

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

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FOR THE YEAR ENDED JUNE 30, 2020**

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**CITY OF BURKESVILLE
P.O. BOX 250
BURKESVILLE, KENTUCKY
(270) 864-4141**

CITY OFFICIALS AND OFFICERS

MAYOR

Billy Guffey

MEMBERS OF COUNCIL

Connie Cravens
Billy Maxey
Glen Murphy
Trevor Owsley
Weldon Rowe
Odis Young

OFFICERS

Marquetta Riley
City Clerk/Treasurer

Angie Capps
City Attorney

Lawrence Nettles
Chief of Police

Greg Cary
Fire Chief

David McIntyre
Public Works Director

Ed Peretto
Water/Wastewater Director

SAMMY K. LEE, P.S.C.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Burkesville
Burkesville, Kentucky 42717

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 35–41 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying supplementary information such as the schedule of water and sewer revenues, expenses, and changes in net position on page 42, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 17, 2020, on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sammy K. Lee, P.S.C.

Berea, Kentucky
September 17, 2020

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

| | <u>Governmental</u> | <u>Business-Type</u> | <u>Total</u> |
|------------------------------------------------------|---------------------|----------------------|---------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 585,752 | \$ 265,837 | \$ 851,589 |
| Receivables, net | | | |
| Customers | - | 152,895 | 152,895 |
| Other | 5,395 | 15,983 | 21,378 |
| Interest | 296 | 140 | 436 |
| Total Current Assets | 591,443 | 434,855 | 1,026,298 |
| Non-Current Assets | | | |
| Restricted cash | 108,519 | 1,132,136 | 1,240,655 |
| Certificates of deposit | 450,797 | 212,991 | 663,788 |
| Capital assets: | | | |
| Non-depreciable <i>Land</i> | 170,364 | 329,898 | 500,262 |
| Depreciable, net <i>Cruisers, Fire trucks Bldgs.</i> | 383,015 | 8,467,340 | 8,850,355 |
| Total Non-Current Assets | 1,112,695 | 10,142,365 | 11,255,060 |
| Total Assets | 1,704,138 | 10,577,220 | 12,281,358 |
| Deferred Outflows of Resources | | | |
| Deferred amounts related to pension | 482,326 | 242,074 | 724,400 |
| Deferred amounts related to OPEB | 217,345 | 103,448 | 320,793 |
| Total Deferred Outflows of Resources | 699,671 | 345,522 | 1,045,193 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 8,647 | 33,702 | 42,349 |
| Accrued expenses | 60,320 | 25,424 | 85,744 |
| Accrued interest | - | 7,076 | 7,076 |
| Customer deposits payable | - | 50,917 | 50,917 |
| Notes payable, net | - | 394,296 | 394,296 |
| Bond anticipation note, net | - | 368,518 | 368,518 |
| Total Current Liabilities | 68,967 | 879,933 | 948,900 |
| Non-Current Liabilities | | | |
| Notes payable, net | - | 2,455,814 | 2,455,814 |
| Net pension liability | 1,988,096 | 944,848 | 2,932,944 |
| Net OPEB liability <i>> Retirement</i> | 504,342 | 230,385 | 734,727 |
| Total Non-Current Liabilities | 2,492,438 | 3,631,047 | 6,123,485 |
| Total Liabilities | 2,561,405 | 4,510,980 | 7,072,385 |
| Deferred Inflows of Resources | | | |
| Deferred amounts related to pension | 99,441 | 38,982 | 138,423 |
| Deferred amounts related to OPEB | 160,377 | 80,487 | 240,864 |
| Total Deferred Inflows of Resources | 259,818 | 119,469 | 379,287 |
| Net Position (Deficit) | | | |
| Net investment in capital assets | 553,379 | 5,590,983 | 6,144,362 |
| Restricted | 108,519 | 1,132,136 | 1,240,655 |
| Unrestricted (deficit) | (1,079,312) | (430,826) | (1,510,138) |
| Total Net Position (Deficit) | \$ (417,414) | \$ 6,292,293 | \$ 5,874,879 |

The accompanying notes are an integral part of these financial statements.

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

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|---------------------------------------|---------------------|---------------------------------|---------------------------------------------------|------------------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contribution | |
| Government Activities | | | | | |
| General government | \$ 161,723 | \$ - | \$ - | \$ - | \$ (161,723) |
| Police | 1,108,424 | - | - | - | (1,108,424) |
| Fire | 116,377 | - | - | - | (116,377) |
| Street | 220,482 | - | - | - | (220,482) |
| Parks and recreation | 86,976 | - | - | - | (86,976) |
| Total Governmental Activities | 1,693,982 | - | - | - | (1,693,982) |
| Business-Type Activities | | | | | |
| Water and sewer | 1,400,065 | 1,106,561 | - | - | (293,504) |
| Sanitation | 252,780 | 242,742 | - | - | (10,038) |
| Total Business-Type Activities | 1,652,845 | 1,349,303 | - | - | (303,542) |
| Total Activities | \$ 3,346,827 | \$ 1,349,303 | \$ - | \$ - | \$ (1,997,524) |

| | Governmental Activities | Business-Type Activities | Total |
|------------------------------------------|------------------------------------|-------------------------------------|---------------------|
| Change in Net Position | | | |
| Net (expense) revenue | \$ (1,693,982) | \$ (303,542) | \$ (1,997,524) |
| General Revenues | | | |
| Taxes | 104,545 | - | 104,545 |
| Licenses, permits, and other taxes | 956,204 | - | 956,204 |
| Intergovernmental | 318,311 | - | 318,311 |
| Services and fees | 45,498 | - | 45,498 |
| Interest income | 12,071 | 7,644 | 19,715 |
| Miscellaneous | 6,334 | 42,850 | 49,184 |
| Total General Revenues | 1,442,963 | 50,494 | 1,493,457 |
| Change in Net Position | (251,019) | (253,048) | (504,067) |
| Net Position (Deficit), Beginning | (166,395) | 6,545,341 | 6,378,946 |
| Net Position (Deficit), Ending | \$ (417,414) | \$ 6,292,293 | \$ 5,874,879 |

The accompanying notes are an integral part of these financial statements.

