

CITY OF ST. MATTHEWS, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2019



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AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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# STEPHENS & LAWSON

Certified Public Accountants

## Independent Auditor's Report

To the Mayor and Members of the City Council  
City of St. Matthews, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of St. Matthews, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of St. Matthews, Kentucky's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of St. Matthews, Kentucky, as of June 30, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and OPEB schedules on pages 3 through 8 and 41 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020, on our consideration of the City of St. Matthews, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of St. Matthews, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of St. Matthews, Kentucky's internal control over financial reporting on compliance.

*Stephens & Lawson, CPAs*

Louisville, Kentucky  
January 10, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of St. Matthews, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the year ended June 30, 2019. Please read it in conjunction with the City's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$32,423,315 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$30,226,845. This increase is due to an increase in non-depreciable fixed assets which was offset in part by a decrease in current assets. Current liabilities and long-term liabilities, which consist of the City's proportionate share of the unfunded pension and OPEB liabilities, decreased during this fiscal year..
- The three largest sources of general revenues for the City continued to be property taxes, insurance taxes, and occupational taxes and these three revenue sources accounted for 82.66% of the total revenues received by the City. There was an overall increase in revenue of the City in the amount of \$1,290,476.
- The City's expenditures of \$13,586,598 for this fiscal year are a decrease of \$8,704 as compared to the previous year.
- In accordance with current accounting standards, the City is required to recognize its proportionate share of the unfunded pension liability in the County Employees Retirement System as well as the recognition of its share of unfunded other post-employment benefits. Those amounts are shown as a long-term liability on the statement of net position in the amount of \$15,802,214.

### USING THIS ANNUAL REPORT

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

### REPORTING THE CITY AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

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

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

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

#### CONDENSED FINANCIAL INFORMATION

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

The total assets of the City increased by \$2,967,171 in fiscal year 2019 as compared to fiscal year 2018, and the current liabilities of the City decreased by \$513,095 over the same period of time. Long-term liabilities consisting of the City's obligation towards the unfunded pension liability and the newly reported OPEB liability were \$15,802,214.

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets	\$ 17,179,697	\$ 20,719,980
Non-Depreciable Fixed Assets	20,712,231	14,768,227
Depreciable Fixed Assets, Net	<u>8,437,402</u>	<u>7,873,952</u>
Total Assets	\$ 46,329,330	\$ 43,362,159
<b>Deferred Outflows of Resources</b>		
Deferred Amounts Related to Pensions	\$ 3,505,817	\$ 4,350,350
Deferred Amounts Related to OPEB	<u>1,370,752</u>	<u>1,772,048</u>
Total Deferred Outflows	\$ 4,876,569	\$ 6,122,398
<b>Liabilities</b>		
Current Liabilities	\$ 902,881	\$ 1,415,976
Long-Term Liabilities	<u>15,802,214</u>	<u>16,445,963</u>
Total Liabilities	\$ 16,705,095	\$ 17,861,939
<b>Deferred Inflows of Resources</b>		
Deferred Amounts Related to Pensions	\$ 1,200,221	\$ 1,125,103
Deferred Amounts Related to OPEB	<u>877,268</u>	<u>270,670</u>
Total Deferred Inflows	\$ 2,077,489	\$ 1,395,773
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 29,149,633	\$ 22,642,179
Restricted	2,581,379	2,305,861
Unrestricted	<u>692,303</u>	<u>5,278,805</u>
Total Net Position	\$ 32,423,315	\$ 30,226,845

#### Government-wide Revenues

The City's primary sources of revenues in this fiscal year continued to be property taxes and occupational taxes. These two sources comprise 69.70% and 74.45% of the total revenue collected in the fiscal years ending 2019 and 2018 respectively. Total revenues for the year ended June 30, 2019 were \$15,763,753 which is an increase of \$1,290,476 over the previous fiscal year. This increase is due mainly to a grant received towards the construction costs related to the library. Revenues were reported as follows:

	2019		2018	
	Amount	Percentage	Amount	Percentage
<b>Program Revenues</b>				
Charges for Services	\$ 491,514	3.12%	\$ 309,343	2.14%
Operating Grants and Contributions	581,184	3.69%	556,957	3.85%
Capital Grants and Contributions	700,000	4.44%	-	0.00%
Total Program Revenues	<u>1,772,698</u>	<u>11.25%</u>	<u>866,300</u>	<u>5.99%</u>
<b>General Revenues</b>				
Property Taxes	3,099,432	19.66%	2,942,068	20.33%
Occupational Tax	7,888,034	50.04%	7,833,219	54.12%
Insurance Tax	2,043,405	12.96%	1,822,477	12.59%
Franchise Tax	104,546	0.66%	113,572	0.78%
Business License Tax	519,395	3.29%	509,362	3.52%
Bank Franchise Tax	228,145	1.45%	257,003	1.78%
Intergovernmental Revenue	113	0.00%	1,256	0.01%
Insurance Reimbursement and Refunds	19,687	0.12%	16,760	0.12%
Other	19,486	0.12%	14,069	0.10%
Interest Income	104,848	0.67%	47,453	0.33%
Loss on Disposal of Equipment	(48,829)	-0.31%	13,856	0.10%
Penalties and Interest	12,793	0.09%	35,882	0.23%
Total General Revenues	<u>13,991,055</u>	<u>88.75%</u>	<u>13,606,977</u>	<u>94.01%</u>
Total Revenues	<u>\$ 15,763,753</u>	<u>100.00%</u>	<u>\$ 14,473,277</u>	<u>100.00%</u>

#### Governmental Expenses

Expenses for the year ended June 30, 2019 were \$13,589,598 which represents a decrease of \$8,704 over the previous fiscal year. Expenses decreased in part due to a decrease in spending on public works. Expenses during this fiscal year and were reported as follows:

	2019		2018	
	Amount	Percentage	Amount	Percentage
<b>Program Expenses:</b>				
General Government	\$ 1,705,121	12.55%	\$ 1,705,392	12.54%
Police Department	7,814,340	57.52%	7,669,624	56.41%
Public Works	3,435,122	25.28%	3,642,781	26.79%
Recreation	385,515	2.84%	320,264	2.37%
Streets and Road	244,805	1.80%	257,206	1.89%
Depreciation, not allocated elsewhere	1,695	0.01%	35	0.00%
Total Expenses	<u>\$ 13,586,598</u>	<u>100.00%</u>	<u>\$ 13,595,302</u>	<u>100.00%</u>

