

CITY OF HURSTBOURNE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020



**CITY OF HURSTBOURNE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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Independent Auditor's Report

To the Mayor and Members of the City Commission
City of Hurstbourne, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Hurstbourne, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Hurstbourne, Kentucky'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 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 and each major fund of the City of Hurstbourne, Kentucky, as of June 30, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and OPEB schedules on pages 3 through 8 and 40 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2021, on our consideration of the City of Hurstbourne, 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 of Hurstbourne, Kentucky'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 of Hurstbourne, Kentucky's internal control over financial reporting on compliance.

Stephens & Lawson, CPAs

Louisville, Kentucky
July 9, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hurstbourne, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the year ended June 30, 2020. Please read it in conjunction with the City's financial statements, which begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

FINANCIAL HIGHLIGHTS

Total revenues of the City increased \$60,827 over the previous fiscal year. The most significant factors influencing this change were:

- Increase in Insurance Premium Tax Revenues of \$29,415
- Increase in Charges for Services of \$21,991

Significant revenues for the fiscal year were:

- Property Tax Revenues of \$1,248,250
- Insurance Premium Tax of \$819,049
- Bank Franchise Tax of \$71,791
- Operating Grants and Contributions of \$107,998

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 9. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

Most of the City's basic services are reported here, including general administration, public works, and street maintenance. Property taxes, franchise fees, and insurance taxes finance most of these activities.

REPORTING THE CITY AS A WHOLE - Continued

The Statement of Net Position and the Statement of Activities - Continued

To aid in the understanding of the statement of activities some additional explanation is provided. Of particular interest is the format that is significantly different than a typical statement of revenues, expenses, and changes in fund balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions to the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

THE CITY AS A WHOLE

The following condensed financial information has been derived from the government-wide financial statements.

The total assets of the City increased by \$226,349 in fiscal year 2020 as compared to fiscal year 2019 and the total liabilities of the City increased by \$65,850 over the same period of time. The increase in liabilities was driven by an increase in current term liabilities as well as an increase in the City's share of the unfunded pension liability of CERS and a small decrease in the liability for the unfunded other post-employment benefit obligation of CERS. These two items also led to an increase in the amounts reported for deferred outflows and a small increase in deferred inflows of resources in this fiscal year.

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets	\$ 2,184,497	\$ 1,987,630
Non-Depreciable Fixed Assets	481,207	481,207
Depreciable Fixed Assets, Net of	<u>1,842,479</u>	<u>1,812,997</u>
Total Assets	\$ 4,508,183	\$ 4,281,834
Deferred Outflows of Resources		
Deferred Amounts Related to Pensions	\$ 86,494	\$ 80,743
Deferred Amounts Related to OPEB	<u>36,770</u>	<u>27,423</u>
Total Deferred Outflows of Resources	123,264	108,166
Liabilities		
Current Liabilities	\$ 32,752	\$ 18,735
Long-Term Liabilities	<u>468,327</u>	<u>416,494</u>
Total Liabilities	\$ 501,079	\$ 435,229
Deferred Inflows of Resources		
Deferred Amounts Related to Pensions	\$ 14,945	\$ 24,750
Deferred Amounts Related to OPEB	<u>32,467</u>	<u>18,168</u>
Total Deferred Inflows of Resources	47,412	42,918
Net Position		
Invested in Fixed Assets	\$ 2,323,686	\$ 2,294,204
Restricted	2,081	3,200
Unrestricted	<u>1,757,189</u>	<u>1,614,449</u>
Total Net Position	\$ 4,082,956	\$ 3,911,853

Governmental Revenues

The City's primary sources of revenues in this fiscal year continued to be property taxes and insurance taxes. These two sources comprise 84.50% and 85.11% of the total revenue collected in the fiscal years ending 2020 and 2019 respectively. Total revenues for the year ended June 30, 2020 were \$2,446,369 which is an increase of \$60,827 over the previous fiscal year. This increase is due mainly to an increase in insurance taxes and charges for services. Revenues are reported as follows:

	2020		2019	
	Amount	Percentage	Amount	Percentage
Program Revenues				
Charges for Services	\$ 107,998	4.41%	\$ 86,007	3.61%
Operating Grants and Contributions	82,791	3.38%	91,031	3.82%
Capital Grants and Contributions	20,000	0.83%	30,000	1.25%
Total Program Revenues	210,789	8.62%	207,038	8.68%
General Revenues				
Property Taxes	1,248,250	51.02%	1,240,730	52.01%
Insurance Tax	819,049	33.48%	789,634	33.10%
Bank Franchise Tax	71,791	2.93%	72,269	3.03%
Cable Franchise Tax	44,246	1.81%	29,595	1.24%
Intergovernmental	39	0.00%	-	0.00%
Miscellaneous	1,596	0.07%	13,818	0.58%
Investment Income	33,170	1.36%	26,087	1.09%
Penalties & Interest	7,369	0.30%	6,371	0.27%
Gain on Investments	10,070	0.41%	-	0.00%
Total General Revenues	2,235,580	91.38%	2,178,504	91.32%
Total Revenues	\$ 2,446,369	100.00%	\$ 2,385,542	100.00%

Governmental Expenditures

Expenditures for the year ended June 30, 2020 were \$2,275,266 which represents an increase of \$142,781 over the previous fiscal year. Expenditures increased mainly due to increased spending on sanitation and public works. Expenditures are reported as follows:

	2020		2019	
	Amount	Percentage	Amount	Percentage
Program Expenses:				
General Government	\$ 567,361	24.94%	\$ 550,287	25.80%
Public Safety	191,073	8.40%	206,120	9.67%
Public Works	814,818	35.81%	713,165	33.44%
Sanitation	473,187	20.80%	445,034	20.87%
Community Development	23,856	1.05%	35,514	1.67%
Road Maintenance	204,971	9.00%	182,365	8.55%
Total Expenses	\$ 2,275,266	100.00%	\$ 2,132,485	100.00%

Excess of Revenues over Expenditures

	2020	2019
Total Revenues	\$ 2,446,369	\$ 2,385,542
Total Expenses	2,275,266	2,132,485
Excess of Revenues Over Expenses	<u>\$ 171,103</u>	<u>\$ 253,057</u>

Change in Net Position

	2020	2019
Beginning Net Position	\$ 3,911,853	\$ 3,658,796
Increase in Net Position	171,103	253,057
Ending Net Position	<u>\$ 4,082,956</u>	<u>\$ 3,911,853</u>

FIXED ASSETS

For the year ended June 30, 2020, the City had \$3,892,903 invested in fixed assets including land, buildings, equipment and infrastructure. A schedule of the changes in fixed assets during this fiscal year is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Non-depreciable Assets:				
Land	\$ 481,207	\$ -	\$ -	\$ 481,207
Total non-depreciable assets	<u>481,207</u>	<u>-</u>	<u>-</u>	<u>481,207</u>
Depreciable Assets:				
Building and Improvements	797,428	-	-	797,428
Equipment	12,299	-	-	12,299
Infrastructure	2,330,048	271,921	-	2,601,969
Total depreciable assets	<u>3,139,775</u>	<u>271,921</u>	<u>-</u>	<u>3,411,696</u>
Total fixed assets	<u>3,620,982</u>	<u>271,921</u>	<u>-</u>	<u>3,892,903</u>
Accumulated Depreciation:				
Building and Improvements	113,181	32,610	-	145,791
Equipment	12,299	-	-	12,299
Infrastructure	1,201,298	209,829	-	1,411,127
Total accumulated depreciation	<u>1,326,778</u>	<u>242,439</u>	<u>-</u>	<u>1,569,217</u>
Governmental activities fixed assets, net	<u>\$ 2,294,204</u>	<u>\$ 29,482</u>	<u>\$ -</u>	<u>\$ 2,323,686</u>

This year's major fixed asset additions were:

Street Paving	\$ 271,921
	<u>\$ 271,921</u>

PENSIONS

Current accounting standards require governmental entities to recognize certain financial statements amounts related to pensions. In addition to these financial statement items, there are also note disclosure requirements (Note H) and tables to be included as required supplementary information. The measurement date for the net pension liability is June 30, 2019.