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

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------|----------------------------|-----------------------------------------|-----------------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 585,752 | \$ - | \$ 585,752 |
| Certificates of deposit | 450,797 | - | 450,797 |
| Accounts receivable | | | |
| Other | 5,395 | - | 5,395 |
| Interest | 296 | - | 296 |
| Restricted cash | 65,485 | 43,034 | 108,519 |
| Total Assets | <u>\$ 1,107,725</u> | <u>\$ 43,034</u> | <u>\$ 1,150,759</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 8,647 | \$ - | \$ 8,647 |
| Accrued expenses | 60,320 | - | 60,320 |
| Total Liabilities | <u>68,967</u> | <u>-</u> | <u>68,967</u> |
| Fund Balances | | | |
| Restricted | 65,485 | 43,034 | 108,519 |
| Unassigned | 973,273 | - | 973,273 |
| Total Fund Balances | <u>1,038,758</u> | <u>43,034</u> | <u>1,081,792</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,107,725</u> | <u>\$ 43,034</u> | <u>\$ 1,150,759</u> |

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Fund balances reported above | \$ 1,081,792 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 553,379 |
| Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds. | 439,853 |
| All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long-term liabilities are not due and payable in the current period and therefore are not reported. | |
| Net pension liability | (1,988,096) |
| Net OPEB liability | <u>(504,342)</u> |
| Net Position (Deficit) of Governmental Activities | <u>\$ (417,414)</u> |

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

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------------|-----------------------------------------|
| Revenues | | | |
| Taxes | \$ 104,545 | \$ - | \$ 104,545 |
| Licenses, permits and fees | 956,204 | - | 956,204 |
| Intergovernmental | 285,189 | 33,122 | 318,311 |
| Service charges and fees | 45,498 | - | 45,498 |
| Other | 18,342 | 63 | 18,405 |
| Total Revenues | <u>1,409,778</u> | <u>33,185</u> | <u>1,442,963</u> |
| Expenditures | | | |
| General and administration department | 137,022 | - | 137,022 |
| Police department | 848,876 | - | 848,876 |
| Fire department | 72,604 | - | 72,604 |
| Street department | 144,353 | 31,013 | 175,366 |
| Park and recreation department | 69,691 | - | 69,691 |
| Capital outlay | 38,999 | - | 38,999 |
| Total Expenditures | <u>1,311,545</u> | <u>31,013</u> | <u>1,342,558</u> |
| Net Change in Fund Balance | <u>98,233</u> | <u>2,172</u> | <u>100,405</u> |
| Fund Balance, Beginning | <u>940,525</u> | <u>40,862</u> | <u>981,387</u> |
| Fund Balance, Ending | <u>\$ 1,038,758</u> | <u>\$ 43,034</u> | <u>\$ 1,081,792</u> |
| Net Changes in Fund Balances - Total Governmental Funds | | | \$ 100,405 |
| Amounts reported for <i>government activities</i> in the Statement of Activities are different because: | | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$86,755 exceeds capital outlay of \$38,999 in the current period. | | | |
| | | | (47,756) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. | | | |
| Change in pension liability and OPEB liability of governmental activities | | | |
| | | | (303,668) |
| Change in Net Position of Governmental Activities | | | <u>\$ (251,019)</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2020

| | Water & Sewer Utilities | Sanitation Utilities | Total Proprietary Funds |
|------------------------------------------------------------|----------------------------|-----------------------------|----------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents <i>- Bank Act</i> | \$ 211,069 | \$ 54,768 | \$ 265,837 |
| Receivables, net | | | |
| Customers | 125,023 | 27,872 | 152,895 |
| Other | 15,983 | - | 15,983 |
| Interest | 33 | 107 | 140 |
| Total Current Assets | 352,108 | 82,747 | 434,855 |
| Non-Current Assets | | | |
| Restricted cash | 1,130,182 | 1,954 <i>KVC</i> | 1,132,136 |
| Certificates of deposit | 162,561 | 50,430 | 212,991 |
| Capital assets: | | | |
| Non-depreciable <i>- LAND</i> | 329,898 | - | 329,898 |
| Depreciable, net <i>- Trucks - Bldgs</i> | 8,323,135 | 144,205 | 8,467,340 |
| Total Non-Current Assets | 9,945,776 | 196,589 | 10,142,365 |
| Total Assets | 10,297,884 | 279,336 | 10,577,220 |
| Deferred Outflows of Resources | | | |
| Deferred amounts related to pension | 203,610 | 38,464 | 242,074 |
| Deferred amounts related to OPEB | 87,009 | 16,439 | 103,448 |
| Total Deferred Outflows of Resources | 290,619 | 54,903 | 345,522 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 25,936 | 7,766 | 33,702 |
| Accrued expenses | 22,695 | 2,729 | 25,424 |
| Accrued interest | 7,003 | 73 | 7,076 |
| Customer deposits payable | 50,917 | - | 50,917 |
| Notes payable, net | 372,999 | 21,297 <i>Garbage Truck</i> | 394,296 |
| Bond anticipation note, net | 368,518 | - | 368,518 |
| Total Current Liabilities | 848,068 | 31,865 | 879,933 |
| Non-Current Liabilities | | | |
| Notes payable, net | 2,441,754 | 14,060 | 2,455,814 |
| Net pension liability <i>> Retirement</i> | 794,730 | 150,118 | 944,848 |
| Net OPEB liability | 190,225 | 40,160 | 230,385 |
| Total Non-Current Liabilities | 3,426,709 | 204,338 | 3,631,047 |
| Total Liabilities | 4,274,777 | 236,203 | 4,510,980 |
| Deferred Inflows of Resources | | | |
| Deferred amounts related to pension <i>> Retirement</i> | 32,790 | 6,192 | 38,982 |
| Deferred amounts related to OPEB | 67,700 | 12,787 | 80,487 |
| Total Deferred Inflows of Resources | 100,490 | 18,979 | 119,469 |
| Net Position | | | |
| Net investment in capital assets | 5,482,135 | 108,848 | 5,590,983 |
| Restricted | 1,130,182 | 1,954 | 1,132,136 |
| Unrestricted (deficit) | (399,081) | (31,745) | (430,826) |
| Total Net Position | \$ 6,213,236 | \$ 79,057 | \$ 6,292,293 |

The accompanying notes are an integral part of these financial statements.

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

| | Water and Sewer Utilities | Sanitation Utilities | Total Proprietary Funds |
|-----------------------------------------------|--------------------------------------|---------------------------------|------------------------------------|
| Operating Revenues | | | |
| Charges for services | \$ 1,106,561 | \$ 242,742 | \$ 1,349,303 |
| Miscellaneous | 42,850 | - | 42,850 |
| Total Operating Revenues | 1,149,411 | 242,742 | 1,392,153 |
| Operating Expenses | | | |
| Salaries | 303,374 | 54,880 | 358,254 |
| Employee benefits | 270,219 | 45,532 | 315,751 |
| Contractual services | 8,900 | 3,895 | 12,795 |
| Materials and supplies | 160,702 | 92,076 | 252,778 |
| Travel and training | 5,513 | 56 | 5,569 |
| Utilities and telephone | 139,757 | 1,939 | 141,696 |
| Insurance | 45,428 | 17,848 | 63,276 |
| Depreciation | 349,899 | 27,381 | 377,280 |
| Bad debt provision | 5,606 | 1,195 | 6,801 |
| Miscellaneous | 35,596 | 6,387 | 41,983 |
| Total Operating Expenses | 1,324,994 | 251,189 | 1,576,183 |
| Operating Loss | (175,583) | (8,447) | (184,030) |
| Non-Operating Revenues (Expenses) | | | |
| Interest income | 6,751 | 893 | 7,644 |
| Interest expense | (75,071) | (1,591) | (76,662) |
| Total Non-Operating Revenue (Expenses) | (68,320) | (698) | (69,018) |
| Change in Net Position | (243,903) | (9,145) | (253,048) |
| Total Net Position, Beginning | 6,457,139 | 88,202 | 6,545,341 |
| Total Net Position, Ending | \$ 6,213,236 | \$ 79,057 | \$ 6,292,293 |

The accompanying notes are an integral part of these financial statements.