#### Excess of Revenues over Expenses

	2019	2018
Total Revenues	\$ 15,763,753	\$ 14,473,277
Total Expenditures	<u>13,586,598</u>	<u>13,595,302</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 2,177,155</u>	<u>\$ 877,975</u>

### Change in Net Position

For the year ended June 30, 2019 and 2018, net position changed as follows:

	<u>2019</u>	<u>2018</u>
Beginning Net Position	\$ 30,226,845	\$ 31,931,469
Restatement of Prior Year Balances	-	(2,582,599)
Prior Period Adjustments	19,315	-
Increase in Net Position	<u>2,177,155</u>	<u>877,975</u>
Ending Net Position	<u>\$ 32,423,315</u>	<u>\$ 30,226,845</u>

### FIXED ASSETS

For the year ended June 30, 2019, the City had \$40,075,328 invested in fixed assets including recreation fields and parks, buildings and improvements, equipment, vehicles, and infrastructure. A schedule of the changes in fixed assets during this fiscal year is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Non-depreciable Assets:				
Land	\$ 9,300,315	\$ -	\$ -	\$ 9,300,315
Construction in Progress	<u>5,467,912</u>	<u>6,044,859</u>	<u>100,855</u>	<u>11,411,916</u>
Total Non-depreciable Assets	<u>14,768,227</u>	<u>6,044,859</u>	<u>100,855</u>	<u>20,712,231</u>
Depreciable Assets:				
Buildings and Improvements	4,963,051	-	34,192	4,928,859
Recreation Fields and Parks	3,699,120	1,000,000	311,195	4,387,925
Infrastructure	6,084,654	250,412	-	6,335,066
Vehicles	2,606,306	294,031	191,443	2,708,894
Equipment	<u>1,015,269</u>	<u>7,999</u>	<u>20,915</u>	<u>1,002,353</u>
Total Depreciable Assets	<u>18,368,400</u>	<u>1,552,442</u>	<u>557,745</u>	<u>19,363,097</u>
Total Fixed Assets	<u>33,136,627</u>	<u>7,597,301</u>	<u>658,600</u>	<u>40,075,328</u>
Accumulated Depreciation:				
Buildings and Improvements	3,343,079	113,719	21,876	3,434,922
Recreation Fields and Parks	1,527,124	144,385	281,101	1,390,408
Infrastructure	2,994,341	360,253	-	3,354,594
Vehicles	1,942,126	250,294	176,871	2,015,549
Equipment	<u>687,778</u>	<u>63,359</u>	<u>20,915</u>	<u>730,222</u>
Total Accumulated Depreciation	<u>10,494,448</u>	<u>932,010</u>	<u>500,763</u>	<u>10,925,695</u>
Governmental Activities Fixed Assets, Net	<u>\$ 22,642,179</u>	<u>\$ 6,665,291</u>	<u>\$ 157,837</u>	<u>\$ 29,149,633</u>

This year's major additions include the following items:

Driveways at 3 Rental Houses	\$ 16,990
2019 Ford Fusion	18,344
2019 Ford F250	49,182
5 Police Vehicles	210,393
Massie Ave Sidewalks	100,855
Paving	132,567
Voll Field Improvements	<u>1,000,000</u>
Total	<u>\$ 1,528,331</u>

**PENSIONS**

Current accounting standards require governmental entities to recognize certain financial statements amounts related to pensions. In addition to these financial statement items, there are also note disclosure requirements (Note I) and tables to be included as required supplementary information. The measurement date for the net pension liability is June 30, 2018.

The obligations of the City as they relate to pensions and as reported to the City by the Kentucky Retirements Systems are as follows:

	As Reported in the Audit for the Fiscal Year Ending June 30th:	
	<u>2019</u>	<u>2018</u>
Pension Obligations	\$ 12,213,113	\$ 12,072,238
Deferred Outflows Related to Pensions	3,505,817	4,350,350
Deferred Inflows Related to Pensions	1,200,221	1,125,103

**OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Current accounting standards require governmental entities to recognize certain financial statement amounts related to other post-employment benefits (OPEB). In addition to these financial statement items, there are also note disclosure requirements (Note J) and tables to be included as required supplementary information. The measurement date for the net OPEB liability is June 30, 2018.

The obligations of the City as they relate to OPEB as reported to the City by the Kentucky Retirement System are as follows:

	As Reported in the Audit for the Fiscal Year Ending June 30th:	
	<u>2019</u>	<u>2018</u>
OPEB Obligations	\$ 3,589,101	\$ 4,373,725
Deferred Outflows Related to OPEBs	1,370,752	1,772,048
Deferred Inflows Related to OPEBs	877,268	270,670

## **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

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

### **GENERAL FUND BUDGETARY FUND HIGHLIGHTS**

For the year ended June 30, 2019, general fund revenues of \$15,428,224 were \$1,398,118 more than the \$14,030,106 budgeted. Revenue sources with budget shortfalls included law enforcement revenue and miscellaneous income. For the year ended June 30, 2019, general fund expenditures of \$18,642,057 were \$226,073 less than the \$18,868,130 budgeted. The City was over budget in the police department and recreation areas.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Due to a higher budget projections for property taxes this upcoming year as compared to the previous year, the general fund budget for fiscal year 2019 increased by \$1,309,445 to \$15,339,551.

