

CITY OF WILDER, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2020



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

City of Wilder, Kentucky
520 Licking Pike
Wilder, KY 41071

To the Honorable Mayor
and Members of City Council

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Wilder, Kentucky, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

1407 Alexandria Pike
Fort Thomas, KY 41075

3863 Glenmore Ave
Cincinnati, OH 45211

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison, and pension information, as listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basis financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

October 26, 2020

As management of the City of Wilder, Kentucky, (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements.

ACCOMPLISHMENTS AND TRANSPARENCY

- To maintain better internal control, the City utilizes an outside accountant to review our monthly statements.
- The City finalized financing for the new firehouse and park with the \$6.2 million bond issue for new firehouse and park construction.
- Using the paying agent of the U.S. Bank for payment of funds from the construction project. The City began construction on the new firehouse and park.
- Better control over payment of bills as the Mayor is personally signing all checks. The City no longer uses a stamp. The Mayor reviews and signs all checks individually.
- For financial transparency the City posts the final annual audits on the City's website.
- Overall, the City continues to maintain and improve internal controls as well as promote overall transparency to the public.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City' exceed the liabilities and deferred flows by \$1,191,726 at the close of the current fiscal year. The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was a deficit of \$11,960,743. The City is required to provide postemployment benefits to its employees. As a result, the City has recognized substantial liabilities in the financial statements for these benefits. As of June 30, 2020, the City had liabilities of \$9,324,732 for postemployment benefits, which has caused the deficit balance in the unrestricted net position.
- The City's total net position decreased \$1,706,722 primarily due to postemployment benefit plan expense incurred during the fiscal year.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$4,776,319, an increase of \$2,118,547 from the prior year. Of this amount, \$4,171,481 is available for spending at the City's discretion (unassigned fund balance).
- At the close of the current fiscal year, the unassigned fund balance was approximately 48% of total fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to the financial statements. This report also included supplementary information intended to furnish additional detail to support the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position.

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

The governmental activities of the City include general government, police, fire, public works, and recreation.

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

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have be segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by State law. However, the City may establish other funds to help it control and manage money for particular purposes.

Governmental funds: Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resource, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road fund, capital fund, and the building fund which are considered to be major funds.

The City adopts an annual appropriated budget for each of the major funds. A budgetary comparison schedule has been provided for each major fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-32 of this report.

OTHER INFORMATION

In addition to the basic financial statements and notes to the financial statements, this report also presents required supplementary information concerning the City's progress in funding its obligations to provide pension and OPEB benefits to its employees. Required supplementary information can be found on pages 33-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

	2020	2019
Assets		
Current and other assets	\$ 4,969,655	\$ 2,893,089
Capital assets	10,356,413	6,845,638
Total assets	15,326,068	9,738,727
Deferred outflows of resources	2,607,001	2,603,858
Liabilities		
Current liabilities	180,843	296,864
Long-term liabilities	15,588,500	8,107,951
Total liabilities	15,769,343	8,404,815
Deferred inflows of resources	1,844,741	1,039,322
Net position		
Net investment in capital assets	10,356,413	6,845,638
Restricted	2,796,056	\$ 165,471
Unrestricted	(11,960,743)	(4,112,661)
Total net position	\$ 1,191,726	\$ 2,898,448

Changes in Net Position

	2020	2019
Revenues		
Taxes	\$ 2,036,830	\$ 2,132,397
Licenses and permits	2,126,627	2,398,873
Intergovernmental	149,182	161,494
Charges for services	94,625	98,685
Fines and forfeitures	2,035	3,313
Interest income	72,945	21,498
Other revenue	73,681	122,676
Total revenues	<u>4,555,925</u>	<u>4,938,936</u>
Expenses		
General government	1,634,287	1,425,439
Police	1,802,584	1,700,780
Fire	2,290,500	1,952,824
Public works	328,175	832,985
Recreation	36,019	39,952
Interest	171,082	
Total expenses	<u>6,262,647</u>	<u>5,951,980</u>
Decrease in net position	(1,706,722)	(1,013,044)
Net position - beginning	<u>2,898,448</u>	<u>3,911,492</u>
Net position - ending	<u>\$ 1,191,726</u>	<u>\$ 2,898,448</u>

CAPITAL ASSETS

Capital Assets Net of Depreciation

	2020	2019
Land	\$ 1,678,397	\$ 1,678,397
Investment in joint venture	112,191	112,191
Buildings	2,313,562	2,385,449
Infrastructure	2,293,205	1,994,088
Vehicles	505,542	564,917
Equipment	86,018	110,596
Construction in progress	3,367,498	
Total capital assets	<u>\$ 10,356,413</u>	<u>\$ 6,845,638</u>

LONG-TERM DEBT

General Obligation Bonds

	2020	2019
General obligations bonds	\$ 6,085,000	\$

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Administrator, 520 Licking Pike, Wilder, Kentucky 41071.