CITY OF BURKESVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

| | Water & Sewer Utilities | Sanitation Utilities | Total Proprietary Funds |
|-----------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------|------------------------------------|
| Cash Flows from Operating Activities | | | |
| Cash received from customers | \$ 1,101,682 | \$ 239,158 | \$ 1,340,840 |
| Cash received from other sources | 26,867 | - | 26,867 |
| Cash payments to suppliers for goods and services | (482,772) | (159,230) | (642,002) |
| Cash payments to employees | (379,967) | (55,271) | (435,238) |
| Net Cash Provided by Operating Activities | 265,810 | 24,657 | 290,467 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Proceeds from issuance of debt | 1,119,142 | - | 1,119,142 |
| Principal, interest, and related fees paid on long-term debt | (1,105,691) | (21,825) | (1,127,516) |
| Acquisition and construction of capital assets | (89,129) | (6,665) | (95,794) |
| Net Cash Used in Capital and Related Financing Activities | (75,678) | (28,490) | (104,168) |
| Cash Flows from Investing Activities | | | |
| Purchase of certificates of deposit | (4,879) | (1,514) | (6,393) |
| Cash received from interest income | 9,326 | 1,595 | 10,921 |
| Net Cash Provided by Investing Activities | 4,447 | 81 | 4,528 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 194,579 | (3,752) | 190,827 |
| Cash and Cash Equivalents at July 1, 2019 | 1,146,672 | 60,474 | 1,207,146 |
| Cash and Cash Equivalents at June 30, 2020 | \$ 1,341,251 | \$ 56,722 | \$ 1,397,973 |
| ⁽¹⁾ Cash and cash equivalents are reflected in the Statement of Net Position as follows: | | | |
| Cash and cash equivalents | \$ 211,069 | \$ 54,768 | \$ 265,837 |
| Restricted cash and cash equivalents | 1,130,182 | 1,954 | 1,132,136 |
| Subtotal | \$ 1,341,251 | \$ 56,722 | \$ 1,397,973 |
| Reconciliation of Operating Loss to Net Cash Provided by Operating Activities | | | |
| Operating Loss | \$ (175,583) | \$ (8,447) | \$ (184,030) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation | 349,899 | 27,381 | 377,280 |
| Bad debt provision | 5,606 | 1,195 | 6,801 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in customer accounts receivable | (7,401) | (4,780) | (12,181) |
| (Increase) decrease in other accounts receivable | (15,983) | | |
| (Increase) decrease in outflows of resources | (49,831) | (4,069) | (53,900) |
| Increase (decrease) in accounts payable | 1,446 | 989 | 2,435 |
| Increase (decrease) in accrued expenses | 982 | (389) | 593 |
| Increase (decrease) in customer deposits | 1,910 | - | 1,910 |
| Increase (decrease) in net pension liability | 142,185 | 12,358 | 154,543 |
| Increase (decrease) in inflows of resources | 12,580 | 419 | 12,999 |
| Total adjustments | 441,393 | 33,104 | 474,497 |
| Net Cash Provided by Operating Activities | \$ 265,810 | \$ 24,657 | \$ 290,467 |

The accompanying notes are an integral part of these financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Burkesville, Kentucky (hereinafter "the City") operates under a Mayor-Council form of government. The City's major operations include police and fire protection, parks and recreation, and general administrative services. The City also operates a water, sewer and sanitation system for its citizens. The citizens of Burkesville elect a mayor-at-large and six city council members. The accompanying financial statements present the City's primary government unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from a legal relationship).

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing City, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- *Statement of Net Position* presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.
- *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the general fund. Charges are allocated as reimbursement for services provided by the general fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- *General Fund* is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- *Special Revenue Funds* consists of accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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.

The government-wide financial statements and the proprietary funds financial statements are presented on a *full accrual* basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and interest income.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's water, sewer, and sanitation funds are charges to customers for sales and services. The water, sewer, and sanitation funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2020, the original budget was approved in April 2019 and amended June 2020. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposit

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

The City has restricted cash and or certificates of deposits to satisfy bond issue requirements, including cash restricted for bond payments.

Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local and federal governments. Interest revenue receivable in all funds consist of revenue due on each certificate of deposit. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Property Tax Calendar

Property taxes for fiscal year 2020 were levied in November 2019, respectively, on the assessed property located in the City of Burkesville as of the preceding January 1. The rate for real estate was 11 cents per one hundred dollars of assessed value. The rate for auto and boats was 23 cents and other tangible property was 26 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|-----------------------------------------------|------------------------------|
| 1. Due date for payment of taxes, 2% discount | November 30 |
| 2. Face value payment period | December 1 to December 31 |
| 3. Past due date, 10% penalty | January 1 |
| 4. Interest charge | 12% per annum from January 1 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Cumberland County and are due and collected in the birth month of the licensee.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and certificates of deposit on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the fund financial statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. 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 lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------------------------|------------------------|
| Buildings | 15 years |
| Equipment | 5-10 years |
| Water and Sewer System Utility Plants | 25-40 years |
| Infrastructure | 15-40 years |

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination but will be paid only upon illness while in the employment of the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The City has two items that meet this criterion, as related to pensions and other postemployment benefits (OPEB) reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension and OPEB liabilities and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category as related to pensions and OPEB reported in the Statement of Net Position.

Pensions and Other Postemployment Benefits

The City participates in a cost-sharing multiple-employer plan to provide pension and OPEB benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension and OPEB liability. For the purposes of measuring the net pension and OPEB liability, deferred outflows or inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed – Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.

Assigned – Portion of fund balance that has been budgeted by the City Council.

Unassigned – Portion of fund balance that has not been restricted, committed or assigned for specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the enterprise funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2020 consisted of the following:

| <u>Account</u> | <u>Interest Bearing</u> | <u>Governmental</u> | <u>Water & Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|-----------------------------|-----------------------------|---------------------|------------------------------|-------------------|---------------------|
| Operating | Yes | \$ 550,575 | \$ 211,069 | \$ 54,768 | \$ 816,412 |
| LGEAF | Yes | 10,196 | - | - | 10,196 |
| MAF | Yes | 32,838 | - | - | 32,838 |
| Payroll | Yes | 32,815 | - | - | 32,815 |
| Better Ball Initiative | Yes | 2,305 | - | - | 2,305 |
| Police Cruiser Grant | Yes | 43,060 | - | - | 43,060 |
| ABC Police Dept. | Yes | 4,418 | - | - | 4,418 |
| KLC | Yes | 18,008 | 8,160 | 1,954 | 28,122 |
| 1989 Sinking Fund | Yes | - | 152,790 | - | 152,790 |
| 1997 Depreciation Fund | Yes | - | 100,355 | - | 100,355 |
| 2010 Depreciation Fund | Yes | - | 34,965 | - | 34,965 |
| 2010 Sinking Fund | Yes | - | 21,687 | - | 21,687 |
| 2011 Sinking Fund | Yes | - | 136,158 | - | 136,158 |
| 2011 Depreciation Fund | Yes | - | 54,590 | - | 54,590 |
| 2015 Sinking Fund | Yes | - | 119,452 | - | 119,452 |
| 2015 Depreciation Fund | Yes | - | 19,299 | - | 19,299 |
| 2018 Sinking Fund | Yes | - | 47,354 | - | 47,354 |
| 2018 Depreciation Fund | Yes | - | 12,352 | - | 12,352 |
| Regions Sewer Project | Yes | - | 165,668 | - | 165,668 |
| Regions Reserve Account | Yes | - | 13,688 | - | 13,688 |
| 2019 Sinking Fund | Yes | - | 41,522 | - | 41,522 |
| 2019 Depreciation | Yes | - | 5,451 | - | 5,451 |
| Waste Water Project #2 2019 | Yes | - | 170,325 | - | 170,325 |
| 2020 Sinking Fund | Yes | - | 8,467 | - | 8,467 |
| KY Bond Corporation | Yes | - | 17,900 | - | 17,900 |
| Total | | \$ 694,214 | \$ 1,341,251 | \$ 56,722 | \$ 2,092,188 |

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accts
in Bank*

**CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020**

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Certificates of deposit at June 30, 2020 consisted of the following:

| <u>Description</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Total</u> |
|------------------------|--------------------------|--------------------------|--------------------------|
| Certificate of deposit | 0.60% | 5/21/21 | \$ 450,797 |
| Certificate of deposit | 0.60% | 5/21/21 | 50,430 |
| Certificate of deposit | 0.60% | 5/21/21 | 162,561 |
| Total | | | <u>\$ 663,788</u> |

*GF
San
water*

Credit Risk

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. As of June 30, 2020, none of the City's deposits were subject to credit risk.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the deposits that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits and certificates of deposit totaled \$2,775,976 and the bank balances totaled \$2,748,564. At June 30, 2020, \$2,023,171 of collateral was pledged to the City by the custodial bank and \$725,393 by FDIC insurance.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 3 – RECEIVABLES

Receivables as of fiscal year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

| | <u>General</u> | <u>Water & Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|------------------------------|------------------------|------------------------------|-------------------------|--------------------------|
| Accounts receivables | | | | |
| Customers | \$ - | \$ 189,665 | \$ 42,951 | \$ 232,616 |
| Other | 5,395 | 15,983 | - | 21,378 |
| Interest | 296 | 33 | 107 | 436 |
| | <u>5,691</u> | <u>205,681</u> | <u>43,058</u> | <u>254,430</u> |
| Gross receivables | 5,691 | 205,681 | 43,058 | 254,430 |
| Less allowance for bad debt | <u>-</u> | <u>64,642</u> | <u>15,079</u> | <u>79,721</u> |
| Net total receivables | <u>\$ 5,691</u> | <u>\$ 141,039</u> | <u>\$ 27,979</u> | <u>\$ 174,709</u> |

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. There were no fund transfers for the year ended June 30, 2020.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

| | Beginning Balance 7/1/2019 | Increases | Decreases | Ending Balance 6/30/2020 |
|-----------------------------------------------------|----------------------------------|---------------|-----------|--------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 130,319 | \$ - | \$ - | \$ 130,319 |
| Construction in process | 34,809 | 5,236 | - | 40,045 |
| Total capital assets, not being depreciated: | 165,128 | 5,236 | - | 170,364 |
| Capital assets, being depreciated: | | | | |
| Buildings | 309,372 | - | - | 309,372 |
| Machinery and equipment | 911,301 | 19,470 | - | 930,771 |
| Furniture and fixtures | 63,892 | 2,488 | - | 66,380 |
| Infrastructure | 979,604 | 11,715 | - | 991,319 |
| Road equipment | 87,184 | - | - | 87,184 |
| Total capital assets, being depreciated: | 2,351,353 | 33,673 | - | 2,385,026 |
| Less accumulated depreciation for | | | | |
| Governmental Activities | | | | |
| Building | 294,645 | 1,242 | - | 295,887 |
| Machinery and equipment | 724,120 | 50,957 | - | 775,077 |
| Furniture and fixtures | 60,553 | 619 | - | 61,172 |
| Infrastructure | 752,088 | 32,604 | - | 784,692 |
| Road equipment | 83,850 | 1,333 | - | 85,183 |
| Total accumulated depreciation | 1,915,256 | 86,755 | - | 2,002,011 |
| Total capital assets, being depreciated, net | 436,097 | | | 383,015 |
| Government activities capital assets, net | \$ 601,225 | | | \$ 553,379 |

Depreciation expense for governmental activities is charged to functions as follows:

| | 2020 |
|--------------|------------------|
| General | \$ 4,462 |
| Police | 15,499 |
| Fire | 36,631 |
| Street | 23,592 |
| Park | 5,238 |
| MAF Fund | 1,333 |
| Total | \$ 86,755 |

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

| | Beginning Balance 7/1/2019 | Increases | Decreases | Ending Balance 6/30/2020 |
|-----------------------------------------------------|----------------------------------|----------------|-----------|--------------------------------|
| Business-Type Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 61,445 | \$ - | \$ - | \$ 61,445 |
| Construction in process | 181,865 | 86,588 | - | 268,453 |
| Total capital assets, not being depreciated: | 243,310 | 86,588 | - | 329,898 |
| Capital assets, being depreciated: | | | | |
| Buildings and Improvements | 38,254 | - | - | 38,254 |
| Machinery and Equipment | 354,823 | 2,540 | - | 357,363 |
| Sanitary Sewer Extension | 159,108 | - | - | 159,108 |
| Utility Plant | 10,708,950 | - | - | 10,708,950 |
| Waste Water Treatment Facility | 4,124,716 | - | - | 4,124,716 |
| Sanitation Equipment | 279,079 | 6,665 | - | 285,744 |
| Total capital assets, being depreciated: | 15,664,930 | 9,205 | - | 15,674,135 |
| Less accumulated depreciation for | | | | |
| Business-Type Activities | | | | |
| Buildings and Improvements | 35,511 | 752 | - | 36,263 |
| Machinery and Equipment | 328,427 | 10,584 | - | 339,011 |
| Sanitary Sewer Extension | 158,980 | 87 | - | 159,067 |
| Utility Plant | 3,010,012 | 217,093 | - | 3,227,105 |
| Waste Water Treatment Facility | 3,182,427 | 121,383 | - | 3,303,810 |
| Sanitation Equipment | 114,157 | 27,381 | - | 141,538 |
| Total accumulated depreciation | 6,829,514 | 377,280 | - | 7,206,794 |
| Total capital assets, being depreciated, net | 8,835,416 | | | 8,467,341 |
| Business-type activities capital assets, net | \$ 9,078,726 | | | \$ 8,797,239 |

Depreciation expense for business-type activities is charged to functions as follows:

| | 2020 |
|--------------|-------------------|
| Water | \$ 279,919 |
| Sewer | 69,980 |
| Sanitation | 27,381 |
| Total | \$ 377,280 |