General fund budget expenditures were decreased to \$15,229,551 as construction related to the expansion of the library and renovations to City Hall were substantially completed during this fiscal year.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Clerk's Office at 3940 Grandview Avenue, St. Matthews, Kentucky 40207.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Primary Government Governmental Activities
<b><u>ASSETS</u></b>	
Current Assets:	
Cash and Cash Equivalents (\$2,657,021 restricted)	\$ 13,449,991
Investments	150,322
Receivables	3,437,091
Prepaid Expenses	142,293
Total Current Assets	17,179,697
Non-current Assets:	
Non-depreciable Fixed Assets	20,712,231
Depreciable Fixed Assets, Net	8,437,402
Total Non-current Assets	29,149,633
Total Assets	46,329,330
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Deferred Amounts Related to Pensions and OPEBs	4,876,569
Total Assets and Deferred Outflows of Resources	\$ 51,205,899
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Accounts Payable (\$19,724 restricted)	\$ 723,605
Confiscated Funds Payable (restricted)	55,919
Wages Payable	110,907
User Deposits	12,450
Total Current Liabilities	902,881
Long-Term Liabilities:	
Pension Obligation	12,213,113
OPEB Obligation	3,589,101
Total Long-Term Liabilities	15,802,214
Total Liabilities	16,705,095
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred Amounts Related to Pensions and OPEBs	2,077,489
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	29,149,633
Restricted for Police	217,229
Restricted for Roads	2,364,150
Unrestricted	692,303
Total Net Position	32,423,315
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 51,205,899

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General Government	\$ 1,705,121	254,215	-	-	\$ (1,450,906)
Police Department	7,814,340	196,199	214,492	-	(7,403,649)
Public Works	3,435,122	-	9,612	-	(3,425,510)
Recreation	385,515	41,100	-	700,000	355,585
Streets and Roads	244,805	-	357,080	-	112,275
Depreciation, not allocated elsewhere	1,695	-	-	-	(1,695)
Total Governmental Activities	<u>13,586,598</u>	<u>491,514</u>	<u>581,184</u>	<u>700,000</u>	<u>(11,813,900)</u>
<b>Total Primary Government</b>	<b>\$ 13,586,598</b>	<b>\$ 491,514</b>	<b>\$ 581,184</b>	<b>\$ 700,000</b>	<b>\$ (11,813,900)</b>

Primary Government  
Governmental Activities

<b>Changes in Net Position:</b>	
Net Expense	<u>\$ (11,813,900)</u>

**General Revenues:**

Taxes:	
Property Taxes	\$ 3,099,432
Occupational Tax	7,888,034
Insurance Tax	2,043,405
Franchise Tax	104,546
Business License Tax	519,395
Bank Franchise Tax	228,145
Intergovernmental Revenue	113
Other	19,486
Insurance Reimbursement and Refunds	19,687
Interest Income	104,848
Loss on Disposal of Equipment	(48,829)
Penalties and Interest	12,793
Total General Revenues	<u>13,991,055</u>
Change in Net Position	<u>2,177,155</u>
Net Position - July 1, 2018	30,226,845
Prior Period Adjustment	19,315
Net Position - June 30, 2019	<u>\$ 32,423,315</u>

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u> <u>Fund</u>	<u>Municipal</u> <u>Road Aid</u> <u>Fund</u>	<u>Total</u> <u>Government</u> <u>Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 10,792,970	\$ -	\$ 10,792,970
Cash and Cash Equivalents - Restricted	273,147	2,383,874	2,657,021
Investments	150,322	-	150,322
Taxes and Intergovernmental Receivables	3,437,091	-	3,437,091
Prepaid Expenses	142,293	-	142,293
Total Assets	<u>14,795,823</u>	<u>2,383,874</u>	<u>17,179,697</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	703,881	19,724	723,605
Confiscated Funds Payable - Restricted	55,919	-	55,919
Accrued Payroll	110,907	-	110,907
User Deposits	12,450	-	12,450
Total Liabilities	<u>883,157</u>	<u>19,724</u>	<u>902,881</u>
Deferred Inflows of Resources:			
Unavailable Revenue	111,412	-	111,412
Total Deferred Inflows of Resources	<u>111,412</u>	<u>-</u>	<u>111,412</u>
Fund Balances:			
Nonspendable	142,293	-	142,293
Restricted for Police	217,229	-	217,229
Restricted for Roads	-	2,364,150	2,364,150
Unassigned	13,441,732	-	13,441,732
Total Fund Balances	<u>13,801,254</u>	<u>2,364,150</u>	<u>16,165,404</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,795,823</u>	<u>\$ 2,383,874</u>	<u>\$ 17,179,697</u>

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**RECONCILIATION OF TOTAL FUND BALANCE, GOVERNMENTAL FUNDS TO**  
**NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2019**

**Reconciliation of Total Fund Balance, Governmental Funds to Net Position of Governmental Activities:**

Total Fund Balances, Governmental Funds		\$ 16,165,404
Amounts reported for governmental activities in the statement of net position are different because of the following:		
Certain tax revenues are earned but not available and therefore are shown as unavailable revenue in the fund financial statements		111,412
Fixed assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation		29,149,633
Deferred outflows/inflows of resources related to pensions/OPEB are not reported in the fund financial statements		
Deferred outflows of resources related to pensions/OPEB	\$ 4,876,569	
Deferred inflows of resources related to pensions/OPEB	<u>(2,077,489)</u>	2,799,080
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements		<u>(15,802,214)</u>
Net Position of Governmental Activities		<u><u>\$ 32,423,315</u></u>

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Totals Governmental Funds</u>
<b>REVENUE</b>			
Property Taxes	\$ 3,074,993	\$ -	\$ 3,074,993
Occupational Tax	7,888,034	-	7,888,034
Franchise Tax	104,546	-	104,546
Insurance Tax	2,043,405	-	2,043,405
Bank Deposit Tax	228,145	-	228,145
Intergovernmental	924,217	357,080	1,281,297
License and Permits	676,402	-	676,402
Other	221,902	-	221,902
Insurance Refunds	19,687	-	19,687
Interest Income	102,008	2,839	104,847
Municipal Property Rental	132,092	-	132,092
Penalties and Interest	12,793	-	12,793
<b>Total Revenue</b>	<u>15,428,224</u>	<u>359,919</u>	<u>15,788,143</u>
<b>EXPENDITURES</b>			
General Government	1,485,683	-	1,485,683
Police Department	6,570,364	-	6,570,364
Public Works	3,204,850	4,486	3,209,336
Recreation	105,410	-	105,410
Capital Outlay	7,275,750	215,742	7,491,492
<b>Total Expenditures</b>	<u>18,642,057</u>	<u>220,228</u>	<u>18,862,285</u>
Excess of Revenues over Expenditures	(3,213,833)	139,691	(3,074,142)
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Sale of Surplus Equipment	8,150	-	8,150
<b>Total Other Financing Sources and (Uses)</b>	<u>8,150</u>	<u>-</u>	<u>8,150</u>
Net Change in Fund Balances	(3,205,683)	139,691	(3,065,992)
Fund Balances Beginning of Year	16,992,573	2,224,459	19,217,032
Prior Period Adjustment	14,364	-	14,364
<b>Fund Balances End of Year</b>	<u><u>\$ 13,801,254</u></u>	<u><u>\$ 2,364,150</u></u>	<u><u>\$ 16,165,404</u></u>