	Primary Government	
	Governmental Activities	Total
Assets		
Cash and cash equivalents	\$ 896,346	\$ 896,346
Restricted cash	2,796,056	2,796,056
Investments	578,367	578,367
Receivables:		
Taxes	161,986	161,986
Accounts	506,383	506,383
Assessment	14,579	14,579
Intergovernmental	8,468	8,468
Interest	7,470	7,470
Capital assets, net of depreciation	10,356,413	10,356,413
Total assets	15,326,068	15,326,068
Deferred outflows of resources		
Pension related	1,802,782	1,802,782
OPEB related	804,217	804,217
Total deferred outflows of resources	2,606,999	2,606,999
Liabilities		
Accounts payable	53,768	53,768
Payroll related liabilities	127,075	127,075
Noncurrent liabilities:		
Due within one year:		
Accrued interest payable	15,213	15,213
Bonds payable	135,000	135,000
Due in more than one year:		
Bonds payable	5,950,000	5,950,000
Bond premium, net of amortization	102,103	102,103
Compensated absences	61,452	61,452
Net pension liability	7,365,714	7,365,714
Net OPEB liability	1,959,018	1,959,018
Total liabilities	15,769,343	15,769,343
Deferred inflows of resources		
Related to pensions	386,662	386,662
Related to OPEB	585,338	585,338
Total deferred inflows of resources	972,000	972,000
Net position		
Net investment in capital assets	10,356,413	10,356,413
Restricted	2,796,056	2,796,056
Unrestricted	(11,960,745)	(11,960,745)
Total net position	\$ 1,191,724	\$ 1,191,724

See accompanying notes to financial statements.

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 1,630,146	\$ 94,625	\$ 9,144	\$ 0	\$ (1,526,377)
Police	1,805,131		55,115		(1,750,016)
Fire	2,293,596		30,259		(2,263,337)
Public works	326,675		54,664		(272,011)
Recreation	36,019				(36,019)
Interest	171,082				(171,082)
Total governmental activities	6,262,649	94,625	149,182	-	(6,018,842)
Total primary government	\$ 6,262,649	\$ 94,625	\$ 149,182	\$ 0	(6,018,842)
General revenues					
Taxes					2,036,830
Licenses and permits					2,126,627
Fines and forfeitures					2,035
Other revenues					67,681
Investment income					72,945
Gain on sale of capital assets					6,000
Total general revenues					4,312,118
Change in net position					(1,706,724)
Net position - beginning as restated					2,898,448
Net position - ending					\$ 1,191,724

See accompanying notes to financial statements.

City of Wilder, Kentucky
Balance Sheet – Governmental Funds
June 30, 2020

	General Fund	Municipal Road Aid Fund	Capital Fund	Building Fund	Fire Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 398,733	\$	\$ 471,143	\$	\$	\$ 869,876
Restricted cash	2,796,057	26,471				2,822,528
Investments				578,367		578,367
Receivables:						
Taxes	161,986					161,986
Assessment	14,579					14,579
Licenses	506,383					506,383
Intergovernmental	8,468					8,468
Total assets	\$ 3,886,206	\$ 26,471	\$ 471,143	\$ 578,367	\$ 0	\$ 4,962,187
Liabilities						
Accounts payable	\$ 53,768	\$	\$	\$	\$	\$ 53,768
Payroll liabilities	127,076					127,076
Deferred revenue	5,024					5,024
Total liabilities	185,868	0	0	0	0	185,868
Fund balances						
Committed					-	-
Restricted		26,471		578,367		604,838
Unassigned	3,700,338		471,143			4,171,481
Total fund balances	3,700,338	26,471	471,143	578,367	0	4,776,319
Total liabilities and fund balances	\$ 3,886,206	\$ 26,471	\$ 471,143	\$ 578,367	\$ 0	\$ 4,962,187

See accompanying notes to financial statements.

Total governmental fund balances	\$ 4,776,319
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets of \$15,061,029, net of accumulated depreciation of \$4,704,617 used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,356,413
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Deferred outflows and inflows of resources related to postretirement benefits (pension and OPEB) are applicable to future periods and, therefore, not reported in the funds.

Deferred outflows - pension related	1,802,782	
Deferred outflows - OPEB related	804,217	
Deferred inflows - pension related	(386,662)	
Deferred inflows - OPEB related	(585,338)	
Total deferred outflow and inflow related to postretirement benefits		1,634,999

Assets not currently available and are not recognized in the funds, whereas these amounts are reported in the statement of activities.	12,493
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds

Accrued interest payable	(15,213)	
Bonds payable	(6,085,000)	
Compensated absences	(61,452)	
Net pension liability	(7,365,714)	
Net OPEB liability	(1,959,018)	
Total long-term liabilities		(15,486,397)

Governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(102,103)
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Net position of governmental activities	\$ 1,191,724
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See accompanying notes to financial statements.