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2020:

| | <u>Balance</u> <u>July 1, 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2020</u> | <u>Due Within</u> <u>One Year</u> |
|--------------------------------|---------------------------------------|---------------------------|---------------------------|----------------------------------------|--------------------------------------|
| Governmental-type | | | | | |
| Net Pension Liability | \$ 1,732,721 | \$ 255,375 | \$ - | \$ 1,988,096 | \$ - |
| Net OPEB Liability | 508,658 | - | 4,316 | 504,342 | - |
| Business-type | | | | | |
| Revenue Bonds | 898,600 | - | 898,600 | - | - |
| Notes Payable | 1,870,329 | 1,110,286 | 139,360 | 2,841,255 | 394,296 |
| Bond Anticipation Note | 365,000 | - | - | 365,000 | 365,000 |
| Net Pension Liability | 790,305 | 154,543 | - | 944,848 | - |
| Net OPEB Liability | 230,385 | - | - | 230,385 | - |
| Plus: Unamortized Note Premium | 8,855 | - | - | 8,855 | - |
| Plus: Unamortized Bond Premium | 3,518 | - | - | 3,518 | 3,518 |
| Total | <u>\$6,408,371</u> | <u>\$1,520,204</u> | <u>\$1,042,276</u> | <u>\$ 6,886,299</u> | <u>\$ 762,814</u> |

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years was \$1,933,000. No general obligation bonds were issued during the current year. Revenue bonds are pledged by revenues and by the full faith and credit of the government. These bonds are issued as 10 to 40-year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 4.5% to 5.0%. The debt reserve requirement was in compliance for the fiscal year. On May 13, 2020, bonds were refinanced by a note and retired in full.

Notes Payable

On September 3, 2009, the City of Burkesville entered into a loan assistance agreement of \$1,153,000, with Kentucky Infrastructure Authority for a repair of the main street water line. As of June 30, 2020, the City had a balance of \$291,592 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2031. The loan calls for a \$30,000 repairs and maintenance reserve.

On May 1, 2013, the City of Burkesville entered into a loan assistance agreement of \$1,000,000, with Kentucky Infrastructure Authority for a sanitary sewer system overflow. As of June 30, 2020, the City had a balance of \$521,204 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2035. The loan calls for a \$25,000 repairs and maintenance reserve.

On June 1, 2013, the City of Burkesville entered into a loan assistance agreement of \$500,000, with Kentucky Infrastructure Authority for a sanitary sewer system overflow. As of June 30, 2020, the City had a balance of \$369,877 on the loan. The note bears interest at a rate of .75% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2035. The loan calls for a \$13,000 repairs and maintenance reserve.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable-Continued

On January 1, 2017, the City of Burkesville entered into a loan assistance agreement of \$520,644, with Kentucky Infrastructure Authority for a water distribution extension project. As of June 30, 2020, the City had a balance of \$519,189 on the loan. The note bears interest at a rate of .75% and principal and interest payments are due in December and June of each fiscal year. The note matures on December 1, 2037. The loan calls for a \$30,000 repairs and maintenance reserve.

On January 26, 2017, the City of Burkesville entered into a loan agreement of \$100,000, with First and Farmer's National Bank for a garbage truck. As of June 30, 2020, the City had a balance of \$35,357 on the loan. The note bears interest at a rate of 3.5% and principal and interest payments are monthly. The note matures on January 26, 2022.

September 16, 2019, the City of Burkesville began drawing down funds on a \$251,000 planning and design loan, with Kentucky Infrastructure Authority for improvements to the wastewater sewer plant. As of June 30, 2020, the City had drawn down \$215,286 of the available balance. The note bears interest at a rate of 3%. Upon completion of the project, the loan will be rolled into a construction loan.

On May 13, 2020, the City of Burkesville entered into a loan assistance agreement of \$895,000, with Kentucky Bond Corporation to refinance City's loan balances to the USDA. As of June 30, 2020, the City had a balance of \$888,750 on the loan. The note bears interest at a rate of 2% through February 2031 and 2.25% through February 2032 and principal and interest payments are due in August and February of each fiscal year. The note matures on February 1, 2032.

Bond Anticipation Note

The City obtained temporary financing in the amount of \$365,000 on August 9, 2018. The note bears interest at a rate of 2.5%. This note serves as temporary financing for the improvements to the wastewater sewer plant. The note will be retired with the proceeds of the \$2,010,000 bond issuance upon the completion of the project.

The minimum obligations of the City's at June 30, 2020 for the payment of loan principal and interest are as follows:

| Year Ending June 30, | Principal | Interest | Total Annual Requirements |
|-------------------------------------|---------------------|-------------------|--------------------------------------|
| 2021 | \$ 759,296 | \$ 28,095 | \$ 787,391 |
| 2022 | 203,609 | 31,167 | 234,776 |
| 2023 | 195,986 | 28,185 | 224,171 |
| 2024 | 196,930 | 25,642 | 222,572 |
| 2025 | 198,046 | 22,925 | 220,971 |
| 2026-2030 | 996,076 | 74,181 | 1,070,257 |
| 2031-2035 | 606,004 | 16,385 | 622,389 |
| 2036-2037 | 49,308 | 381 | 49,689 |
| Total | \$ 3,205,255 | \$ 226,961 | \$ 3,432,216 |

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 6 – LONG-TERM DEBT – CONTINUED

COMPLIANCE WITH RESERVE REQUIREMENTS

The City of Burkesville is required to maintain the following funds and accounts related to the bond issuance and loan agreements:

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the system which will either increase income and revenues or provide a higher degree of service. One twelfth (1/12) of five percent (5%) of the annual gross income and revenue of the public water and sewer project of the previous fiscal year, should be deposited into the Depreciation Fund. The KIA loans call for the creation of a repairs and maintenance reserve of \$98,000. At June 30, 2020, the depreciation fund had a balance of \$227,011.

Debt Service Fund – The debt service fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. These monthly transfers are to be made until the balance reaches the lesser of 1) the maximum debt service requirement in any fiscal year, 2) 10% of the proceeds of any series bonds or 3) 125% of the average annual debt service requirement. As of June 30, 2020, the debt service funds had a balance of \$527,430.

NOTE 7 – RETIREMENT PLAN

The City of Burkesville is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description

CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the system. 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. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications and 8% of wages for 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. Participating employers were 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 proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2020, participating employers contributed 19.33% (non-hazardous) and 30.06% (hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 7 – RETIREMENT PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to 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. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contributions are received, an employer pay credit is deposited to the members account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

| | | |
|--------|----------------------|-------------------------------------------------------------------------------------------------------|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years of service or 65 years old |
| | Reduced retirement | At least 5 years of service and 55 years old At least 25 years of service and any age |
| Tier 2 | Participation date | September 1, 2008 – December 31, 2013 |
| | Unreduced retirement | At least 5 years of service and 65 years or age 57+ sum of service years plus age equal 87 |
| | 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+ and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

For the fiscal year ended June 30, 2020 the City's covered payroll for hazardous and non-hazardous positions was \$247,156 and \$646,507, respectively.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 7 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2020, the City reported a liability of \$2,932,944 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the City's proportion was .042 percent for hazardous and .025 percent for non-hazardous.