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL**  
**GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION OF**  
**GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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

Net Change in Fund Balances - Total Governmental Funds		\$ (3,065,992)
Amounts reported for governmental activities in the statement of activities are difference because:		
Certain tax revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are shown as a deferred inflow in the fund financial statements.		
Unavailable tax revenues increased by this amount this year		24,440
Pension/OPEB expense in the fund financial statements is based on amounts paid into the plan during the current fiscal year. Pension/OPEB expense in the government-wide financial statements are based on the measurement date of the net pension/OPEB liability which was June 30, 2018		
Net increase in pension expense		(1,060,525)
Net increase in OPEB expense		(223,271)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized	\$ 7,491,492	
Depreciation expense	<u>(932,010)</u>	6,559,482
Since governmental activities report expenditures for capital assets in the statement of net assets, when the underlying asset is sold, its book value has to be removed and is netted against the proceeds shown in the statement of activities.		
Reduction in proceeds for book value of assets sold		<u>(56,979)</u>
Change in Net Position of Governmental Activities		<u>\$ 2,177,155</u>

See the accompanying notes to the financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Reporting Entity***

The City of St. Matthews, Kentucky (the City) is a home-rule city with a population in excess of 17,000 located in Jefferson County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: police, sanitation, street maintenance, and recreation and community development. Primary revenue sources are property taxes, occupational taxes, insurance taxes, business licenses, and municipal road aid. Those revenues susceptible to accrual are property taxes, occupational taxes, and municipal road aid.

All significant activities and organizations on which the City of St. Matthews, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2019. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

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

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

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

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

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

***Basic Financial Statements***

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

**Government-wide Financial Statements:**

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

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Basic Financial Statements - Continued*

Government-wide Financial Statements - continued:

The statement of activities reports both the gross and net cost of each of the City's functions (general government, police department, public works, etc.). The functions are also supported by general government revenues (property taxes, insurance, taxes, occupational taxes and certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, police department, public works, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

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

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

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

Fund Financial Statements:

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

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

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

The funds of the financial reporting entity are described below:

Governmental Type Funds

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Basic Financial Statements - Continued*

Fund Financial Statements - Continued:

Governmental Type Funds - continued

General Fund - The general fund is the City's primary operating fund. It is used to account for and report all financial resources except those legally or administratively required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one such fund, the Municipal Road Aid Fund, which is used to account for state road funds that are allocated to the City by the State of Kentucky and it is considered to be a major fund.

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

*Measurement Focus and Basis of Accounting*

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

**Measurement Focus**

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

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

**Basis of Accounting**

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

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Measurement Focus and Basis of Accounting - Continued*

**Basis of Accounting - Continued**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

*Encumbrances*

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

*Cash and Cash Equivalents*

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

*Investments*

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

*Inventories*

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

*Receivables*

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

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

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

*Fixed Assets*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. For financial reporting purposes, the City has decided to only capitalize individual assets with a value of \$5,000 or greater; however, for small drainage projects completed by City personnel all costs are considered expenses in the year incurred. Fixed assets are not reported on the fund financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Fixed Assets - Continued*

Prior to June 30, 2003, estimated historical cost was used to value a majority of the assets acquired and a calculation of accumulated depreciation was made based on the information obtained. Assets that were fully depreciated as of June 30, 2003 were not included in the new fixed assets records of the City.

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

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

Buildings	40 years
Building Improvements	20 years
Equipment	5 to 15 years
Infrastructure	25 years
Recreation Areas	25 years
Vehicles	5 years

*Due to and Due From Other Funds*

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

*Deferred Outflow/Inflow of Resources*

Deferred Outflows:

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

Deferred Inflows:

The City reports increases in net position/fund balances that related to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position/fund financials balance sheet – governmental funds. Deferred inflows of resources reported in the government-wide financial statements consisted of amounts reported to the City by Kentucky Retirement Systems related to pensions and OPEBs. The City has one type of item which occurs in the fund financial statements because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly deferred property taxes are reported in the fund financials balance sheet – governmental funds as unavailable revenue.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Accounts Payable*

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

*Compensated Absences*

The City has made no accrual for compensated absences due to the difficulty in making such a calculation.

*Long-term Debt*

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

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

*Equity Classifications*

**Government-Wide Financial Statements**

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

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

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**Fund Financial Statements**

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

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Equity Classifications - Continued*

Fund Financial Statements - Continued

- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council.
- d. Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by City Council.
- e. Unassigned – All amounts not included in other spendable classification.

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

*Property Tax Revenue*

Property tax revenue is recognized when the bills become due and payable. Tax is assessed at a rate of .20 per \$100 of assessed value for real property based on the assessment made by the Jefferson County Property Valuation Administrator.

The City assesses property taxes each calendar year based upon an assessment date of January 1<sup>st</sup>. Bills are mailed on or before October 1<sup>st</sup> and are payable by December 31<sup>st</sup> of the same year. Bills paid on or before October 31<sup>st</sup> are allowed a 40% discount; bills paid after that date but before December 31<sup>st</sup> are not allowed a discount or subject to a penalty. All bills paid after December 31<sup>st</sup> are charged a 10% penalty plus interest at the rate of 1.5% per month until paid or \$10 if the penalty and interest is less than that amount. Delinquent tax collections shall incur minimum legal costs of \$150 for lien filing and release only, if there are additional costs for collection the collection fees will be charged at a rate of \$150 per hour.

*Occupational License Tax*

The City imposes a tax of .75 percent of wages on persons who work within the City of St. Matthews in any business, profession, trade or occupation. Such amounts are to be withheld from the employee's wages and remitted quarterly with a completed payroll tax return detailing total wages and tax withholdings.