City of Wilder, Kentucky
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
June 30, 2020

	General Fund	Road Aid Fund	Capital Fund	Building Fund	Fire Fund	Total Governmental Funds
Revenues						
Taxes	\$ 2,030,047	\$	\$	\$	\$	\$ 2,030,047
Licenses and permits	2,126,626					2,126,626
Intergovernmental	94,518	54,665				149,183
Charges for services	94,625					94,625
Fines and forfeitures	2,035					2,035
Interest income	55,801	563	336	19,161	419	76,280
Other revenue	67,681					67,681
Total revenues	4,471,333	55,228	336	19,161	419	4,546,477
Expenditures						
Current						
General government	1,458,915		11			1,458,926
Public safety - police	1,216,903					1,216,903
Public safety - fire	1,620,021					1,620,021
Public works	252,779	75				252,854
Recreation	33,517					33,517
Debt service						
Principal	125,000					125,000
Interest	159,390					159,390
Capital outlay	3,882,943					3,882,943
Total expenditures	8,749,468	75	11	0	0	8,749,554
Excess of revenues over (under) expenditures	(4,278,135)	55,153	325	19,161	419	(4,203,077)
Other financing sources (uses)						
Transfers in	200,000	100	470,818			670,918
Transfers out	(15,100)	(200,000)		(253,932)	(201,886)	(670,918)
Bond proceeds	6,210,000					6,210,000
Bond issue premium	105,624					105,624
Sale of assets	6,000					6,000
Total other financing sources (uses)	6,506,524	(199,900)	470,818	(253,932)	(201,886)	6,321,624
Net change in fund balances	2,228,389	(144,747)	471,143	(234,771)	(201,467)	2,118,547
Fund balances - beginning	1,471,949	171,218		813,138	201,467	2,657,772
Fund balances - ending	\$ 3,700,338	\$ 26,471	\$ 471,143	\$ 578,367	\$ 0	\$ 4,776,319

See accompanying notes to financial statements.

City of Wilder, Kentucky
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds to Statement of Activities
June 30, 2020

Net change in fund balances - total governmental funds	\$ 2,118,547
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	3,812,027	
Depreciation expense	<u>(301,254)</u>	
Total capital asset activities		3,510,773

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	3,449
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effects of bond issuance premiums with debt is first issued, whereas these amounts are deferred and amortized in statement of activities.

Bond proceeds	(6,210,000)	
Bond issuance premium	(105,624)	
Principal paid on bonds	<u>125,000</u>	
Total bond activities		(6,190,624)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, not reported as expenditures in the governmental funds.

Accrued interest payable	(15,213)	
Compensated absences	9,141	
Changes in pension liabilities and related deferred outflows and inflows	(1,037,966)	
Changes in OPEB liabilities and related deferred outflows and inflows of resources	(108,352)	
Amortization of bond premiums	<u>3,521</u>	
Total expense activities		(1,148,869)

Change in net position of governmental activities	<u>\$ (1,706,724)</u>
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See accompanying notes to financial statements.

NOTE 1: ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Wilder, Kentucky (City) designate the purpose, function and restrictions of the various funds.

Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.

Municipal Road Aid Fund – The municipal road aid fund accounts for the allocation of funds from the Commonwealth of Kentucky as provided in KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road aid expenditures.

Capital Fund – The civic center fund is a city designated fund used for capital projects.

Building Fund – The building fund is a city designated fund for used for savings purposes.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

Capital Assets

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. The City's infrastructure consists of sidewalks, streets, and traffic signals. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings	50 Years
Improvements	20 Years
Infrastructure	40 Years
Vehicles	7 Years
General equipment	7 Years

Deferred Outflows of Resources – Pension, OPEB, and Debt Refunding

The City reports decreases in net position that relates to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The deferred outflows of resources reported in the financial statements include (1) deferred amount arising from the refunding of bonds, (2) deferred outflows of resources for contributions made to the City's defined benefit pension plan between the measurement date of the plan net pension liabilities and the end of City's fiscal year, and (3) deferred outflows of resources related to the changes between the expected and actual experiences for the plan and changes in actuarial assumptions. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred outflows related to experience and assumption changes will be recognized in future periods.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources – Pension and OPEB

The City reports increases in net position that relates to future periods as deferred inflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The deferred inflows of resources reported in the financial statements arise from changes in the expected and actual experiences for the plan and for changes in assumptions. The deferred inflows related to these changes will be recognized in future periods.