During this fiscal year, the obligations of the City as they relate to pensions as reported to the City by the Kentucky Retirement Systems are as follows:

	As Reported in the Audit for the Fiscal Year Ending June 30th:	
	2020	2019
Pension Obligations	\$ 377,956	\$ 322,482
Deferred Outflows Related to Pensions	86,494	80,743
Deferred Inflows Related to Pensions	14,945	24,750

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Current accounting standards require governmental entities to recognize certain financial statements amounts related to OPEB. In addition to these financial statement items, there are also note disclosure requirements (Note I) and tables to be included as required supplementary information. The measurement date for the net pension liability is June 30, 2019.

During this fiscal year, the obligations of the City as they relate to pensions as reported to the City by the Kentucky Retirement Systems are as follows:

	As Reported in the Audit for the Fiscal Year Ending June 30th:	
	2020	2019
Other Post Employment Benefit (OPEB) Obligation	\$ 90,371	\$ 94,012
Deferred Outflows Related to OPEB	36,770	27,423
Deferred Inflows Related to OPEB	32,467	18,168

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the City's major funds begins on page 11. The fund financial statements provide detailed information about the governmental fund – not the City as a whole. Most of the City's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balance left over at year-end this is available for spending in future periods. This fund is reported using the accounting method called the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and statement of activities) and governmental fund in a separate reconciliation statement after each fund financial statement.

GENERAL FUND BUDGETARY FUND HIGHLIGHTS

For the year ended June 30, 2020, general fund revenues of \$2,369,255 were \$135,455 more than the \$2,233,800 budgeted. Revenue sources with a budget shortfall included property taxes and other income. For the year ended June 30, 2020, general fund expenditures of \$2,183,520 were \$311,155 less than the \$2,494,675 budgeted. The City did not exceed budget in any departments during this fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Property tax revenues are expected to increase again due to increased values of commercial properties resulting from commercial developments and increased values of residential properties. The economic outlook calls for slowed growth coupled with moderate inflation over the upcoming fiscal year.

Total revenues increased by \$60,827 over the previous year while expenses increased by \$142,781; however, the City still had an excess of revenues over expenditures for the year of \$171,103. The "bottom line" of the City of Hurstbourne continues to be strong with excess reserve funds and no debt.

The upcoming budget includes continued reinvestment in City assets including roads, sidewalks, irrigation systems, signage, lighting and storm water drainage improvements. These projects should represent the bulk of non-maintenance expenses for the upcoming fiscal year. Additionally, the mandated employer contribution rate to the Kentucky CERS pension fund is expected to increase substantially. All of the above listed expenses are to be paid from general revenues and grant proceeds which are appropriated in the upcoming budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact:

City of Hurstbourne City Clerk / City Administrative Officer
200 Whittington Parkway
Suite 100
Louisville, Kentucky 40222
(502) 426-4808
(502) 426-4889
info@hurstbourne.org
www.hurstbourne.org

CITY OF HURSTBOURNE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government
	Governmental Activities
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,180,712
Cash and Cash Equivalents - restricted	2,081
Investments	757,750
Accounts Receivable	233,261
Prepaid Expenses	10,693
Total Current Assets	<u>2,184,497</u>
Non-current Assets:	
Non-Depreciable Fixed Assets	481,207
Depreciable Fixed Assets, net	1,842,479
Total Non-current Assets	<u>2,323,686</u>
Total Assets	4,508,183
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Amounts Related to Pensions	86,494
Deferred Amounts Related to Other Post Employment Benefits	36,770
Total Deferred Outflows of Resources	<u>123,264</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 4,631,447</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 27,981
Tenant Deposits	4,771
Total Current Liabilities	<u>32,752</u>
Long-Term Liabilities:	
Pension Obligation	377,956
Other Post Employment Benefit Obligation	90,371
Total Long-Term Liabilities	<u>468,327</u>
Total Liabilities	501,079
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Amounts Related to Pensions	14,945
Deferred Amounts Related to Other Post Employment Benefits	32,467
Total Deferred Inflows of Resources	<u>47,412</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,323,686
Restricted for Roads	2,081
Unrestricted	<u>1,757,189</u>
Total Net Position	<u>4,082,956</u>
Total Liabilities, Deferred Inflows or Resources, and Net Position	<u><u>\$ 4,631,447</u></u>

See the accompanying notes to the financial statements.

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Net (Expense) Revenue</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 567,361	\$ 101,698	\$ -	\$ -	\$ (465,663)
Public Safety	191,073	-	3,911	-	(187,162)
Public Works	814,818	6,300	-	20,000	(788,518)
Sanitation	473,187	-	-	-	(473,187)
Community Development	23,856	-	-	-	(23,856)
Road Maintenance	204,971	-	78,880	-	(126,091)
Total Governmental Activities	<u>2,275,266</u>	<u>107,998</u>	<u>82,791</u>	<u>20,000</u>	<u>(2,064,477)</u>
Total Primary Government	<u>\$ 2,275,266</u>	<u>\$ 107,998</u>	<u>\$ 82,791</u>	<u>\$ 20,000</u>	<u>\$ (2,064,477)</u>

Primary Government
Governmental Activities

Changes in Net Assets:

Net Expense

\$ (2,064,477)

General Revenues:

Taxes:

\$ 1,248,250

Property Taxes

819,049

Insurance Tax

Bank Franchise Tax

71,791

Cable Franchise Tax

44,246

Intergovernmental

39

Penalties & Interest

7,369

Investment Income

33,170

Gain on Investments

10,070

Other Income

1,596

Total General Revenues

2,235,580

Change in Net Position

171,103

Net Position - July 1, 2019

3,911,853

Net Position - June 30, 2020

\$ 4,082,956

See the accompanying notes to the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

GOVERNMENTAL FUND TYPES

	General Fund	Special Revenue Fund	Total Government Funds
ASSETS			
Cash	\$ 1,141,267	\$ -	\$ 1,141,267
Cash - restricted	-	2,081	2,081
Cash - committed	39,445	-	39,445
Investments	504,039	-	504,039
Investments - committed	253,711	-	253,711
Receivables	233,261	-	233,261
Prepaid Expenses	10,693	-	10,693
Total Assets	<u>2,182,416</u>	<u>2,081</u>	<u>2,184,497</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts Payable	27,981	-	27,981
Tenant Deposits	4,771	-	4,771
Total Liabilities	<u>32,752</u>	<u>-</u>	<u>32,752</u>
Deferred Inflows of Resources:			
Unavailable Revenue	10,683	-	10,683
Total Deferred Inflows of Resources	<u>10,683</u>	<u>-</u>	<u>10,683</u>
Fund Balances:			
Nonspendable Fund Balances	10,693	-	10,693
Restricted Fund Balances	-	2,081	2,081
Committed Fund Balances	293,156	-	293,156
Assigned Fund Balances	260,875	-	260,875
Unassigned Fund Balances	1,574,257	-	1,574,257
Total Fund Balance	<u>2,138,981</u>	<u>2,081</u>	<u>2,141,062</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,182,416</u>	<u>\$ 2,081</u>	<u>\$ 2,184,497</u>

See the accompanying notes to the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
RECONCILIATION OF TOTAL FUND BALANCE - GOVERNMENTAL FUNDS TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Reconciliation of total fund balance - governmental funds to total net position of governmental activities:

Total Fund Balance - Governmental Funds	\$ 2,141,062
Amounts reported for governmental activities in the statement of net position are different because of the following:	
Certain property tax and code enforcement revenues are earned but not available and therefore are shown as unavailable revenue in the fund financial statements.	10,683
Fixed assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,569,217.	2,323,686
Deferred outflows/inflows of resources related to pensions are not reported in the fund financial statements.	71,549
Deferred outflows/inflows of resources related to other post employment benefits are not reported in the fund financial statements.	4,303
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(468,327)</u>
Net Position of Governmental Activities	<u><u>\$ 4,082,956</u></u>

See the accompanying notes to the financial statements.