*Expenditures/Expenses*

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: current, debt service, and capital outlay.

*Estimates*

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE B - DEPOSITS AND INVESTMENTS**

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. The City typically invests surplus cash at local banks in the form of certificates of deposit, savings accounts, and money market accounts. Presently, the City's investments consist solely of certificates of deposits held with local financial institutions.

*Custodial Credit Risk* – this is the risk that in the event of the failure of a counterparty (e.g., a bank) the City will not be able to recover the full value of its deposits or investments. The City has adopted a policy to address these risks. The City had exposure at June 30, 2019 to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 52,336
Uninsured and collateral held by pledging bank	12,989,978
Uninsured and collateral held by pledging bank's trust department not in City's name	-
	<u>\$ 13,042,314</u>

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

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

**NOTE C – RECEIVABLES**

Receivables at June 30, 2019 consisted of the following:

<u>Receivable Type</u>	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Special Revenue Fund
Property Tax	\$ 114,625	\$ 114,625	\$ -
Occupational Tax	2,057,900	2,057,900	-
Insurance Tax	542,347	542,347	-
KLEFPF (Police Incentive)	15,478	15,478	-
Local Law Enforcement	6,269	6,269	-
Library Funding	700,000	700,000	-
Other Receivables	472	472	-
Total Receivables	<u>\$ 3,437,091</u>	<u>\$ 3,437,091</u>	<u>\$ -</u>

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE D – FIXED ASSETS**

Fixed asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Non-depreciable Assets:				
Land	\$ 9,300,315	\$ -	\$ -	\$ 9,300,315
Construction in Progress	5,467,912	6,044,859	100,855	11,411,916
Total Non-depreciable Assets	<u>14,768,227</u>	<u>6,044,859</u>	<u>100,855</u>	<u>20,712,231</u>
Depreciable Assets:				
Buildings and Improvements	4,963,051	-	34,192	4,928,859
Recreation Fields and Parks	3,699,120	1,000,000	311,195	4,387,925
Infrastructure	6,084,654	250,412	-	6,335,066
Vehicles	2,606,306	294,031	191,443	2,708,894
Equipment	1,015,269	7,999	20,915	1,002,353
Total Depreciable Assets	<u>18,368,400</u>	<u>1,552,442</u>	<u>557,745</u>	<u>19,363,097</u>
Total Fixed Assets	33,136,627	7,597,301	658,600	40,075,328
Accumulated Depreciation:				
Buildings and Improvements	3,343,079	113,719	21,876	3,434,922
Recreation Fields and Parks	1,527,124	144,385	281,101	1,390,408
Infrastructure	2,994,341	360,253	-	3,354,594
Vehicles	1,942,126	250,294	176,871	2,015,549
Equipment	687,778	63,359	20,915	730,222
Total Accumulated Depreciation	<u>10,494,448</u>	<u>932,010</u>	<u>500,763</u>	<u>10,925,695</u>
Governmental Activities Fixed Assets, Net	<u>\$ 22,642,179</u>	<u>\$ 6,665,291</u>	<u>\$ 157,837</u>	<u>\$ 29,149,633</u>

The City is holding a \$25,000 cooling tower, listed as equipment above, for sale. At June 30, 2019, accumulated depreciation on this asset was \$13,987.

Depreciation expense of \$932,010 was allocated to the various functions on the statement of activities as follows:

<u>Governmental Activities</u>	
General Government	\$ 134,232
Police	216,960
Public Works	58,699
Recreation Areas	280,105
Roads	240,319
Unallocated	1,695
Total	<u>\$ 932,010</u>

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE E – FUND BALANCES – GOVERNMENTAL FUNDS**

Classifications of fund balances at June 30, 2019 are as follows:

Classification	General Fund	Special Revenue Fund
Nonspendable:		
From prepaid items	\$ 142,293	\$ -
Restricted:		
By enabling legislation for police	217,229	-
By enabling legislation for roads	-	2,364,150
Unrestricted	13,441,732	-
Total Fund Balances	<u>\$ 13,801,254</u>	<u>\$ 2,364,150</u>

**NOTE F – CONDUIT DEBT OBLIGATIONS**

From time to time, the City has issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public's interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

Neither the City, the State of Kentucky, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In November 2005, the City Council approved a bond not to exceed \$2,300,000 for the St. Matthews Episcopal Church to finance and refinance the costs of acquisition, construction and equipping of a multi-purpose facility and commercial grade kitchen and equipment to make the structure handicapped accessible, including an elevator within the City limits.

In December 2005, the City Council approved a bond not to exceed \$11,000,000 for Baptist Healthcare System, Inc. to finance the costs of constructing and acquiring certain hospital and related health care properties within the City limits.

In March 2018, the City Council approved a bond not to exceed \$1,300,000 for the Walden School Corporation to finance the costs of constructing, equipping, expansion, and installation of a new library and to refinance certain education building revenue improvement bonds within the City limits.

The City does not have a system in place to track the outstanding balance of these bonds.

**NOTE G - INTERGOVERNMENTAL REVENUE**

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for police training and other miscellaneous operating costs during the year ended June 30, 2019 that are recorded in the General Fund.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE H - LITIGATION**

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

**NOTE I - EMPLOYEE RETIREMENT SYSTEM**

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

**Plan Description**

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefit contributions and provisions are established by statute.

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

**Contributions**

For the year ending June 30, 2019, all covered employees who began participating before September 1, 2008, Tier 1 members, are required to contribute either 5 percent (non-hazardous duty job classification) or 8 percent (hazardous duty job classification) of their annual creditable compensation to the plan. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, covered employees who began participating on, or after, September 1, 2008, Tier 2 members, were required to contribute a total of 6 percent (non-hazardous duty job classification) or 9 percent (hazardous duty job classification) of their annual creditable compensation. Five percent (non-hazardous duty job classification) or 8 percent (hazardous duty job classification) of the contribution is deposited to the member's account while the other 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 102 KAR 1:420E). Interest is paid each June 30<sup>th</sup> on covered employees' accounts (regardless of duty type) at a rate of 2.5%. If a covered employee terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Contributions - Continued**

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, covered employees who began participating on, or after, January 1, 2014, Tier 3 members, were required to participate in the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous duty covered employees contribute 5% of their annual creditable compensation while hazardous duty covered members contribution 8%. Both groups contribute an additional 1% of their creditable compensation to the health insurance fund which is not credited to the covered employee's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the covered employee's compensation. Each month, when employer contributions are received, an employer pay credit is deposited to the covered employee's account. A covered employee's account is credited with a 4% (non-hazardous) or 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2019, participating employers contributed 21.48% (allocated 16.22% for pension and 5.26% for insurance) of each employee's creditable compensation for members with nonhazardous duty job classifications or 35.34% (allocated 24.87% for pension and 10.47% for insurance). For the year ended June 30, 2019, the City contributed 100% of the required contribution for both non-hazardous and hazardous duty members, which is listed below.