Net Pension Liability

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

Net OPEB Liability

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - amounts are intended to be used by the City Council for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council.

Unassigned - the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

Revenues

Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Nonexchange transactions

Transactions in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measureable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, where are presented as internal balances.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

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 differences between the budgetary basis and GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/objective level. All budget appropriations lapse at year-end.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the City Council.

Subsequent Events

The City evaluated subsequent events for potential recognition and disclosure through October 26, 2020, the date the financial statements were available to be issued.

NOTE 2: CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the City's cash and cash equivalents was covered by Federal Deposit Insurance Corporation (FDIC) and by collateral agreements and collateral held by the pledging bank's trust department in the City's name.

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is summarized below:

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
Governmental activities				
Land	\$ 1,678,397	\$	\$	\$ 1,678,397
Investment in joint venture	112,191			112,191
Buildings	3,594,347			3,594,347
Infrastructure and improvements	3,022,527	404,363		3,426,890
Vehicles	1,615,070	35,980	47,489	1,603,561
Equipment	1,273,957	4,188		1,278,145
Construction in progress		3,367,498		3,367,498
Total capital assets	<u>11,296,489</u>	<u>3,812,029</u>	<u>47,489</u>	<u>15,061,029</u>
Accumulated depreciation				
Buildings	1,208,898	71,887	-	1,280,785
Infrastructure and improvements	1,028,439	105,246	-	1,133,685
Vehicles	1,050,153	95,355	47,489	1,098,019
Equipment	1,163,361	28,766	-	1,192,127
Total accumulated depreciation	<u>4,450,851</u>	<u>301,254</u>	<u>47,489</u>	<u>4,704,616</u>
Net governmental capital assets	<u>\$ 6,845,638</u>	<u>\$ 3,510,775</u>	<u>\$ 0</u>	<u>\$ 10,356,413</u>

Depreciation was charged to the following government funds:

Administration	\$ 112,029
Police	61,836
Fire	55,736
Public Works	69,150
Recreation	2,503
	<u>\$ 301,254</u>

NOTE 4: LONG-TERM LIABILITIES

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

General obligation bonds outstanding at June 30, 2020, are as follows:

Loan	Original Issue Amount	Date Issued	Coupon Rate	Maturity Date	Balance June 30, 2020
Series 2019 Bonds	\$ 6,210,000	7/23/2019	3.00%	6/1/2049	\$ 6,085,000

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

Changes in the City's bonds payable are as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Amount Due Within One Year
Series 2019 Bonds	\$	\$ 6,210,000	\$ 125,000	\$ 6,085,000	\$ 135,000
Bond premiums		105,624	3,521	102,103	
	\$	\$ 6,315,624	\$ 128,521	\$ 6,187,103	\$ 135,000

Future minimum principal and interest payments are as follows:

Year ended June 30:	Principal	Interest	Total
2021	\$ 135,000	\$ 182,550	\$ 317,550
2022	140,000	178,500	318,500
2023	145,000	174,300	319,300
2024	145,000	169,950	314,950
2025	150,000	165,600	315,600
2026 - 2030	825,000	757,500	1,582,500
2031 - 2035	960,000	626,100	1,586,100
2036 - 2040	1,110,000	473,100	1,583,100
2041 - 2045	1,295,000	295,800	1,590,800
2046 - 2049	1,180,000	90,000	1,270,000
	<u>\$ 6,085,000</u>	<u>\$ 3,113,400</u>	<u>\$ 9,198,400</u>

NOTE 5: COMPENSATED ABSENCES

City employees earn vacation time based on length of service. Employees cannot opt for cash in lieu of time off. Employees also accrue sick days based on length of service. Sick days are not paid out at retirement or termination. At June 30, 2020, accrued compensated absences are \$61,452.

NOTE 6: RETIREMENT PLANS

The City is a participating employer of the County Employees' Retirement System (CERS) or (Plan). Under provision of Kentucky Revised Statue 61.645, the Board of Trustees of the Kentucky Retirement System administers the CERS. The Kentucky Retirement System issues a publicly available financial reports that may be downloaded from their website.

Plan description

CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county, city, and school board and any additional eligible local agencies electing to participate in the Plan. The Plan is divided into a Pension Plan and Health Insurance Fund Plan (Other Post-Employment Benefits; OPEB) and each plan is further divided based on Non-hazardous duty and Hazardous duty covered employee classifications.