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

	<u>GOVERNMENTAL FUND TYPES</u>		
	General Fund	Special Revenue Fund	Totals Governmental Funds
REVENUE			
Property Taxes	\$ 1,250,017	\$ -	\$ 1,250,017
Bank Franchise Tax	71,791	-	71,791
Cable Franchise Tax	44,246	-	44,246
Insurance Tax	819,049	-	819,049
Intergovernmental	3,949	78,881	82,830
Grants	20,000	-	20,000
License and Permits	43,072	-	43,072
Charges for Services	64,926	-	64,926
Investment Income	33,170	-	33,170
Realized Gains on Investments	10,070	-	10,070
Interest and Penalties	7,369	-	7,369
Other Income	1,596	-	1,596
Total Revenue	<u>2,369,255</u>	<u>78,881</u>	<u>2,448,136</u>
EXPENDITURES			
General Government	493,523	-	493,523
Public Safety	191,073	-	191,073
Public Works	809,960	-	809,960
Sanitation	473,187	-	473,187
Community Development	23,856	-	23,856
Capital Outlay	191,921	80,000	271,921
Total Expenditures	<u>2,183,520</u>	<u>80,000</u>	<u>2,263,520</u>
Net Change in Fund Balances	185,735	(1,119)	184,616
Fund Balances - July 1, 2019	<u>1,953,246</u>	<u>3,200</u>	<u>1,956,446</u>
Fund Balances - June 30, 2020	<u>\$ 2,138,981</u>	<u>\$ 2,081</u>	<u>\$ 2,141,062</u>

See the accompanying notes to the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
RECONCILIATION OF THE NET CHANGES IN FUND BALANCE - TOTAL
GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION OF
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Reconciliation of the net changes in fund balances - total governmental funds to the change in net position of governmental activities:

Net Change in Fund Balances - Total Governmental Funds	\$	184,616
Amounts reported for governmental activities in the statement of activities are different because of the following:		
Some property taxes and code enforcement liens will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are shown as a deferred inflow in the fund financial statements. Unavailable revenues decreased by this amount this year		(1,767)
Pension expense in the fund financial statements are based on amounts paid into the retirement plan during the current fiscal year. Pension expense in the government-wide financial statements are based on the measurement date of the net pension liability which was June 30, 2019. Net increase in pension expense as reported in the government-wide financial statements		(39,918)
Other post employment benefit (OPEB) expense in the fund financial statements are based on amounts paid into the plan during the current fiscal year. OPEB expense in the government-wide financial statements are based on the measurement date of the net OPEB liability which was June 30, 2019. Net increase in OPEB expense as reported in the government-wide financial statements		(1,310)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Outlays	\$ 271,921	
Depreciation expense	(242,439)	29,482
Change in Net Position of Governmental Activities	\$	<u>171,103</u>

See the accompanying notes to the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Hurstbourne, Kentucky (the City) is a home rule city with a population in excess of 4,000 located in Jefferson County, Kentucky. It operates under an elected mayor-commission form of government. The City provides the following services authorized by its charter: public safety, public works, recreation, and community development. Primary revenue sources are property taxes, municipal road aid, and insurance taxes. Those revenues susceptible to accrual are property taxes, insurance taxes, and municipal road aid.

All significant activities and organizations on which the City of Hurstbourne, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2020. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Commission is exclusively responsible for all public decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Commission has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the City Commission.

After consideration of the above criteria, no additional entities are deemed to be component units of the City.

Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All activities of the City are classified as governmental activities; the City has no business-type activities.

Government-wide Financial Statements:

These financial statements display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds.

In the statement of net position, the governmental activities columns is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The statement of activities reports both the gross and net cost of each of the City's functions (general government, public safety, public works, etc.). The functions are also supported by general government revenues (property taxes, insurance, taxes, bank deposit taxes and certain intergovernmental revenues, etc.).

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements – Continued

Government-wide Financial Statements – Continued

The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, public safety, public works, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs, by function, are normally covered by general revenue (property taxes, insurance taxes, bank deposit taxes and certain intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs and all interfund activity is eliminated in the government-wide financial statements.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Fund Financial Statements:

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds, except that the primary operating fund of the City, the general fund, is always considered major. Those criteria for evaluation of all other funds are as follows:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The funds of the financial reporting entity are described below:

Governmental Type Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements – Continued

Fund Financial Statements – Continued

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

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 such fund, the Municipal Road Aid Fund, which is used to account for state road funds that are allocated to the City by the State of Kentucky and it is considered to be a major fund.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statement of net position and the statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basis of Accounting - Continued

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 needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

Encumbrances

The City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Cash and Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Investments

Investments of the primary government are valued at fair market value. All investments of the City comply with the Kentucky Revised Statutes concerning the types of investments allowed.

Inventories

Disbursements for inventory type items are considered expenditures at the time of purchase.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities primarily include property taxes, insurance taxes, and municipal road aid.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions, collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City considers all receivables to be fully collectible; therefore, an allowance for doubtful accounts is not necessary.

Fixed Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. For financial reporting purposes, the City has decided to only capitalize future individual assets with a value of \$5,000 or greater. Fixed assets are not reported on the fund financial statements.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Fixed Assets - Continued

Prior to June 30, 2003, governmental funds' infrastructure assets were not required to be capitalized by the City nor were these assets capitalized by the City. Starting on July 1, 2004 the City is required to keep a record of all infrastructure assets placed in service from that date forward.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful life using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Vehicles	5 to 10 years
Equipment	5 to 7 years
Infrastructure	10 to 25 years
Buildings	30 years

Due to and Due From Other Funds

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Deferred Outflow/Inflow of Resources

Deferred Outflows:

The City reports decreases in net position/fund balances that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred outflows of resources reported in the government-wide financial statements consisted of contributions made to Kentucky Retirement Systems (KRS) between the measurement date of the net pension liabilities/OPEB liabilities from those plans and the end of the City's fiscal year as well as other amounts related to pensions/OPEBs as reported to the City by KRS. No deferred outflows of resources affected the fund financial statements in the current fiscal year.

Deferred Inflows:

The City reports increases in net position/fund balances that related to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred inflows of resources reported in the government-wide financial statements consisted of amounts related to pensions/OPEBs as reported to the City by KRS; additionally, unavailable revenue from the advance receipt of revenues is reported as a deferred inflow as well. In the fund financial statements, the unavailable revenue previously discussed is included here as well as one other item which occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly deferred taxes are reported in the fund financials balance sheet – governmental funds as unavailable revenue (\$10,683).

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Accounts Payable

Accounts payable consist of trade payable to vendors who provide goods and services to the City.

Long-term Liabilities

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. Long-term liabilities consist solely of the City's share of the unfunded pension/OPEB liabilities through its participation in CERS.

Long-term debt of governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payments on debt are reported as debt service expenditures.

Equity Classifications

Government-wide Financial Statements

The City reports the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as net position. Net position is divided into three categories defined as follows:

- a. Net Investment in Capital Assets – Consists of the historical cost of capital assets including restricted capital assets, less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position – Consist of assets that are restricted by the City's creditors (for example through debt covenants), by state enabling legislation (through restrictions on shared revenues) by grantors (both federal and state), by other contributors, or by enabling legislation.
- c. Unrestricted net position – Balance of net position not meeting the requirements of the other two categories.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Commission. The City Commission is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Commission.
- d. Assigned – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or by an official or body to which the City Commission delegates authority.
- e. Unassigned – All amounts not included in other spendable classification.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Equity Classifications – Continued

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Commission has provided for otherwise.

Property Tax Revenue

Property Tax Revenue is recognized when the bills become due and payable. Tax is assessed at a rate of .169 per \$100 valuations for real property based on the assessment by the Jefferson County Property Valuation Administrator.

The City assesses property taxes on January 1, and bills are due and payable by November 30th in the year assessed. Bills paid prior to August 31st are given a 5% discount. Bills paid from September 1st to November 30th are payable at the full-face amount of the bill. All bills paid on or after December 1st are charged a 10% penalty and 1½% interest per month until collected. On bills collected after January 1st of the following year, an additional 15% penalty will be assessed on the face amount of the bill. Where a tax lien has been filed, the taxpayer shall be responsible for filing and release fees. Should the City have to initiate a lawsuit, or is named a party to a foreclosure action, to collect such delinquent taxes, then an additional 25% penalty shall be encompassed within the City's lien.