<u>Duty Classification</u>	<u>Total Amount Contributed</u>	<u>Allocated to CERS</u>	
		<u>Pension Fund</u>	<u>Insurance Fund</u>
Non-hazardous Duty	\$ 304,944	\$228,004	\$ 73,940
Hazardous Duty	\$1,006,228	\$708,118	\$298,110

**Benefits**

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

	<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 1		
Participation Date	Before 09/01/2008	Before 09/01/2008
Unreduced Retirement	27 years of service or 65 years old	Age 55 with 1 month service credit or any age and 20 years service.
Benefit Amount	At least 4 years service, monthly benefit is 2% times final average compensation times years of service. Participation after 08/01/2004 the rate is 2.20%.  Less than 4 years of service monthly benefit is actuarial equivalent of 2 times member contributions plus interest.  Final average compensation is based on member's highest 5 years of compensation.	Minimum of 60 months of service, the monthly benefit is 2.5% times final average compensation times years of service.  Less than 60 months of service, monthly benefit is actuarial equivalent of 2 times member contributions plus interest.  Final average compensation is based on member's highest 3 years of compensation.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Benefits - Continued**

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 1 (cont.)	Reduced Retirement	At least 5 years of service and 55 years old or 25 years of service and any age.	Age 50 with at least 15 years of service.
Tier 2	Participation Date	09/01/2008 to 12/31/2013	09/01/2008 to 12/31/2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.	Age 60 with minimum 5 years service or any age with minimum 25 years service.
	Benefit Amount	Monthly benefit is based upon applicable benefit multiplier (based on years of service) time final average compensation times years of service.	Monthly benefit is based upon applicable benefit multiplier (based on years of service) time final average compensation times years of service.
		Final compensation is based on member's last 5 years.	Final compensation is based on member's last 3 years.
	Reduced Retirement	At least 10 years of service and 60 years old.	Age 50 with at least 15 years of service.
Tier 3	Participation Date	After 12/31/2013	After 12/31/2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.	Age 60 with minimum 5 years service or any age with at least 25 years of service.
	Benefit Amount	Each year member is active, a 4% employer pay credit along with the member's 5% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4% minimum rate, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.	Each year member is active, a 7.5% employer pay credit along with the member's 8% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4% minimum rate, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.
		At retirement, the account balance may be converted into an annuity based on an actuarial factor.	At retirement, the account balance may be converted into an annuity based on an actuarial factor.
	Reduced Retirement	Not applicable	Not applicable

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Benefits - Continued**

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

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

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

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

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

**Pension Liabilities**

At June 30, 2019 the City recognized a liability of \$12,213,113 for its proportionate share of the CERS net pension liability (\$3,483,959 non-hazardous and \$8,729,154 hazardous). The City's net pension liability was measured as of June 30, 2018, as allowed by standards, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan (\$205,299 non-hazardous and \$446,358 hazardous) relative to the total contributions of all participants in the non-hazardous and hazardous retirement plans. At June 30, 2018 the City's share of the non-hazardous net pension liability was .057205% which an increase of .000168% from the figure of .057037% in the prior period. At June 30, 2018 the City's share of the hazardous pension liability was .360939% which is a decrease of .029432% from the figure of .390371% in the prior period.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

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

Pension Payable/Expense

At June 30, 2019 the City had paid all of its obligations owed to Kentucky Retirement Systems for both non-hazardous and hazardous duty pension withholdings as well as the City's required matching contribution for the month of June 2019.

For the year ended June 30, 2019, the City recognized pension expense of \$1,996,647 (\$524,031 for non-hazardous and \$1,472,616 for hazardous) for covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Non-Hazardous</u>		<u>Hazardous</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,637	\$ 50,998	\$ 694,693	\$ -
Change of assumptions	340,484	-	929,189	-
Net difference between projected and actual earnings on plan investments	162,007	203,781	323,549	422,009
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,136	29,885	-	493,548
City's contributions to the plan subsequent to the measurement date	228,004	-	708,118	-
Totals	<u>\$ 850,268</u>	<u>\$ 284,664</u>	<u>\$ 2,655,549</u>	<u>\$ 915,557</u>

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

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

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

**Deferred Outflows/Inflows of Resources - Continued**

	Non-Hazardous	Hazardous
Year 1	\$ 260,218	\$ 838,153
Year 2	135,378	332,243
Year 3	(39,298)	(99,104)
Year 4	(18,698)	(39,418)
Year 5	-	-
Thereafter	-	-
Total	\$ 337,600	\$ 1,031,874

**Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary Increase	3.05%
Investment Rate of Return	6.25%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year end, June 30, 2018.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Actuarial Assumptions - Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	8.50%	4.50%
US Mid Cap	5.00%	4.50%
US Small Cap	4.00%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	10.00%	3.00%
<b>Credit Fixed</b>	<b>17.00%</b>	
Global IG Credit	10.00%	3.75%
High Yield	3.00%	5.50%
Emerging Market Debt	4.00%	6.00%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	3.00%	1.50%
Total	<u>100.00%</u>	<u>5.13%</u>

**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 25 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

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

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Non-Hazardous	<u>\$ 4,385,943</u>	<u>\$ 3,483,959</u>	<u>\$ 2,728,254</u>
Hazardous	<u>\$ 10,937,059</u>	<u>\$ 8,729,154</u>	<u>\$ 6,903,908</u>

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS**

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

**Plan Description**

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other post-employment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

As more fully described in Note I, plan members contribute to CERS for non-hazardous and hazardous job classifications (5% and 8% respectively). Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. For the year ending June 30, 2019 the employer's contribution was 21.48% (allocated 16.22% for pension and 5.26% to the insurance trust) for creditable compensation paid in the non-hazardous job classifications and 35.34% (allocated 24.87% for pension and 10.47% to the insurance trust) for creditable compensation paid in the hazardous job classifications. These rates are the actuarially determined rates set by the Board. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2019, the City contributed 100% of the required contribution for both non-hazardous and hazardous duty members, which is listed below.