NOTE 6: RETIREMENT PLANS (CONTINUED)

Benefits provided

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

For retirement purposes, non-hazardous duty employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old, or 25 years service and any age
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ with sum of service years plus age equal
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years service and 65 years old, or age 57+ with sum of service years plus age equal
	Reduced retirement	Not available

For retirement purposes, hazardous duty employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month service and 55 years old, or at least 20 years service at any age
	Reduced retirement	At least 15 years service and 50 years old
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old, or at least 25 years service at any age
	Reduced retirement	At least 15 years service and 50 years old
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years service and 60 years old, or at least 25 years service at any age
	Reduced retirement	Not available

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 6: RETIREMENT PLANS (CONTINUED)

Contributions

Employees - For the year ended June 30, 2020 nonhazardous covered employees are required to contribute 5% of wages and hazardous covered employees are required to contribute 8% of wages to the plan. Employees who begin participation on or after September 1, 2008 are required to contribute an additional 1%.

Employers - For the year ended June 30, 2020 participating employers contributed 19.30% of wages for non-hazardous covered employees and 30.06% of wages for hazardous covered employees. The City made all required contributions for fiscal year in the amount of \$72,627 for non-hazardous and \$441,912 for hazardous.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability as follows:

Non-hazardous	Hazardous	Total Net Pension Liability
\$ 570,661	\$ 6,795,053	\$ 7,365,714

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of 2019 contributions to the pension plan relative to the 2019 contributions of all participating employers, actuarially determined. The City's proportionate share at June 30, 2019 was:

Non-hazardous	Hazardous	Proportionate Share
0.0081%	0.2460%	0.0752%

For the year ended June 30, 2020, the City recognized pension expense of \$1,037,966. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Nonhazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 14,571	\$ 2,411	
Change of assumptions	57,757		
Change in investment experience	10,954	20,154	
Change in proportionate share of contributions		29,626	
	83,282	\$ 52,191	\$ 31,091
Subsequent contributions	72,627		
Total	\$ 155,909		

NOTE 6: RETIREMENT PLANS (CONTINUED)

	Hazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 288,706		
Change of assumptions	659,590		
Change in investment experience	104,531	200,698	
Change in proportionate share of contributions	152,134	133,773	
	<u>1,204,961</u>	<u>\$ 334,471</u>	<u>\$ 870,490</u>
Subsequent contributions	441,912		
Total	<u>\$ 1,646,873</u>		

	Total		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 303,277	\$ 2,411	
Change of assumptions	717,347	-	
Change in investment experience	115,485	220,852	
Change in proportionate share of contributions	152,134	163,399	
	<u>1,288,243</u>	<u>\$ 386,662</u>	<u>\$ 901,581</u>
Subsequent contributions	514,539		
Total	<u>\$ 1,802,782</u>		

The contributions subsequent to the measurement date of \$514,539 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The net deferral of \$901,581 will be recognized as pension expense as follows:

Year ending June 30	Net Deferral
2020	\$ 581,223
2021	219,802
2022	93,778
2023	6,778
	<u>\$ 901,581</u>

Actuarial assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles

The KRS Board of Trustee adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2010". The total pension liability as of June 30, 2019 was determined using these updated assumptions.

NOTE 6: RETIREMENT PLANS (CONTINUED)

The actuarial assumptions are:

Inflation	2.30%
Payroll growth rate	2.00% for non-hazardous 0.00% for hazardous
Salary increase	3.30% to 10.30% for non-hazardous 3.55% to 19.05% for hazardous
Investment rate of return	6.25%

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

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

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

Discount rate

The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the KRS plan's CAFR.

NOTE 6: RETIREMENT PLANS (CONTINUED)

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

The following table 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 or 1-percentage-point higher than the current rate :

	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non hazardous	\$ 713,735	\$ 570,661	\$ 451,410
Hazardous	8,495,341	6,795,053	5,401,062
	<u>\$ 9,209,076</u>	<u>\$ 7,365,714</u>	<u>\$ 5,852,472</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan description

The City's employees are provide OPEB under provions of Kentucky Revised Statutes. The Kentucky Retirement Systems (KRS) board administers the CERS Insurance Fund. The CERS Insurance fund is a cost-sharing, multiple-employer defined benefit OPEB plan which provides group health insurance benefits for plan members that are regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. OPEB benefits may be extended to beneficiaries of plan members under certain circumstances. The CERS Insurance Fund is included in a public available financial report that can be viewed at www.kyret.ky.gov.

Benefits provided

The CERS Insurance hospital and medical benefits to eligible plan members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Premium payments are submitted to DEI. The KRS board contracts with Humana to provide health care benefits to the eligible Medicare retirees. The CERS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

For health insurance purposes, employees are grouped into three tiers based on hire date:

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Tier 1	
Participation date	Before July 1, 2003
Insurance eligibility	10 years of service credit required
Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 2	
Participation date	After September 1, 2008 and before December 31, 2013
Insurance eligibility	15 years of service credit required
Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 3	
Participation date	After December 31, 2013
Insurance eligibility	15 years of service credit required
Benefit	Set dollar amount based on service credit accrued, increased annually

Contributions

For the year ending June 30, 2020, the employer's contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% for hazardous classifications. Participating employers were required to contribute at an actuarially determined rate. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Employees qualifying as Tier 2 or Tier 3 of the CERS plan contribute 1.0% of creditable compensation to an account created for payment of health insurance benefits.