Bank Franchise and Local Deposit Tax

The City assess a bank franchise and local deposits tax on all financial institutions within the corporate limits of the City starting in the 2011 tax year. All deposits maintained by such institutions are assessed at the rate of 0.000250. Bills are issued prior to December 1st of each year. Any payment received prior to December 31st will be allowed a 2% discount; bills paid before January 31st of the following year will not receive any discount nor be assessed any penalties. Bills paid after January 31st shall be deemed delinquent and shall be subject to a penalty of 10% and shall bear interest at the rate of 12% per annum.

Business License

The City requires a license to be paid by anyone conducting business within the City. The fee for the license is \$75 and the license is good for a period not to exceed one year. Annual renewals may be granted to a licensee in good standing with payment of the \$75 license fee.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: current, debt service, and capital outlay. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Compensated Absences

The City has not made an accrual for compensated absences because the amount is not significant.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Estimates

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

NOTE B - DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky 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. The City typically invests surplus cash at local banks in the form of certificates of deposit, savings accounts, and money market accounts. This plan subjects the City to the following types of risk:

Custodial Credit Risk – this is the risk that in the event of the failure of a counterparty (e.g., a bank) the City will not be able to recover the full value of its deposits or investments. The City considers this risk immaterial and as of June 30, 2020, \$11,054 of the government's bank balance of \$2,025,617 including certificates of deposits shown as investments in the financial statements, was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 11,054
Uninsured and collateral held by pledging bank	828,673
Uninsured and collateral held by pledging bank's trust department not in City's name	-
	<u>\$ 839,727</u>

Concentration of Credit Risk – this is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City has addressed this risk by purchasing investments that are secured by FDIC insurance.

Interest Rate Risk – this is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates. The City has attempted to address this risk by diversifying the investments and their maturity dates to minimize the risk of loss.

Investments at June 30, 2020 consisted of certificates of deposit with local financial institutions. The market value and the cost of these investments were essentially the same at June 30, 2020. Each of the certificates of deposit will mature within the next fiscal year.

As permitted by state statute, the City invested funds during this fiscal year in the Kentucky League of Cities (KLC) Investment Pool. During this fiscal year the City invested \$1,000,000 in this investment pool. The City reported investment income of \$938 (net of investment fees of \$947) from this investment. Prior to the end of this fiscal year the City closed out its position in this investment pool and recognized gains of \$10,070.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2020 consisted of the following:

Receivable Type	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Special Revenue Fund
Property Tax	\$ 10,693	\$ 10,693	\$ -
Insurance Tax	213,477	213,477	-
Code Enforcement Fines	1,325	1,325	-
Base Court Revenue	553	553	-
Other Receivables	7,213	7,213	-
Total Receivables	<u>\$ 233,261</u>	<u>\$ 233,261</u>	<u>\$ -</u>

NOTE D – FIXED ASSETS

Fixed asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Non-depreciable Assets:				
Land	<u>\$ 481,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 481,207</u>
Total non-depreciable assets	<u>481,207</u>	<u>-</u>	<u>-</u>	<u>481,207</u>
Depreciable Assets:				
Building and Improvements	797,428	-	-	797,428
Equipment	12,299	-	-	12,299
Infrastructure	<u>2,330,048</u>	<u>271,921</u>	<u>-</u>	<u>2,601,969</u>
Total depreciable assets	<u>3,139,775</u>	<u>271,921</u>	<u>-</u>	<u>3,411,696</u>
Total fixed assets	<u>3,620,982</u>	<u>271,921</u>	<u>-</u>	<u>3,892,903</u>
Accumulated Depreciation:				
Building and Improvements	113,181	32,610	-	145,791
Equipment	12,299	-	-	12,299
Infrastructure	<u>1,201,298</u>	<u>209,829</u>	<u>-</u>	<u>1,411,127</u>
Total accumulated depreciation	<u>1,326,778</u>	<u>242,439</u>	<u>-</u>	<u>1,569,217</u>
Governmental activities fixed assets, net	<u>\$ 2,294,204</u>	<u>\$ 29,482</u>	<u>\$ -</u>	<u>\$ 2,323,686</u>

Depreciation expense of \$242,439 was allocated to the various functions on the statement of activities as follows:

General Government	\$ 32,610
Public Works	4,858
Road Maintenance	<u>204,971</u>
Total	<u>\$ 242,439</u>

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE E – FUND BALANCES – GOVERNMENTAL FUNDS

Classifications of fund balances at June 30, 2020 are as follows:

Classification	General Fund	Special Revenue Fund
Nonspendable:		
From prepaid items	\$ 10,693	\$ -
Restricted:		
By enabling legislation for roads	-	2,081
Committed:		
By action of the City Commission	293,156	-
Assigned:		
By passage of next year's budget	260,875	-
Unassigned	1,574,257	-
Total Fund Balances	<u>\$ 2,138,981</u>	<u>\$ 2,081</u>

NOTE F – PROPERTY TAX REVENUE

Property tax revenue is shown net of property tax discounts in the amount of \$59,321 and refunds of \$682.

NOTE G – OPERATING LEASES

Rental Income (City is the Lessor)

The City leases office space in the building it purchased in April 2015 to serve as City Hall. Excluding the portion of the building used by the City, there are 8 other separate office spaces that can be rented. At June 30, 2020, the City was landlord in the following lease agreements:

Suite 101: Two-year lease commencing on October 1, 2019 and ending on September 30, 2021. The agreement calls for the tenant to make a \$900 security deposit and then monthly rent payments of \$1,200 or a one-time payment of \$14,400. Cleaning service can be provided upon request of the tenant for an additional \$75 per month.

Suite 202: Nineteen-month lease commencing on June 1, 2019 and ending on December 31, 2020. The agreement calls for the tenant to make an \$817 security deposit and then monthly rent payments of \$895 or a one-time payment of \$10,738.21.

Suite 203: Two-year lease commencing on March 1, 2020 and ending on February 28, 2022. The agreement calls for the tenant to make a \$190 security deposit then monthly rent payments of \$190 or a one-time payment of \$2,280.

Suite 204A: Two-year lease commencing on October 1, 2019 and ending on September 30, 2021. The agreement calls for the tenant to make a \$245 security deposit then monthly rent payments of \$245 or a one-time payment of \$2,940.

Suite 204B: Two-year lease commencing on October 1, 2019 and ending on September 30, 2021. The agreement calls for the tenant to make a \$234 security deposit then monthly rent payments of \$234 or a one-time payment of \$2,808.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE G – OPERATING LEASES - CONTINUED

Suite 204C: Nineteen-month lease commencing on March 1, 2020 and ending on September 30, 2021. The agreement calls for the tenant to make a \$285 security deposit then monthly rent payments of \$285 or a one-time payment of \$3,420.

Suite 205: Eighteen-month lease commencing on February 1, 2019 and ending on July 31, 2020. The agreement calls for the tenant to make a \$2,100 security deposit and then monthly rent payments of \$2,300, or a one-time payment of \$27,600.00, plus a monthly cleaning fee of \$195.

Rental income in the amount of \$58,626 was recognized for the fiscal year ending June 30, 2020. Future payments to be received under these agreements for the years ending June 30th are as follows:

2021	\$33,318
2022	\$ 7,397

The total cost of the property acquired by the City for use as city hall, as well as the additional office space that is rented out, and subsequent improvements was \$797,428 (excluding land with a value of \$428,032) with accumulated depreciation of \$145,791 at June 30, 2020.

Rental Expense (City is the Lessee)

In April 2017 the City entered into an agreement to lease a copier for a sixty-months. The lease requires monthly payments of \$92.99 which includes a monthly allotment of 1,500 black and white pages per month as well as all parts, labor, service calls, preventative maintenance, drums, and toner developer.

