)	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:								
City's proportion of the net pension liability	0.041103%	0.00%	0.039809%	0.00%	0.037255%	0.00%	0.035949%	0.00%
City's proportionate share of the net pension liability	\$ 3,152,566	\$ -	\$ 2,799,785	\$ -	\$ 2,268,943	\$ -	\$ 2,104,205	\$ -
City's covered-employee payroll	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	300.049%	0.00%	277.450%	0.00%	243.163%	0.00%	228.664%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	44.11%	50.450%	46.63%	53.540%	49.26%	53.300%	49.80%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:								
City's proportion of the net pension liability	0.041094%	0.00%	0.039799%	0.00%	0.037274%	0.00%	0.035949%	0.00%
City's proportionate share of the net pension liability	\$ 992,295	\$ -	\$ 669,401	\$ -	\$ 661,792	\$ -	\$ 722,698	\$ -
City's covered-employee payroll	\$ 1,050,684	\$ -	\$ 1,009,112	\$ -	\$ 933,094	\$ -	\$ 920,215	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	94.443%	0.00%	66.336%	0.00%	70.924%	0.00%	78.536%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	51.67%	58.84%	60.440%	64.44%	57.600%	64.24%	52.400%	59.00%

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

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

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

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

Note: Schedule is intended to show information for the last 10 fiscal years.

Additional years will be displayed as they become available.

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

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

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

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

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

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

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

Note: Schedule is intended to show information for the last 10 fiscal years.

Additional years will be displayed as they become available.

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

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

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

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

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

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

CERS – Insurance Fund

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

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

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

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

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

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

CERS - PENSION

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

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

CERS – Insurance Fund

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

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

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

(3) CHANGES OF BENEFITS

CERS - PENSION

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

CERS – Insurance Fund

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



**Kelley Galloway
Smith Goolsby, PSC**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 5, 2025.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

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

City's Responses to Findings

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

Purpose of this Report

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

Kelley Galloway Smith Goolsby, PSC
Ashland, Kentucky
December 5, 2025

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

CASH RECONCILIATIONS (Finding 2021-001)

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

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

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

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

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

ACCOUNT RECONCILIATIONS (Finding 2021-002)

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

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

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

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

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