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 retiree 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 subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Non-hazardous	Hazardous	Total Net OPEB Liability
\$ 136,440	\$ 1,822,578	\$ 1,959,018

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers, actuarially determined. The City's proportionate share at June 30, 2019 was as follows:

Non-hazardous	Hazardous	Proportionate Share
<u>0.0081%</u>	<u>0.2463%</u>	<u>0.0809%</u>

For the year ended June 30, 2020, the City recognized OPEB expense of \$108,352. At June 30, 2020 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Nonhazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 41,167	
Change of assumptions	40,374	270	
Change in investment experience	899	6,959	
Change in proportionate share of contributions		12,855	
	<u>41,273</u>	<u>\$ 61,251</u>	<u>\$ (19,978)</u>
Subsequent contributions	17,912		
Total	<u>\$ 59,185</u>		

	Hazardous		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 339,059	
Change of assumptions	550,775	3,451	
Change in investment experience	12,455	117,241	
Change in proportionate share of contributions	41,849	65,056	
	<u>605,079</u>	<u>\$ 524,807</u>	<u>\$ 80,272</u>
Subsequent contributions	139,953		
Total	<u>\$ 745,032</u>		

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

		Total	
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 380,226	
Change of assumptions	591,149	3,721	
Change in investment experience	13,354	124,200	
Change in proportionate share of contributions	41,849	77,911	
	<u>646,352</u>	<u>\$ 586,058</u>	<u>\$ 60,294</u>
Subsequent contributions	157,865		
Total	<u>\$ 804,217</u>		

The contributions subsequent to the measurement date of \$157,865 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The net deferral of \$60,294 will be recognized in OPEB expense as follows:

Year ending June 30	Net Deferral
2021	\$ 98,423
2022	1,486
2023	(41,934)
2024	8,025
2025	(4,737)
Thereafter	<u>(969)</u>
	<u>\$ 60,294</u>

Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity as of June 30, 2019 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 20, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted accounting principles.

The KRS Board of Trustee adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2010". The total OPEB liability as of June 30, 2019 was determined using these updated assumptions.

The actuarial assumptions are:

Inflation	2.30%
Payroll growth rate	2.00% for non-hazardous 0.00% for hazardous
Salary increase	3.30% to 10.30% for non-hazardous 3.55% to 19.05% for hazardous
Investment rate of return	6.25%

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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 RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back four years for males).

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

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

Discount rate

The projection of cash flows used to determine the discount rate of 5.68% for non-hazardous and 5.69% for hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). 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 study will not be paid out of KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the KRS plan's CAFR.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 5.68% for non-hazardous and 5.69% for hazardous as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate :

	1% Decrease 4.68%	Current Rate 5.68%	1% Increase 6.68%
Non hazardous	\$ 182,774	\$ 136,440	\$ 98,264
Hazardous	2,542,864	1,822,578	1,237,915
Total	\$ 2,725,638	\$ 1,959,018	\$ 1,336,179

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

The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Non hazardous	\$ 101,471	\$ 136,440	\$ 178,844
Hazardous	1,268,177	1,822,578	2,498,917
Total	\$ 1,369,648	\$ 1,959,018	\$ 2,677,761

OPEB plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 8: CONTINGENCIES

The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor possible to estimate the effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management, these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred, and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2020, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

City of Wilder, Kentucky
Budget Comparison Schedule
General Fund
June 30, 2020

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
Budgetary fund balance, July 1, 2019	\$ 915,000	\$ 915,000	\$ 1,494,578	\$ 579,578
Revenues				
Taxes	1,824,000	1,824,000	2,036,798	212,798
Licenses and permits	2,704,500	2,704,500	2,149,507	(554,993)
Intergovernmental	112,000	112,000	96,867	(15,133)
Fines and forfeitures	2,750	2,750	2,035	(715)
Charges for services	98,000	98,000	94,625	(3,375)
Interest income	0	0	55,802	55,802
Other revenue	48,415	48,415	67,681	19,266
Interfund transfers			200,000	200,000
Bond proceeds			6,315,624	6,315,624
Sale of assets			6,000	6,000
Total resources available for appropriation	5,704,665	5,704,665	12,519,517	(286,350)
Appropriations				
General government	1,387,367	1,387,367	1,495,009	(107,642)
Public safety - police	1,481,600	1,481,600	1,265,360	216,240
Public safety - fire	1,883,619	1,883,619	5,008,992	(3,125,373)
Public works	722,440	722,440	657,141	65,299
Recreation	229,639	229,639	33,517	196,122
Debt service - principal			125,000	(125,000)
Debt service - interest			159,390	(159,390)
Interfund transfers			15,100	(15,100)
Total appropriations	5,704,665	5,704,665	8,759,509	(3,054,844)
Budgetary fund balance, June 30, 2020	\$ 0	\$ 0	\$ 3,760,008	\$ 3,760,008