Future payments required by this agreement, excluding per copy overage charges, are as follows:

2021	\$1,200
2022	\$ 921

NOTE H - EMPLOYEE RETIREMENT SYSTEM

The City has elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 696-8800, or at <https://kyret.ky.gov>. Detailed information about the plan's fiduciary net position can be found here.

Plan Description

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefit contributions and provisions are established by statute. The City of Hurstbourne, Kentucky has no employees that qualify for the hazardous duty retirement portion of this pension plan.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Plan Description – Continued

Cost of living adjustments (COLAs) are made at the discretion of the Kentucky General Assembly. In 2013 the General Assembly passed a new law to govern how COLAs will be granted. Language in that law states that COLAs will only be granted in the future if the KRS Board determines that the assets of the system are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA; or the General Assembly fully prefunds the COLA or directs payments of funds in the year the COLA is provided. No COLA has been granted since July 1, 2011.

Contributions

For the year ending June 30, 2020, non-hazardous duty covered employees who began participating before September 1, 2008, Tier 1 members, are required to contribute 5 percent of their annual creditable compensation to the plan. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. 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 bases adopted by the Board.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, non-hazardous duty covered employees who began participating on, or after, September 1, 2008, Tier 2 members, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 102 KAR 1:420E). Interest is paid each June 30th on covered employees' accounts at a rate of 2.5%. If a covered employee terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, non-hazardous duty covered employees who began participating on, or after, January 1, 2014, Tier 3 members, were required to participate in the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous covered employees contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the covered employee's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the covered employee's compensation. Each month, when employer contributions are received, an employer pay credit is deposited to the covered employee's account. A covered employee's account is credited with a 4% employer pay credit for non-hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2020, participating employers contributed 24.06% (allocated 19.30% for pension and 4.76% for insurance) of each employee's creditable compensation for members with nonhazardous duty job classifications. For the year ended June 30, 2020, the City contributed \$33,768, or 100% of the required contribution for non-hazardous members, which was allocated \$27,087 to the CERS pension fund and \$6,681 to the CERS insurance fund.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefits

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date. Those tiers are as follows:

Tier 1	Participation Date	Before September 1, 2008
	Unreduced Retirement	27 years of service or 65 years old
	Benefit Amount	At least 4 years service, monthly benefit is 2.2% times final average compensation times years of service. Participation after 08/01/2004 the rate is 2.00%.
		Less than 4 years of service monthly benefit is actuarial equivalent of 2 times member contributions plus interest.
		Final average compensation is based on member's highest 5 years of compensation.
	Reduced Retirement	At least 5 years of service and 55 years old or 25 years of service and any age.
Tier 2	Participation Date	September 1, 2008 to December 31, 2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.
	Benefit Amount	Monthly benefit is based upon applicable benefit multiplier (based on years of service) times final average compensation times years of service.
		Final compensation is based on member's last 5 years.
	Reduced Retirement	At least 10 years of service and 60 years old.
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.
	Benefit Amount	Each year member is active, a 4% employer pay credit along with the member's 5% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4%, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.
		At retirement, the account balance may be converted into an annuity based on an actuarial factor.
	Reduced Retirement	Not applicable

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Benefits - Continued

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 120 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

For non-hazardous duty employees the post-retirement death benefit is \$5,000 in a lump sum and requires 48 months of service and to be in receipt of retirement benefits. Pre-retirement death benefits are determined based on whether the death was in the line of duty or not. The non-line of duty death benefit requires the member to be eligible for early retirement or under the age of 55, with at least 60 months of service, or at least 144 months of service if no longer actively working. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump-sum payment of the member's contributions and any accumulated interest.

Disability benefits require 60 months of service except in the case of line of duty disability in which case the requirement is waived regardless of the member's classification.

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

Pension Liabilities

At June 30, 2020 the City recognized a liability of \$377,956 for its proportionate share of the CERS net pension liability related to non-hazardous duty employees. The City's net pension liability was measured as of June 30, 2019, as allowed by standards, 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 contributions to the pension plan (\$21,987 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2019 the City's share of the non-hazardous net pension liability was .005374% which an increase of .000079% from the figure of .005295% in the prior period.

Pension Payable/Expense

At June 30, 2020 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous pension withholdings and the City's required matching contribution for the month of June 2020.

For the year ended June 30, 2020, the City recognized pension expense of \$67,005 for non-hazardous covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

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

Deferred Outflows/Inflows of Resources - Continued

	<u>Non-Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,650	\$ 1,597
Change of Assumptions	38,253	-
Net difference between projected and actual earnings on plan investments	7,255	13,348
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,249	-
City's contributions to the plan subsequent to the measurement date	27,087	-
Totals	<u>\$ 86,494</u>	<u>\$ 14,945</u>

If the amounts serve to reduce pension expense in the future they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ 28,546
Year 2	11,052
Year 3	4,433
Year 4	431
Year 5	-
Thereafter	-
Total	<u>\$ 44,462</u>

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Actuarial Assumptions

Gabriel, Roeder, Smith & Co. (GRS), completed the actuarial valuation for the period ended June 30, 2019. The total pension liability, net pension liability, and sensitivity information are based on an actuarial valuation performed as of June 30, 2018. The total pension liability was rolled-forward from the valuation date, June 30, 2018, to the measurement date, June 30, 2019, using generally accepted actuarial principles.

There have been no changes in plan provisions since June 30, 2018; however, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. The total pension liability as of June 30, 2019 is determined using these updated assumptions.

The actuarial assumptions for CERS are as follows:

Inflation	2.30%
Payroll Growth	2.00%
Investment Rate of Return	6.25%
Salary Increases	3.30% to 10.30% (non-hazardous)

The mortality table used for pre-retirement members is PUB-2010 General Mortality table for nonhazardous covered employees, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled retired members a system specific mortality table is used based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled retired members, PUB-2010 Disabled Mortality tables, with a 4-year set forwards for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. These mortality rates were adopted in 2019.

The long-term expected rate of return was determined 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 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%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	3.89%

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE H - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% (which was unchanged from the previous period) for non-hazardous job classifications assumes that the plan receives 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 following table presents the City's net pension liability, calculated using the discount rate of 6.25%, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) and 1 percentage point higher (7.25%) than the current rate.

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-Hazardous	\$ 472,716	\$ 377,956	\$ 298,975

NOTE I – POST-EMPLOYMENT BENEFITS

The City, through its participation in CERS, also participates in the Kentucky Retirement Systems' Insurance Fund (Insurance Fund) which was established to provide hospital and medical insurance for eligible members receiving benefits from various plans including CERS. Information on how to obtain information on this plan, such as the OPEB plan's fiduciary net position, is more fully discussed in Note H.

Plan Description

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other post-employment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances. The City of Hurstbourne, Kentucky has no employees that qualify for the hazardous duty post-employment benefits portion of this plan.

As more fully described in Note H, covered plan members contribute 5% to CERS for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. For the year ending June 30, 2020 the employer's contribution was 24.06% (allocated 19.30% for pension and 4.76% to the insurance trust) for creditable compensation paid in the non-hazardous job classifications. These rates are the actuarially determined rates set by the Board. Per Kentucky Revised Statue Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. 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 bases adopted by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE I – POST-EMPLOYMENT BENEFITS – CONTINUED

Plan Description - Continued

For the year ended June 30, 2020, the City contributed \$33,768, or 100% of the required contribution for non-hazardous members, which was allocated \$27,087 to the CERS pension fund and \$6,681 to the CERS insurance fund.

Insurance Benefits

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For OPEB purposes, employees are grouped into three tiers based on hire date as follows:

Tier 1	Participation Date	Before July 1, 2003
	Benefit Eligibility	Recipient of a retirement allowance
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement.
Tier 2	Participation Date	After July 1, 2003 but before September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement.
	Benefit	Monthly contribution of \$10 for each year of earned service increasing by 1.5% each July 1, 2009 annually.
Tier 3	Participation Date	On or after September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement.
	Benefit	Same as tier 2

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

At June 30, 2020 the City recognized a liability of \$90,371 for its proportionate share of the CERS net OPEB liability related to non-hazardous duty employees. The City's net OPEB liability was measured as of June 30, 2019, as allowed by standards, 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 contributions to the OPEB plan (\$8,702 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2019 the City's share of the non-hazardous net pension liability was .005373% which an increase of .000078% from the figure of .005295% in the prior period.