For the year ended June 30, 2020, the City recognized pension expense of approximately \$471,800. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Changes in proportion and differences between employer contribution and proportionate share of contribution | \$ 86,786 | \$ 96,836 |
| Differences between expected and actual results | 94,671 | 7,462 |
| Changes of assumptions | 292,014 | - |
| Net difference between projected and actual earnings on plan investments | 51,852 | 34,125 |
| City contributions subsequent to the measurement date | 199,077 | - |
| Total | \$ 724,400 | \$ 138,423 |

The \$199,077 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

| | |
|------|------------|
| 2021 | \$ 250,909 |
| 2022 | \$ 999,343 |
| 2023 | \$ 33,665 |
| 2024 | \$ 3,072 |

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2017 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2017), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2019, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2019.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 7 – RETIREMENT PLAN – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2019:

| | |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Valuation date | June 30, 2017 |
| Experience study | July 1, 2014 - June 30, 2018 |
| Actuarial cost method | Entry age normal |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization method | Level percent of pay |
| Remaining amortization period | 26 years, closed |
| Payroll growth rate | 2.00% |
| Inflation | 2.30% |
| Salary increase | 3.30% to 11.55% Nonhazardous 3.05% to 18.55%, Hazardous |
| Investment rate of return | 6.25% |

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

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Changes in proportion and differences between employer contribution and proportionate share of contribution | \$ 86,786 | \$ 96,836 |
| Differences between expected and actual results | 94,671 | 7,462 |
| Changes of assumptions | 292,014 | - |
| Net difference between projected and actual earnings on plan investments | 51,852 | 34,125 |
| City contributions subsequent to the measurement date | 124,782 | - |
| Total | \$ 650,105 | \$ 138,423 |

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 7 – RETIREMENT PLAN – CONTINUED

| Asset Class | Target Allocation | Long-Term Expected Rate of Return |
|--------------------------------|--------------------------|------------------------------------------|
| 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% |

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

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

| | Discount Rate | City's Proportionate Share of Net Pension Liability |
|-----------------------|----------------------|------------------------------------------------------------|
| 1% Decrease | 5.25% | \$ 4,034,378 |
| Current discount rate | 6.25% | \$ 3,224,625 |
| 1% Increase | 7.25% | \$ 2,324,507 |

Payable to the Pension Plan – At June 30, 2020, the City did not have an outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

At June 30, 2020, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

| | |
|--------------------------------|------------|
| Deferred inflows of resources | \$ 240,864 |
| Deferred outflows of resources | \$ 320,793 |
| Net OPEB liability | \$ 734,727 |

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statue Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2020 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were \$54,951 for the year ended June 30, 2020 for both non-hazardous and hazardous combined. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is 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 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of Jun 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ended June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

**CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

| | |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Valuation date | June 30, 2017 |
| Experience study | July 1, 2014 - June 30, 2018 |
| Actuarial cost method | Entry age normal |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization method | Level percent of pay |
| Remaining amortization period | 26 years, closed |
| Payroll growth rate | 2.00% |
| Inflation | 2.30% |
| Salary increase | 3.30% to 11.55% Nonhazardous 3.05% to 18.55%, Hazardous |
| Investment rate of return | 6.25% |

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (setback 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.68% for CERS non-hazardous, and 5.69% for CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2014 through 2014, is outlined in a report dated April 12, 2019. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighing the expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Rate of Return |
|--------------------------------|--------------------------|------------------------------------------|
| 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% |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

Nonhazardous

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.68%) or one percentage point higher (6.68%) follows:

| | Discount Rate | City's proportionate share of net OPEB liability |
|-----------------------|----------------------|---------------------------------------------------------|
| 1% Decrease | 4.68% | \$ 565,648 |
| Current discount rate | 5.68% | \$ 422,255 |
| 1% Increase | 6.68% | \$ 304,109 |

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Hazardous

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.69%) or one percentage point higher (6.69%) follows:

| | Discount Rate | City's proportionate share of net OPEB liability |
|-----------------------|----------------------|-------------------------------------------------------------|
| 1% Decrease | 4.69% | \$ 435,962 |
| Current discount rate | 5.69% | \$ 312,472 |
| 1% Increase | 6.69% | \$ 212,235 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Nonhazardous

The following presents the City's proportionate share of the net OPEB liability City's net OPEB liability calculated using healthcare cost trend rates that are one percentage point lower (4.68%) or one percentage point higher than current healthcare cost trend rates:

| | City's proportionate share of net OPEB liability |
|-----------------------|-------------------------------------------------------------|
| 1% Decrease | \$ 314,033 |
| Current discount rate | \$ 422,255 |
| 1% Increase | \$ 553,486 |

Hazardous

The following presents the City's proportionate share of the net OPEB liability City's net OPEB liability calculated using healthcare cost trend rates that are one percentage point lower (4.69%) or one percentage point higher (6.69%) than current healthcare cost trend rates:

| | City's proportionate share of net OPEB liability |
|-----------------------|-------------------------------------------------------------|
| 1% Decrease | \$ 217,423 |
| Current discount rate | \$ 312,472 |
| 1% Increase | \$ 428,427 |

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

CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the City recognized OPEB expenses of \$99,321. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Changes in proportion and differences between employer contribution and proportionate share of contribution | \$ 32,945 | \$ 12,266 |
| Implicit subsidy | 9,291 | - |
| Differences between expected and actual results | - | 185,534 |
| Changes of assumptions | 219,377 | 1,428 |
| Net difference between projected and actual earnings on plan investments | 4,916 | 41,636 |
| City contributions subsequent to the measurement date | 54,264 | - |
| Total | \$ 320,793 | \$ 240,864 |

The \$54,264 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows.

Year ending June 30,

| | |
|------------|------------|
| 2021 | \$ 21,264 |
| 2022 | \$ 4,645 |
| 2023 | \$ (393) |
| 2024 | \$ (4,137) |
| 2025 | \$ (4,442) |
| Thereafter | \$ (560) |

Deferred outflows and inflows related to differences between projected and actual earnings on plan investment are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City is not involved in lawsuits or matters which require disclosure with the ABA Statement policy regarding Lawyer's Responses to Auditor's Request per the opinion of counsel.

Significant losses are covered by commercial insurance with premiums (based on industry information adjustment for any City claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**CITY OF BURKESVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2020**

NOTE 10 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2020, the City was sufficiently insured.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through September 17, 2020, which is the date the financial statements were available to be issued.

**CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

| | Budget | | Actual | Variance with Final Budget |
|-----------------------------------|-------------------|-------------------|---------------------|---------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 99,500 | \$ 111,900 | \$ 104,545 | \$ (7,355) |
| Licenses, permits and fees | 1,015,100 | 1,030,876 | 956,204 | (74,672) |
| Intergovernmental | 45,776 | 61,000 | 285,189 | 224,189 |
| Service charges and fees | - | 251,000 | 45,498 | (205,502) |
| Other | - | - | 18,342 | 18,342 |
| Total Revenues | 1,160,376 | 1,454,776 | 1,409,778 | (44,998) |
| Expenditures | | | | |
| General and administrative | 160,000 | 160,000 | 137,022 | 22,978 |
| Police | 583,578 | 891,833 | 848,876 | 42,957 |
| Fire | 100,747 | 100,747 | 71,839 | 28,908 |
| Street | 184,632 | 184,632 | 144,353 | 40,279 |
| Parks and recreation | 154,098 | 93,445 | 69,691 | 23,754 |
| Capital outlay | - | - | 38,999 | (38,999) |
| Total Expenditures | 1,183,055 | 1,430,657 | 1,310,780 | 119,877 |
| Net Change in Fund Balance | (22,679) | 24,119 | 98,998 | 74,879 |
| Fund Balance, Beginning | 621,349 | 271,707 | 940,525 | 695,476 |
| Fund Balance, Ending | \$ 598,670 | \$ 295,826 | \$ 1,039,523 | \$ 770,355 |

**CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

| | Budget | | | Variance with |
|-----------------------------------|------------|------------|------------|---------------|
| | Original | Final | Actual | Final Budget |
| Expenditures | | | | |
| General & Administration: | | | | |
| Salaries | \$ 57,389 | \$ 57,389 | \$ 64,967 | \$ (7,578) |
| Employee benefits | 31,172 | 31,172 | 31,758 | (586) |
| Professional services | 2,050 | 2,050 | 2,045 | 5 |
| Materials and supplies | 3,890 | 3,890 | 1,759 | 2,131 |
| Insurance | 4,500 | 4,500 | 4,447 | 53 |
| Miscellaneous | 12,699 | 12,699 | 11,288 | 1,411 |
| Travel and training | 500 | 500 | 1,199 | (699) |
| Utilities | 1,700 | 1,700 | 1,462 | 238 |
| Telephone | 2,900 | 2,900 | 2,709 | 191 |
| Community development | 39,500 | 39,500 | 11,629 | 27,871 |
| PVA | 3,700 | 3,700 | 3,759 | (59) |
| Total General & Administration | \$ 160,000 | \$ 160,000 | \$ 137,022 | \$ 22,978 |
| Police Department: | | | | |
| Salaries and dispatch | \$ 520,850 | \$ 520,850 | \$ 507,100 | \$ 13,750 |
| Employee benefits | 273,278 | 270,478 | 263,776 | 6,702 |
| Materials, uniforms, and supplies | 19,700 | 23,700 | 23,042 | 658 |
| Insurance | 24,500 | 18,320 | 31,518 | (13,198) |
| Professional services | 2,250 | 2,250 | 2,045 | 205 |
| Miscellaneous | 6,000 | 49,060 | 16,046 | 33,014 |
| Travel and training | 1,500 | 1,500 | 1,780 | (280) |
| Utilities | 1,700 | 1,700 | 1,513 | 187 |
| Telephone | 3,500 | 3,500 | 2,056 | 1,444 |
| Total Police Department | \$ 853,278 | \$ 891,358 | \$ 848,876 | \$ 42,482 |
| Fire Department | | | | |
| Salaries | \$ 19,300 | \$ 19,300 | \$ 18,951 | \$ 349 |
| Employee benefits | 6,908 | 6,908 | 6,125 | 783 |
| Materials and supplies | 8,650 | 8,650 | 9,988 | (1,338) |
| Insurance | 12,800 | 12,800 | 14,938 | (2,138) |
| Professional services | 2,100 | 2,100 | 2,045 | 55 |
| Miscellaneous | 2,045 | 2,045 | 4,133 | (2,088) |
| Travel and training | 150 | 150 | 71 | 79 |
| Utilities | 5,000 | 5,000 | 5,050 | (50) |
| Telephone | 1,700 | 1,700 | 1,427 | 273 |
| Fire Truck | 32,594 | 32,594 | - | 32,594 |
| Fireman Exp Allowance | 9,500 | 9,500 | 9,111 | 389 |
| Total Fire Department | \$ 100,747 | \$ 100,747 | \$ 71,839 | \$ 28,908 |

**CITY OF BURKESVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

| | Budget | | Actual | Variance with Final Budget |
|-----------------------------------|-------------------|-------------------|-------------------|---------------------------------------|
| | Original | Final | | |
| Expenditures (Continued) | | | | |
| Street Department | | | | |
| Salaries | \$ 47,300 | \$ 47,300 | \$ 58,818 | \$ (11,518) |
| Employee benefits | 34,582 | 34,582 | 35,395 | (813) |
| Material, uniforms, and supplies | 39,700 | 39,700 | 10,255 | 29,445 |
| Insurance | 4,800 | 4,800 | 11,191 | (6,391) |
| Professional services | 2,750 | 2,750 | 4,025 | (1,275) |
| Miscellaneous | 1,250 | 12,500 | 1,558 | 10,942 |
| Travel and training | 250 | 250 | 20 | 230 |
| Utilities | 54,000 | 54,000 | 23,091 | 30,909 |
| Total Street Department | \$ 184,632 | \$ 195,882 | \$ 144,353 | \$ 51,529 |
| Parks and Recreation | | | | |
| Salaries | \$ 22,963 | \$ 35,000 | \$ 25,678 | \$ 9,322 |
| Employee benefits | 13,415 | 12,627 | 9,830 | 2,797 |
| Materials and supplies | 10,450 | 12,700 | 4,857 | 7,843 |
| Insurance | 6,500 | 6,500 | 7,725 | (1,225) |
| Professional services | 2,250 | 2,250 | 2,045 | 205 |
| Miscellaneous | 75,370 | 1,110 | 3,359 | (2,249) |
| Travel and training | 50 | 158 | 157 | 1 |
| Utilities | 7,500 | 7,500 | 7,118 | 382 |
| Southern KY classic | 15,600 | 15,600 | 8,922 | 6,678 |
| Total Parks and Recreation | \$ 154,098 | \$ 93,445 | \$ 69,691 | \$ 23,754 |

Notes to the Required Supplementary Information:

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.

The budgeted amounts include any amendments made.

Appropriations lapse at year end unless specifically carried over.