<u>Duty Classification</u>	<u>Total Amount Contributed</u>	<u>Allocated to CERS</u>	
		<u>Pension Fund</u>	<u>Insurance Fund</u>
Non-hazardous Duty	\$ 304,944	\$228,004	\$ 73,940
Hazardous Duty	\$1,006,228	\$708,118	\$298,110

**Insurance Benefits**

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

**Insurance Benefits - Continued**

		<u>Non-hazardous Duty</u>	<u>Hazardous Duty</u>
Tier 1	Participation Date	Before 07/01/2003	Before 07/01/2003
	Benefit Eligibility	Recipient of a retirement allowance	Recipient of a retirement allowance
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement.	Set percentage of single coverage health insurance based on service credit accrued at retirement.
Tier 2	Participation Date	07/01/2003 to 09/01/2008	07/01/2003 to 09/01/2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement.	Recipient of a retirement allowance with at least 120 months of service at retirement.
	Benefit	Monthly contribution of \$10 for each year of earned service increasing by 1.5% each July 1, 2009 annually.	Monthly contribution of \$15 for each year of earned service increasing by 1.5% each July 1, 2009 annually.
Tier 3	Participation Date	After 09/01/2008	After 09/01/2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 180 months of service.	Recipient of a retirement allowance with at least 180 months of service.
	Benefit	Same as tier 2	Same as tier 2

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

At June 30, 2019 the City recognized a liability of \$3,589,101 for its proportionate share of the CERS net OPEB liability (\$1,015,610 non-hazardous and \$2,573,491 hazardous). The City's net OPEB liability was measured as of June 30, 2018, as allowed by standards, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's contributions to the OPEB plan (\$78,758 non-hazardous and \$172,158 hazardous) relative to the total contributions of all participants in the non-hazardous and hazardous retirement plans. At June 30, 2018 the City's share of the non-hazardous OPEB liability was .057202% which an increase of .000165% from the figure of .057037% in the prior period. At June 30, 2018 the City's share of the hazardous pension liability was .360959% which is a decrease of .029412% from the figure of .390371% in the prior period.

**OPEB Payable/Expense**

At June 30, 2019 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous OPEB withholdings and the City's required matching contribution for the month of June 2019.

For the year ended June 30, 2019, the City recognized OPEB expense of \$595,321 (\$116,397 for non-hazardous and \$478,924 for hazardous) for covered employees in the statement of activities.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Deferred Outflows/Inflows of Resources

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Non-Hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 118,356	\$ -	\$ 287,596
Change of assumptions	202,832	2,347	789,733	7,039
Net difference between projected and actual earnings on plan investments	-	69,956	-	244,656
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,743	-	143,575
City's contributions to the plan subsequent to the measurement date	90,324	-	287,863	-
Totals	<u>\$ 293,156</u>	<u>\$ 194,402</u>	<u>\$ 1,077,596</u>	<u>\$ 682,866</u>

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

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019. This amount includes adjustments of \$16,384 for the non-hazardous implicit subsidy and (\$10,247) for the hazardous implicit subsidy. Other amounts reported as deferred outflows / inflows will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Year 1	\$ 2,812	\$ 114,004
Year 2	2,812	114,004
Year 3	2,812	(28,032)
Year 4	16,398	(93,109)
Year 5	(9,626)	-
Thereafter	(6,778)	-
Total	<u>\$ 8,430</u>	<u>\$ 106,867</u>

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary Increase	3.05% average
Investment Rate of Return	6.25%
Healthcare Trend:	

Pre-65: Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post-65: Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year end, June 30, 2018.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

**Actuarial Assumptions - Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	<u>6.09%</u>

**Discount Rate**

The projection of cash flows used to determine the discount rate of 5.85% for non-hazardous and 5.97% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of project compensation of the remaining 25 years amortization period of the unfunded actuarial accrued liability. The discount rate determination used and expected rate of return of 6.25%, and a municipal bond rate of 3.62%, 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 following table presents the City's net OPEB liability, calculated using the discount rate of 5.85% for non-hazardous and 5.97% for hazardous, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED**

**Discount Rate - Continued**

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
Non-Hazardous	<u>\$ 1,319,115</u>	<u>\$ 1,015,610</u>	<u>\$ 757,080</u>
	1% Decrease (4.97%)	Current Discount Rate (5.97%)	1% Increase (6.97%)
Hazardous	<u>\$ 3,577,279</u>	<u>\$ 2,573,491</u>	<u>\$ 1,769,932</u>

The following table presents the City's net OPEB liability, calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Non-Hazardous	<u>\$ 756,132</u>	<u>\$ 1,015,610</u>	<u>\$ 1,321,460</u>
Hazardous	<u>\$ 1,752,672</u>	<u>\$ 2,573,491</u>	<u>\$ 3,590,110</u>

**NOTE K – DEFERRED COMPENSATION**

The City also allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employee's Deferred Compensation Authority is authorized under KRS 18A.230 and 148A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensations Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensations Authority at 110 Sea Hero Road, Suite 101, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE L - RISK MANAGEMENT**

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

**NOTE M - OPERATING LEASE**

During the fiscal year ending June 30, 2005, the City entered into an agreement to lease office space in a building it owns. The initial term of the lease is 6 years with six additional 3 year options. Rent payments are scheduled to begin on January 1, 2005. The agreement requires annual rent payments of \$54,500 during the initial 6 year period. Should the options be exercised to extend the lease beyond the original 6 year term the rent shall be as follows:

Option 1	\$54,500
Option 2	\$54,500
Option 3	\$59,500
Option 4	\$64,500
Option 5	\$69,500
Option 6	\$69,500

Under the terms of the lease, the City is obligated to maintain the common areas including landscaping and parking lot maintenance. After the initial six year period, should the lessee require additional adjacent space of not less than 1,000 square feet and the City is unable to provide it, the lessee has the option to terminate the lease anytime thereafter with six months prior written notice.