OPEB Payable/Expense

At June 30, 2020 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous OPEB withholdings and the City's required matching contribution for the month of June 2020.

For the year ended June 30, 2020, the City recognized OPEB expense of \$7,991 for non-hazardous covered employees in the statement of activities.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE I – POST-EMPLOYMENT BENEFITS - CONTINUED

Deferred Outflows/Inflows of Resources

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Non-Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 27,267
Change of Assumptions	26,742	179
Net difference between projected and actual earnings on plan investments	595	4,609
Changes in proportion and differences between employer contributions and proportionate share of contributions	836	412
City's contributions to the plan subsequent to the measurement date	8,597	-
Totals	<u>\$ 36,770</u>	<u>\$ 32,467</u>

If the amounts serve to reduce OPEB expense in the future they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2020. This amount includes adjustments of \$1,917 for the non-hazardous implicit subsidy. Other amounts reported as deferred outflows / inflows will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ (620)
Year 2	(621)
Year 3	656
Year 4	(1,790)
Year 5	(1,649)
Thereafter	(270)
Total	<u>\$ (4,294)</u>

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE I – POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions

Gabriel, Roeder, Smith & Co. (GRS), completed the actuarial valuation for the period ended June 30, 2019. The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation performed as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date, June 30, 2018, to the measurement date, June 30, 2019, using generally accepted actuarial principles.

There have been no changes in plan provisions since June 30, 2018; however, the Board of Trustees has adopted new actuarial assumptions since June 30, 2018. The total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

The actuarial assumptions for CERS are as follows:

Inflation	2.30%
Payroll Growth	2.00%
Investment Rate of Return	6.25%
Salary Increases	3.30% to 10.30% (non-hazardous)
Health Care Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for pre-retirement members is PUB-2010 General Mortality table for nonhazardous, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For non-disabled retired members a system specific mortality table is used based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled retired members, PUB-2010 Disabled Mortality tables, with a 4-year set forwards for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. These mortality rates were adopted in 2019.

The long-term expected rate of return was determined 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 are summarized in the following table:

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE I – POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	3.89%

Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for non-hazardous (which was 5.85% in the previous period) assumed that local employers would contribute the actuarially determined contribution rate of projected compensation of the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used and 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 System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
Non-Hazardous	\$ 121,061	\$ 90,371	\$ 65,086

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE I – POST-EMPLOYMENT BENEFITS - CONTINUED

Discount Rate - Continued

The following table presents the City's 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.

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
Non-Hazardous	\$ 67,210	\$ 90,371	\$ 118,458

NOTE J - INTERGOVERNMENTAL REVENUE

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for coal and mineral severance and costs associated with road maintenance and repair during the year ended June 30, 2020.

NOTE K - LITIGATION

The City is involved in various legal proceedings incidental to the normal course of business. City Commission is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecast with certainty, final disposition should not have a material effect on the financial position of the City.

NOTE L - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE M – IMPLEMENTATION OF GASB PRONOUNCEMENTS

The City prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a listing of standards implemented during this fiscal year and schedule for implementation in the future.

Pronouncements Scheduled to be Adopted in this Fiscal Year:

GASB Statement No. 84, Fiduciary Activities

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 (modified to December 15, 2019 with the passage of GASB Statement No. 95) with earlier adoption encouraged. This standard is meant to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE M – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

Pronouncements Scheduled to be Adopted in this Fiscal Year (Continued):

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

The provisions of this statement are effective for fiscal years beginning after December 15, 2019 (modified to December 15, 2020 with the passage of GASB Statement No. 95) with earlier adoption encouraged. The objectives of this standard are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 (modified to December 15, 2019 with the passage of GASB Statement No. 95) with earlier adoption encouraged. The objective of this standard is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

The provisions of this statement are effective upon their issuance in May 2020. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides as discussed under each of the statements in this footnote.

There is currently no impact on the financial statements of the City due to the early adoption of these standards.

Pronouncements Scheduled to be Adopted in Future Fiscal Years:

GASB Statement No. 87, Leases

The provisions of this statement are effective for fiscal years beginning after December 15, 2019 (modified to June 15, 2021 with the passage of GASB Statement No. 95). The objective of this standard is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The provisions of this statement are effective for fiscal years beginning after December 15, 2020 (modified to December 15, 2021 with the passage of GASB Statement No. 95) with earlier adoption encouraged. The objective of this standard is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice associate with (1) commitments extended by issuers, (2) arrangements associated conduit debt obligations, and (3) related note disclosures. The City is still determining the impact, if any, this statement will have on the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE M – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

Pronouncements Scheduled to be Adopted in Future Fiscal Years (Continued):

GASB Statement No. 92, Omnibus 2020

The provisions of this statement are effective for fiscal years beginning after June 15, 2020 (modified to June 15, 2021 with the passage of GASB Statement No. 95) with earlier adoption encouraged. The objective of this standard is to enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 93, Replacement of Interbank Offered Rates

The provisions of this statement are effective for fiscal years beginning after June 15, 2020 (modified to June 15, 2021 with the passage of GASB Statement No. 95) with earlier adoption encouraged. The objective of this standard is to address variable payment agreements that are based on an interbank offered rate, and most notably the London Interbank Offered Rate (LIBOR) which is expected to cease to exist in its current form at the end of 2021. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability of Payment Arrangements

The provisions of this statement are effective for fiscal years beginning after June 15, 2022 with earlier adoption encouraged. The objective of this standard is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements as well as how a government should account for an availability of payment arrangement. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

The provisions of this statement are effective for fiscal years beginning after June 15, 2022 with earlier adoption encouraged. The objective of this standard is to improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.

The provisions of this statement are effective for fiscal years beginning after June 15, 2021 with earlier adoption encouraged. The objective of this standard is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances where the potential component unit does not have a governing board; (2) mitigate costs associated with the reporting of certain defined contribution pension, OPEB, and other non-OPEB employee benefit plans; (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRS) Section 457 plans. The City is still determining the impact, if any, this statement will have on the financial statements.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2020

NOTE N – COVID-19 IMPACT

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 and its variants continue to spread across the globe as vaccines to prevent it are being rolled out. The City is closely monitoring the impact of COVID-19 on all aspects of its operations. As of June 30, 2020 and as of the date that the financial statements were issued, the City has not experienced significant disruption in its operations; however, since the situation surrounding the COVID-19 pandemic remains fluid, the long-term duration, nature, and extend of the effects on the City cannot be reasonably estimated at this time.

Subsequent to June 30, 2020, the City has applied for and received approximately \$75,000 in COVID relief fund grants.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<u>REVENUES</u>					
Taxes:					
Property Taxes	\$ 1,253,000	\$ -	\$ 1,253,000	\$ 1,250,017	\$ (2,983)
Insurance Premium Tax	760,000	-	760,000	819,049	59,049
Bank Franchise	72,000	-	72,000	71,791	(209)
Cable Franchise	28,000	-	28,000	44,246	16,246
License and Permits:					
Sign Permits	7,000	-	7,000	7,872	872
Alcohol License Fee	17,000	-	17,000	23,250	6,250
Business License	10,000	-	10,000	11,475	1,475
Home Occupation Income	600	-	600	475	(125)
Intergovernmental					
Base Court Revenue	5,000	-	5,000	3,910	(1,090)
Coal and Mineral Income	200	-	200	39	(161)
Grants	-	-	-	20,000	20,000
Charges for Services					
Rents	56,000	-	56,000	58,626	2,626
Tree Pilot Program	-	-	-	6,300	6,300
Interest and Penalties	6,000	-	6,000	7,369	1,369
Other Income	2,000	-	2,000	1,596	(404)
Investment Income	17,000	-	17,000	33,170	16,170
Realized Gains on Investments	-	-	-	10,070	10,070
Total Revenues Before Prior Year Fund Balance	2,233,800	-	2,233,800	2,369,255	135,455
Prior Year Fund Balance:					
Appropriated for Current Year Budget	260,875	-	260,875	-	(260,875)
Total Revenues and Prior Year Fund Balance	2,494,675	-	2,494,675	2,369,255	(125,420)
<u>EXPENDITURES AND ENCUMBRANCES</u>					
General Government:					
General and Administrative Expenditures					
General Government:					
City Attorney Retainer	24,000	-	24,000	25,650	(1,650)
Outside Counsel	2,000	-	2,000	-	2,000
Auditor	6,000	-	6,000	5,850	150
Financial Assistant	32,500	-	32,500	32,500	-
Recording Secretary	4,500	-	4,500	2,176	2,324
Advertising	5,000	-	5,000	366	4,634
Travel	1,000	-	1,000	-	1,000
Memberships and Training	3,500	-	3,500	2,151	1,349
Subscriptions	1,500	-	1,500	3,888	(2,388)
Refreshments	1,200	-	1,200	658	542