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SIX FISCAL YEARS**

> will show 10 years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--------------------------------------------------------------------------------------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|
| <u>HAZARDOUS</u> | | | | | | |
| City's proportion of the net pension liability (asset) | 0.038935% | 0.039437% | 0.043087% | 0.041847% | 0.044367% | 0.042234% |
| City's proportionate share of the net pension liability (asset) | \$ 468,000 | \$ 605,398 | \$ 739,341 | \$ 936,234 | \$ 1,072,924 | \$ 1,166,876 |
| City's covered-employee payroll | \$ 201,724 | \$ 224,004 | \$ 229,719 | \$ 247,133 | \$ 238,642 | \$ 247,156 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 232.00% | 270.26% | 321.85% | 378.84% | 449.60% | 472.12% |
| Plan fiduciary net position as a percentage of the total pension liability | 63.46% | 57.52% | 53.95% | 49.78% | 49.26% | 46.63% |
| <u>NON-HAZARDOUS</u> | | | | | | |
| City's proportion of the net pension liability (asset) | 0.021581% | 0.022232% | 0.023521% | 0.022980% | 0.023810% | 0.025111% |
| City's proportionate share of the net pension liability (asset) | \$ 700,000 | \$ 955,859 | \$ 1,158,084 | \$ 1,345,090 | \$ 1,450,102 | \$ 1,766,068 |
| City's covered-employee payroll | \$ 518,698 | \$ 561,095 | \$ 560,332 | \$ 597,843 | \$ 664,583 | \$ 646,507 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 134.95% | 170.36% | 206.68% | 224.99% | 218.20% | 273.17% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80% | 59.97% | 55.50% | 53.32% | 53.54% | 50.54% |

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST SIX FISCAL YEARS**

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|----------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| <u>HAZARDOUS</u> | | | | | | |
| Contractually required contribution | \$ 41,817 | \$ 45,383 | \$ 49,872 | \$ 54,864 | \$ 61,618 | \$ 74,295 |
| Contributions in relation to the contractually required contribution | <u>(41,817)</u> | <u>(45,383)</u> | <u>(49,872)</u> | <u>(54,864)</u> | <u>(61,618)</u> | <u>(74,295)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 201,724 | \$ 224,004 | \$ 229,719 | \$ 247,133 | \$ 238,642 | \$ 247,156 |
| Contributions as a percentage of covered-employee payroll | 20.73% | 20.26% | 21.71% | 22.20% | 25.82% | 30.06% |
| <u>NON-HAZARDOUS</u> | | | | | | |
| Contractually required contribution | \$ 66,290 | \$ 69,744 | \$ 78,166 | \$ 86,568 | \$ 107,795 | \$ 124,782 |
| Contributions in relation to the contractually required contribution | <u>(66,290)</u> | <u>(69,744)</u> | <u>(78,166)</u> | <u>(86,568)</u> | <u>(107,795)</u> | <u>(124,782)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 518,698 | \$ 561,095 | \$ 560,332 | \$ 597,843 | \$ 664,583 | \$ 645,507 |
| Contributions as a percentage of covered-employee payroll | 12.78% | 12.43% | 13.95% | 14.48% | 16.22% | 19.33% |

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST THREE FISCAL YEARS**

| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| <u>HAZARDOUS</u> | | | |
| City's proportion of the net OPEB liability | 0.041847% | 0.044367% | 0.044223% |
| City's proportionate share of the net OPEB liability | \$ 345,967 | \$ 316,319 | \$ 312,472 |
| City's covered-employee payroll | \$ 247,133 | \$ 238,642 | \$ 246,847 |
| City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 139.99% | 132.55% | 126.59% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 58.99% | 64.24% | 64.44% |
| <u>NON-HAZARDOUS</u> | | | |
| City's proportion of the net OPEB liability | 0.023809% | 0.022980% | 0.025105% |
| City's proportionate share of the net OPEB liability | \$ 461,977 | \$ 422,724 | \$ 422,255 |
| City's covered-employee payroll | \$ 597,843 | \$ 664,503 | \$ 646,507 |
| City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 77.27% | 63.62% | 65.31% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 52.39% | 57.62% | 60.44% |

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO THE
OTHER POST EMPLOYMENT BENEFITS
LAST THREE FISCAL YEARS**

| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|----------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <u>HAZARDOUS</u> | | | |
| Contractually required contribution | \$ 23,107 | \$ 22,719 | \$ 23,497 |
| Contributions in relation to the contractually required contribution | <u>(23,107)</u> | <u>(22,719)</u> | <u>(23,497)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 247,133 | \$ 238,642 | \$ 246,847 |
| Contributions as a percentage of covered-employee payroll | 9.35% | 9.52% | 9.52% |
| <u>NON-HAZARDOUS</u> | | | |
| Contractually required contribution | \$ 28,099 | \$ 34,957 | \$ 30,767 |
| Contributions in relation to the contractually required contribution | <u>(28,099)</u> | <u>(34,957)</u> | <u>(30,767)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 597,843 | \$ 664,583 | \$ 646,507 |
| Contributions as a percentage of covered-employee payroll | 4.70% | 5.26% | 4.76% |

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF WATER AND SEWER REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

| | Water Utilities | Sewer Utilities | Total |
|-----------------------------------------------|----------------------------|----------------------------|---------------------|
| Operating Revenues | | | |
| Charges for services | \$ 810,956 | \$ 295,605 | \$ 1,106,561 |
| Miscellaneous | 42,850 | - | 42,850 |
| Total Operating Revenues | 853,806 | 295,605 | 1,149,411 |
| Operating Expenses | | | |
| Salaries | 276,341 | 27,033 | 303,374 |
| Employee benefits | 241,162 | 29,057 | 270,219 |
| Contractual services | 4,450 | 4,450 | 8,900 |
| Materials and supplies | 96,208 | 64,494 | 160,702 |
| Travel and training | 5,513 | - | 5,513 |
| Utilities and telephone | 60,456 | 79,301 | 139,757 |
| Insurance | 26,197 | 19,231 | 45,428 |
| Depreciation | 279,919 | 69,980 | 349,899 |
| Bad debt provision | 4,104 | 1,502 | 5,606 |
| Miscellaneous | 13,449 | 22,147 | 35,596 |
| Total Operating Expenses | 1,007,799 | 317,195 | 1,324,994 |
| Operating Loss | (153,993) | (21,590) | (175,583) |
| Non-Operating Revenues (Expenses) | | | |
| Interest income | 5,738 | 1,013 | 6,751 |
| Interest expense | (52,550) | (22,521) | (75,071) |
| Total Non-Operating Revenue (Expenses) | (46,812) | (21,508) | (68,320) |
| Change in Net Position | | | (243,903) |
| Total Net Position, Beginning | | | 6,457,139 |
| Total Net Position, Ending | | | \$ 6,213,236 |

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Member of Kentucky Society of CPA's

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 Honorable Mayor and Members of the City Council
City of Burkesville
Burkesville, Kentucky 42717

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 17, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2020-001 and 2020-002.

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
September 17, 2020

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

MATERIAL WEAKNESS

2020-001 Financial Statement Preparation

Condition:

During my audit procedures, I noted some instances of this objective not being completely achieved.

Criteria:

A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause:

The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible for establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regards to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF BURKESVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

MATERIAL WEAKNESS

2020-002 Segregation of Duties

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of segregation of duties which enabled one individual access to authorize transactions, custody of assets, recording and reporting of the City's transactions in the cash receipts, cash disbursement, and payroll process.

Criteria:

Segregation of duties is a control in which no person should be given the responsibility to perform more than one related function of an accounting process.

Cause:

Due to the small number of administrative and clerical employees at the City, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties in the cash collection and billing process.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation: The lack of segregation of duties is a common deficiency in City's the size of Burkesville. The City Commissioners should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Views of Responsible Officials:

Management agrees with the recommendation.