City of Wilder, Kentucky
Budget Comparison Schedule
Road Fund
June 30, 2020

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
Budgetary fund balance, July 1, 2019				
Resources				
Intergovernmental	60,000	60,000	60,412	412
Interest income	0	0	563	563
Other revenue	300	300		(300)
Interfund transfers			100	100
Total resources available for appropriation	60,300	60,300	61,075	775
Appropriations				
Public works	200,000	200,000	75	199,925
Interfund transfers			200,000	(200,000)
Total appropriations	200,000	200,000	200,075	(75)
Budgetary fund balance, June 30, 2020	\$ (139,700)	\$ (139,700)	\$ (139,000)	\$ 700

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
Budgetary fund balance, July 1, 2019	\$ 0	\$ 0	\$ 0	\$ 0
Resources				
Interest income			336	336
Interfund transfers			470,818	470,818
Total resources available for appropriation	0	0	471,154	471,154
Appropriations				
General government			11	(11)
Total appropriations	0	0	11	(11)
Budgetary fund balance, June 30, 2020	\$ 0	\$ 0	\$471,143	\$ 471,143

City of Wilder, Kentucky
 Budget Comparison Schedule
 Building Fund
 June 30, 2020

	Budgeted Amounts		Actual	Variances
	Original	Final		Final to Actual
Budgetary fund balance, July 1, 2019	\$ 830,397	\$ 830,397	\$ 813,138	\$ (17,259)
Resources				
Interest income	13,606	13,606	19,161	5,555
Total resources available for appropriation	844,003	844,003	832,299	(11,704)
Appropriations				
Interfund transfers	0	0	253,932	(253,932)
Total appropriations	-	-	253,932	(253,932)
Budgetary fund balance, June 30, 2020	\$ 844,003	\$ 844,003	\$ 578,367	\$ (265,636)

City of Wilder, Kentucky
Schedule of City's Share of the Net Pension Liability and Contributions - Nonhazardous
Year Ended June 30, 2020

Schedule of City's Proportionate Share of the Net Pension Liability - CERS

As of June 30, Measurement period as of June 30,	<u>2020</u> 2019	<u>2019</u> 2018	<u>2018</u> 2017	<u>2017</u> 2016	<u>2016</u> 2015	<u>2015</u> 2014
City's proportion of the net pension liability	0.0081%	0.0087%	0.0089%	0.0093%	0.0101%	0.0104%
City's proportionate share of the net pension liability	\$ 570,661	\$ 531,927	\$ 523,871	\$ 459,900	\$ 434,023	\$ 336,222
City's covered payroll	\$ 264,458	\$ 317,192	\$ 304,098	\$ 290,260	\$ 150,181	\$ 159,550
City's proportionate share of the net pension liability as a percentage of its covered payroll	215.79%	167.70%	172.27%	158.44%	289.00%	210.73%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

Schedule of City's Contributions - CERS

As of June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 72,627	\$ 42,895	\$ 45,929	\$ 42,421	\$ 36,050	\$ 19,148	\$ 21,922
Actual contribution	<u>72,627</u>	<u>42,895</u>	<u>45,929</u>	<u>42,421</u>	<u>36,050</u>	<u>19,148</u>	<u>21,922</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 376,309	\$ 264,458	\$ 317,192	\$ 304,098	\$ 290,260	\$ 150,181	\$ 159,550
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

City of Wilder, Kentucky
Schedule of City's Share of the Net Pension Liability and Contributions - Hazardous
Year Ended June 30, 2020

Schedule of City's Proportionate Share of the Net Pension Liability - CERS

As of June 30,	2020	2019	2018	2017	2016	2015
Measurement period as of June 30,	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.2460%	0.2370%	0.2555%	0.2465%	0.2322%	0.2169%
City's proportionate share of the net pension liability	\$ 6,795,053	\$ 5,731,283	\$ 5,716,068	\$ 4,229,536	\$ 3,564,744	\$ 2,606,987
City's covered payroll	\$ 1,200,551	\$ 1,357,981	\$ 1,365,984	\$ 1,266,497	\$ 1,351,177	\$ 702,957
City's proportionate share of the net pension liability as a percentage of its covered payroll	565.99%	422.04%	418.46%	333.96%	263.83%	370.86%
Plan fiduciary net position as a percentage of the total pension liability	46.63%	49.26%	49.78%	53.95%	57.52%	63.46%