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<u>EXPENDITURES AND ENCUMBRANCES - Continued</u>					
General Government: (Continued)					
General and Administrative Expenditures (Continued)					
General Government (Continued):					
Telephones	4,200	-	4,200	4,290	(90)
PVA Assessment	39,700	-	39,700	38,759	941
Automotive	2,000	-	2,000	666	1,334
General Government Miscellaneous	10,000	-	10,000	5,602	4,398
200 Whittington - City Hall:					
Gas and Electric	15,000	-	15,000	10,531	4,469
Water/Sewer	6,500	-	6,500	6,347	153
Cleaning Service	6,000	-	6,000	6,538	(538)
Building Maintenance	5,000	-	5,000	3,144	1,856
Building Materials/Supplies	1,000	-	1,000	-	1,000
Equipment Maintenance	1,500	-	1,500	-	1,500
Building Improvements	30,000	-	30,000	1,500	28,500
Furniture and Fixtures	1,000	-	1,000	531	469
Legal and Management Expense	2,000	-	2,000	-	2,000
Leasing Expense	5,000	-	5,000	-	5,000
Tenant Finish	11,000	-	11,000	5,203	5,797
Insurance - Property	7,000	-	7,000	-	7,000
City Hall Miscellaneous Expense	5,000	-	5,000	150	4,850
Office Supplies:					
Office Supplies	3,000	-	3,000	1,327	1,673
Office Equipment	2,000	-	2,000	1,082	918
Postage	6,000	-	6,000	5,240	760
Computer Equipment	2,000	-	2,000	2,287	(287)
Computer Software	2,000	-	2,000	2,955	(955)
Equipment Maintenance	2,500	-	2,500	3,348	(848)
Printing - Newsletter	6,000	-	6,000	7,168	(1,168)
Printing - Other	1,500	-	1,500	1,637	(137)
Web Page	1,200	-	1,200	1,418	(218)
Personnel:					
Salaries and Wages	183,150	-	183,150	184,281	(1,131)
Payroll Taxes - FICA	14,225	-	14,225	14,098	127
Payroll Taxes Unemployment	1,000	-	1,000	133	867
Payroll Service	2,000	-	2,000	1,664	336
Retirement Contribution	33,500	-	33,500	33,768	(268)
Health Insurance	44,000	-	44,000	49,344	(5,344)
Dental Insurance	7,000	-	7,000	4,726	2,274

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<u>EXPENDITURES AND ENCUMBRANCES - Continued</u>					
General Government: (Continued)					
General and Administrative Expenditures (Continued)					
Insurance:					
Insurance/Liability	12,000	-	12,000	10,610	1,390
Insurance/Property	2,500	-	2,500	6,906	(4,406)
Bonding	5,500	-	5,500	4,248	1,252
Workers Compensation	1,000	-	1,000	783	217
Total General Government	<u>565,175</u>	<u>-</u>	<u>565,175</u>	<u>493,523</u>	<u>71,652</u>
Public Safety:					
Vehicle/Pedestrian Safety					
Police Patrols	60,000	-	60,000	59,535	465
Street Lighting - Electricity	135,000	-	135,000	125,061	9,939
Electrical Repairs - Improvements	3,000	-	3,000	-	3,000
Street Signs and Markings	5,000	-	5,000	3,032	1,968
Supplies and Promotions	1,000	-	1,000	-	1,000
General Public Safety					
Public Safety Miscellaneous	15,000	-	15,000	3,445	11,555
Total Public Safety	<u>219,000</u>	<u>-</u>	<u>219,000</u>	<u>191,073</u>	<u>27,927</u>
Public Works:					
General:					
Holiday Decorations	10,000	-	10,000	10,388	(388)
Public Works Miscellaneous	10,000	-	10,000	3,505	6,495
Landscaping:					
Landscaping Other	5,000	-	5,000	-	5,000
Horticulturalist	22,000	-	22,000	20,048	1,952
Contract Gardener	135,000	-	135,000	122,899	12,101
Maintenance:					
Grass Cutting	110,000	-	110,000	105,950	4,050
Chemical Applications	30,000	-	30,000	39,974	(9,974)
Irrigation:					
Annual Service Contract	30,000	-	30,000	17,831	12,169
System Replacement	20,000	-	20,000	19,080	920
Water	90,000	-	90,000	102,436	(12,436)
Electrician/Landscape	10,000	-	10,000	4,471	5,529
Other Maintenance	5,000	-	5,000	-	5,000

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES AND ENCUMBRANCES - Continued</u>					
Public Works (Continued):					
Special Projects:					
Entrance Improvements and Upgrades	25,000	-	25,000	8,795	16,205
Median Improvements	10,000	-	10,000	320	9,680
Bridle Path - Wimborne	2,000	-	2,000	-	2,000
City Park	2,000	-	2,000	-	2,000
Sidewalk Repair	80,000	-	80,000	50,730	29,270
Storm Water	100,000	-	100,000	73,975	26,025
Spring/Fall Planting:					
Flowers	30,000	-	30,000	33,508	(3,508)
Plant Replacements	30,000	-	30,000	36,171	(6,171)
Mulch	30,000	-	30,000	32,044	(2,044)
Tree Replacement	40,000	-	40,000	10,991	29,009
Tree Removal	30,000	-	30,000	38,804	(8,804)
Roads:					
City Engineer	45,000	-	45,000	23,847	21,153
Scheduled Maintenance-Resurfacing	150,000	-	150,000	229,815	(79,815)
Unscheduled Maintenance	15,000	-	15,000	2,104	12,896
Street Cleaning	2,000	-	2,000	-	2,000
Snow Removal	50,000	-	50,000	14,195	35,805
Total Public Works	<u>1,118,000</u>	<u>-</u>	<u>1,118,000</u>	<u>1,001,881</u>	<u>116,119</u>
Sanitation/Code Enforcement:					
Sanitation					
Residential Collection	460,000	-	460,000	458,143	1,857
Publications	1,000	-	1,000	-	1,000
Sanitation Miscellaneous	2,000	-	2,000	1,244	756
Code Enforcement					
Code Enforcement Field Officer	13,500	-	13,500	13,500	-
Code Enforcement Miscellaneous	6,000	-	6,000	300	5,700
Total Sanitation/Code Enf	<u>482,500</u>	<u>-</u>	<u>482,500</u>	<u>473,187</u>	<u>9,313</u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES AND ENCUMBRANCES - Continued</u>					
Community Development:					
Community Projects and Events:					
Commission Special Projects	100,000	-	100,000	19,961	80,039
Community Outreach and Events	10,000	-	10,000	3,895	6,105
Total Community Develop.	<u>110,000</u>	<u>-</u>	<u>110,000</u>	<u>23,856</u>	<u>86,144</u>
 Total Expenditures	<u>2,494,675</u>	<u>-</u>	<u>2,494,675</u>	<u>2,183,520</u>	<u>311,155</u>
 Net Change in Fund Balance	-	-	-	185,735	185,735
 Fund Balance - July 1, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,953,246</u>	<u>1,953,246</u>
 Fund Balance - June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,138,981</u>	<u>\$ 2,138,981</u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - MUNICIPAL ROAD AID FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
Municipal Road Aid:					
Intergovernmental Revenue	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 78,881</u>	<u>\$ (1,119)</u>
Total Revenues Before Prior Year Fund Balance	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>78,881</u>	<u>(1,119)</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Prior Year Fund Balance	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>78,881</u>	<u>(1,119)</u>
<u>EXPENDITURES AND ENCUMBRANCES</u>					
Municipal Road Aid:					
Street Paving and Repairs	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Total Municipal Road Aid	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Excess (Deficiency) of Revenue over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,119)</u>	<u>(1,119)</u>
Fund Balance - July 1, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,200</u>	<u>3,200</u>
Fund Balance - June 30, 2020	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,081</u></u>	<u><u>\$ 2,081</u></u>

See the accompanying notes to the required supplementary information on budgetary reporting.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON
BUDGETARY REPORTING
JUNE 30, 2020

Budgets and the Budgetary Process

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Encumbrances

As previously disclosed, the City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Reconciliation

Certain expenditures are required to be reported as capital outlay on the fund financial statements regardless of the department or function within general government that acquires the capital item. For budgetary purposes however, the City budgets for those expenditures on specific lines of the department or function from which payment will be made. Differences between the budgetary bases as reported in the required supplementary information differs from the fund financial statements in the following areas:

Budgetary Fund/Department/Line Item	Reported as Capital Outlay in the Fund Financials	
	General Fund	Municipal Road Aid Fund
General Government:		
Roads:		
Scheduled Maintenance - Resurfacing	\$ 191,921	\$ -
Roads:		
Street Paving and Repairs	-	80,000
	<u>\$ 191,921</u>	<u>\$ 80,000</u>

Stewardship

The City did not exceed budget in any department during this fiscal year.

CITY OF HURSTBOURNE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2020

<u>Year Ended June 30th</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
Non-Hazardous:					
2020	Not Available	Not Available	\$ 140,348	Not Available	Not Available
2019	0.005374%	\$ 377,956	\$ 135,554	278.82%	50.45%
2018	0.005295%	\$ 322,482	\$ 131,240	245.72%	53.54%
2017	0.005292%	\$ 309,757	\$ 128,859	240.38%	53.32%
2016	0.005211%	\$ 256,568	\$ 124,308	206.40%	55.50%
2015	0.005467%	\$ 235,063	\$ 127,557	184.28%	59.97%
2014	0.005369%	\$ 174,206	\$ 123,184	141.42%	66.80%
2013	Not Available	\$ 197,118	\$ 117,008	168.47%	Not Available
2012-2011	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

**CITY OF HURSTBOURNE, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS TO THE COUNTY
EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2020**

Year Ended June 30th	Contractually required contribution	Contribution relative to contractually required contribution	Contribution deficiency (excess)	City's covered employee payroll	Contributions as a percentage of covered employee payroll
Non-Hazardous:					
2020	\$ 27,087	\$ 27,087	\$ -	\$ 140,348	19.30%
2019	\$ 21,987	\$ 21,987	\$ -	\$ 135,554	16.22%
2018	\$ 19,004	\$ 19,004	\$ -	\$ 131,240	14.48%
2017	\$ 17,976	\$ 17,976	\$ -	\$ 128,859	13.95%
2016	\$ 15,439	\$ 15,439	\$ -	\$ 124,308	12.42%
2015	\$ 16,263	\$ 16,263	\$ -	\$ 127,557	12.75%
2014	\$ 16,926	\$ 16,926	\$ -	\$ 123,184	13.74%
2013*	\$ 22,875	\$ 22,875	\$ -	\$ 117,008	19.55%
2012-2011	Not Available	Not Available	Not Available	Not Available	Not Available

*For the year ending June 30, 2013 the contribution amount and percentage of covered payroll are the combined amounts contributed to both the pension trust and insurance fund. All other years presented provide figures for the pension trust alone.

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING
FOR THE YEAR ENDED JUNE 30, 2020

NOTE A – ACCOUNTING POLICIES

For purposes of determining net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. 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.

NOTE B – CHANGES OF BENEFIT TERMS

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

2018: Legislation was enacted which provided increased pension and insurance benefits for the beneficiaries of active members who die in the line of duty.

NOTE C – CHANGES OF ASSUMPTIONS

2019

- For disabled members, the 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 health retired members, the Mortality Table used was 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 assumed rate of salary increases was increased from 3.05% to 3.3%-10.3% for nonhazardous and to 3.55%-19.05% for hazardous.

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%
- Changed the asset valuation method from the 5-year smoothed method to 20% of the difference between the market value of assets and the expected actuarial value of assets.

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 .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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING
FOR THE YEAR ENDED JUNE 30, 2020

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates effective for the fiscal year ended June 30, 2019 were calculated as of June 30, 2017. Based on the June 30, 2017, actuarial valuation report, the following actuarial methods and assumptions were used to calculate these contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years closed
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
Investment rate of return	6.25%

NOTE E – MEASUREMENT DATE

As allowed by current audit standards, CERS has used a measurement date of June 30, 2019 for reporting information to the City.

CITY OF HURSTBOURNE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB
LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2020

Year Ended June 30th	City's proportion of the net OPEB liability	City's proportionate share of the net OPEB liability (asset)	City's covered employee payroll	City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
Non-Hazardous:					
2020	Not Available	Not Available	\$ 140,348	Not Available	Not Available
2019	0.005373%	\$ 90,371	\$ 135,554	66.67%	60.44%
2018	0.005295%	\$ 94,012	\$ 131,240	71.63%	57.62%
2017	0.005292%	\$ 106,387	\$ 128,859	82.56%	52.39%
2016	Not Available	\$ 83,447	\$ 124,308	67.13%	Not Available
2015-2011	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on OPEB reporting.

**CITY OF HURSTBOURNE, KENTUCKY
SCHEDULE OF THE CITY'S INSURANCE CONTRIBUTIONS TO THE COUNTY
EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Year Ended June 30th</u>	<u>Contractually required contribution</u>	<u>Contribution relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
Non-Hazardous:					
2020	\$ 6,681	\$ 6,681	\$ -	\$ 140,348	4.76%
2019	\$ 7,130	\$ 7,130	\$ -	\$ 135,554	5.26%
2018	\$ 6,168	\$ 6,168	\$ -	\$ 131,240	4.70%
2017	\$ 6,095	\$ 6,095	\$ -	\$ 128,859	4.73%
2016	\$ 5,768	\$ 5,768	\$ -	\$ 124,308	4.64%
2015-2011	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on OPEB reporting.

CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON OPEB REPORTING
FOR THE YEAR ENDED JUNE 30, 2020

NOTE A – ACCOUNTING POLICIES

For purposes of determining net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. 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.

NOTE B – CHANGES OF BENEFIT TERMS

2018: Legislation was enacted which provided increased pension and insurance benefits for the beneficiaries of active members who die in the line of duty.

NOTE C – CHANGES OF ASSUMPTIONS

2019

- For disabled members, the 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 health retired members, the Mortality Table used was 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 assumed rate of salary increases was increased from 3.05% to 3.3%-10.3% for nonhazardous and to 3.55%-19.05% for hazardous.

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.50% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates effective for the fiscal year ended June 30, 2019 were calculated as of June 30, 2017. Based on the June 30, 2017, actuarial valuation report, the following actuarial methods and assumptions were used to calculate these contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years, closed
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
Investment rate of return	6.25%
Healthcare Trend Rates:	
Pre 65 – Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over 13 years.	
Post 65 – Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over 11 years.	

**CITY OF HURSTBOURNE, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON OPEB REPORTING
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE E – MEASUREMENT DATE

As allowed by current audit standards, CERS has used a measurement date of June 30, 2019 for reporting information to the City.

**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***



STEPHENS & LAWSON

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Mayor and Members of the City Commission
City of Hurstbourne, 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 Hurstbourne, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise City of Hurstbourne, Kentucky's basic financial statements, and have issued our report thereon dated July 9, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hurstbourne, Kentucky'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 financial statements. 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.

Stephens & Lawson CPAs

Louisville, Kentucky
July 9, 2021