Schedule of City's Contributions - CERS

As of June 30,	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 441,912	\$ 298,456	\$ 301,471	\$ 296,555	\$ 256,592	\$ 310,095	\$ 153,034
Actual contribution	441,912	298,456	301,471	296,555	256,592	310,095	153,034
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 1,470,102	\$ 1,200,551	\$ 1,357,981	\$ 1,365,984	\$ 1,266,496	\$ 1,351,177	\$ 702,957
Contributions as a percentage of covered payroll	30.06%	24.86%	22.20%	21.71%	20.26%	22.95%	21.77%

City of Wilder, Kentucky
Schedule of City's Share of the Net OPEB Liability and Contributions - Nonhazardous
Year Ended June 30, 2020

Schedule of City's Proportionate Share of the Net OPEB Liability - CERS

As of June 30,	2020	2019	2018
Measurement period as of June 30,	2019	2018	2017
City's proportion of the net OPEB liability	0.0081%	0.0087%	0.0090%
City's proportionate share of the net OPEB liability	\$ 136,440	\$ 155,070	\$ 179,926
City's covered payroll	\$ 264,458	\$ 317,192	\$ 304,098
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	51.59%	48.89%	59.17%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%

Schedule of City's Contributions - CERS

As of June 30,	2020	2019	2018	2017
Contractually required contribution	\$ 17,912	\$ 13,910	\$ 14,908	\$ 14,384
Actual contribution	17,912	13,910	14,908	14,384
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 376,309	\$ 264,458	\$ 317,192	\$ 304,098
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%	4.73%

City of Wilder, Kentucky
Schedule of City's Share of the Net OPEB Liability and Contributions - Hazardous
Year Ended June 30, 2020

Schedule of City's Proportionate Share of the Net OPEB Liability - CERS

As of June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>
Measurement period as of June 30,	2019	2018	2017
City's proportion of the net OPEB liability	0.2463%	0.2370%	0.2555%
City's proportionate share of the net OPEB liability	\$ 1,822,578	\$ 1,689,671	\$ 2,112,080
City's covered payroll	\$ 1,200,551	\$ 1,357,981	\$ 1,365,984
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	151.81%	124.43%	154.62%
Plan fiduciary net position as a percentage of the total OPEB liability	64.44%	64.24%	58.99%

Schedule of City's Contributions - CERS

As of June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 139,953	\$ 125,697	\$ 126,971	\$ 127,719
Actual contribution	<u>139,953</u>	<u>125,697</u>	<u>126,971</u>	<u>127,719</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,470,102	\$ 1,200,551	\$ 1,357,981	\$ 1,365,984
Contributions as a percentage of covered payroll	9.52%	10.47%	9.35%	9.35%

City of Wilder, Kentucky
Changes of Benefits and Assumptions - Pensions
Year Ended June 30, 2020

Change of Benefits	<u>2020</u>	<u>2019</u>
	no change	no change
 Change of Assumptions	 <u>2020</u>	 <u>2019</u>
Valuation date	6/30/2017	6/30/2016
Experience study	7/1/08-6/30/13	7/1/08-6/30/13
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	26 years, closed	27 years, closed
Payroll growth rate	2.00%	4.00%
Asset valuation method	20% of difference	20% of difference
Salary increase rate - non-hazardous	3.30% - 11.55%	4.00%
Salary increase rate - hazardous	3.05% - 18.55%	4.00%
Inflation	2.30%	3.25%
Investment rate of return	6.25%	7.50%

City of Wilder, Kentucky
Changes of Benefits and Assumptions - OPEB
Year Ended June 30, 2020

Change of Benefits	<u>2020</u>	<u>2019</u>
	no change	no change
 Change of Assumptions	 <u>2020</u>	 <u>2019</u>
Valuation date	6/30/2017	6/30/2016
Experience study	7/1/08-6/30/13	7/1/08-6/30/13
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	26 years, closed	27 years, closed
Payroll growth rate	2.00%	4.00%
Asset valuation method	20% of difference	20% of difference
Salary increase rate - non-hazardous	3.30% - 11.55%	4.00%
Salary increase rate - hazardous	3.05% - 18.55%	4.00%
Inflation	2.30%	3.25%
Investment rate of return	6.25%	7.50%

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*

Honorable Mayor
Members of the City Council
City of Wilder, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Wilder, Kentucky (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maddox & Associates CPAs Inc.

October 26, 2020

Fort Thomas, Kentucky