In a prior fiscal year the tenant exercised the third of its six options to renew the lease for another 3 year period. Total rent received in this fiscal year under this agreement was \$59,500. Future payments to be received by the City during this first renewal of the lease for the fiscal years ended June 30<sup>th</sup> are as follows:

2020	\$29,750
------	----------

Assets, categorized as buildings and improvements in Note D, with a cost of \$396,035 and accumulated depreciation of \$377,042 are obligated under the above lease agreement.

The City also owns three other residential properties within the boundaries of the City. All of these properties are rented on a month-to-month basis with monthly rents of \$700 (524 Kentucky Ave), \$1,100 (179 St. Matthews Ave), and \$1,300 (169 St. Matthews Ave). Total rent collected on these properties during this fiscal year was \$22,030.

Assets, categorized as buildings and improvements in Note D, with a cost of \$124,825 and accumulated depreciation of \$96,962 are obligated under the above, month-to-month lease agreements.

**NOTE N - IMPLEMENTATION OF GASB PRONOUNCEMENTS**

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

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED**

*Pronouncements Scheduled to be Adopted in this Fiscal Year:*

**GASB Statement No. 83, Certain Asset Retirement Obligations**

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. This standard is meant address accounting and financial reporting for certain asset retirement obligations.

**GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, as well as clarifying which liabilities governments should include when disclosing information related to debt.

*Pronouncements Scheduled to be Adopted in Future Fiscal Years:*

**GASB Statement No. 84, Fiduciary Activities**

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. This standards is meant to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

**GASB Statement No. 87, Leases**

The provisions of this statement are effective for fiscal years beginning after December 15, 2019. The objective of this standard is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The City is still determining the impact, if any, this statement will have on the financial statements.

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

The provisions of this statement are effective for fiscal years beginning after December 15, 2019 with earlier adoption encouraged. The objectives of this standard are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

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

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

**CITY OF ST. MATTHEWS, KENTUCKY, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED**

*Pronouncements Scheduled to be Adopted in Future Fiscal Years - Continued:*

**GASB Statement No. 91, Conduit Debt Obligations**

The provisions of this statement are effective for fiscal years beginning after December 15, 2020 with earlier adoption encouraged. The objective of this standard is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice associate with (1) commitments extended by issuers, (2) arrangements associated conduit debt obligations, and (3) related note disclosures. The City is still determining the impact, if any, this statement will have on the financial statements.

**NOTE M – PRIOR PERIOD ADJUSTMENT**

The following prior period adjustments were made to the books of the City:

Reason	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Road Fund
Overstatement of prior year liabilities	\$ 6,796	\$ 6,796	\$ -
Overstatement of prior year expenses	7,566	7,566	-
Understatement of prior year construction in progress	4,953	-	-
	<u>\$ 19,315</u>	<u>\$ 14,362</u>	<u>\$ -</u>

**CITY OF ST. MATTHEWS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND**  
**JUNE 30, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>REVENUES</b>					
Taxes:					
Property Tax Collections	\$ 3,182,349	\$ (307,349)	\$ 2,875,000	\$ 3,074,993	\$ 199,993
Occupational Tax Collections	8,400,000	(600,000)	7,800,000	7,888,034	88,034
Insurance Tax	1,800,000	95,000	1,895,000	2,043,405	148,405
Franchise Collections	110,609	(3,609)	107,000	104,546	(2,454)
Bank Deposit Tax	250,000	(22,000)	228,000	228,145	145
License and Permits:					
Business License Collections	500,000	5,730	505,730	519,394	13,664
Sign Permits	39,213	4,002	43,215	43,355	140
Solicitation Permits	-	-	-	40	40
Alcohol License Fee	104,500	9,113	113,613	113,613	-
Intergovernmental:					
Police Incentive	173,263	1,737	175,000	183,709	8,709
Law Enforcement Revenue	39,404	6,596	46,000	27,921	(18,079)
Coal and Mineral Revenue	1,348	-	1,348	113	(1,235)
Library Funding from Metro	1,000,000	(1,000,000)	-	700,000	700,000
Grants	12,994	(3,394)	9,600	12,474	2,874
Other:					
Narcotics Income	-	-	-	174,820	174,820
Fingerprinting Income	-	-	-	12,315	12,315
Parking Income	5,768	232	6,000	5,849	(151)
Police Fines and Forfeitures	-	-	-	1,165	1,165
Police Report Fees	-	-	-	7,900	7,900
Miscellaneous Income	21,445	20,555	42,000	19,486	(22,514)
Vending Machine Income	-	-	-	367	367
Insurance Proceeds	2,117	4,483	6,600	19,687	13,087
Penalties and Interest	-	-	-	12,793	12,793
Rentals:					
Rental of City Property	145,787	(10,787)	135,000	132,092	(2,908)
Interest Income	21,977	19,023	41,000	102,008	61,008
Total Revenues before Prior Year Fund Balance	<u>15,810,774</u>	<u>(1,780,668)</u>	<u>14,030,106</u>	<u>15,428,224</u>	<u>1,398,118</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>4,020,788</u>	<u>817,236</u>	<u>4,838,024</u>	<u>-</u>	<u>(4,838,024)</u>
Total Revenues and Prior Year Fund Balance	<u>19,831,562</u>	<u>(963,432)</u>	<u>18,868,130</u>	<u>15,428,224</u>	<u>(3,439,906)</u>

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

**CITY OF ST. MATTHEWS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET TO ACTUAL -**  
**GENERAL FUND - CONTINUED**  
**JUNE 30, 2019**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>EXPENDITURES</u></b>					
General Government	1,638,561	900,868	2,539,429	2,521,017	18,412
Police Department	6,350,591	166,279	6,516,870	6,799,915	(283,045)
Public Works	3,831,184	(366,570)	3,464,614	3,262,060	202,554
Recreation	511,227	79,901	591,128	740,284	(149,156)
Capital Outlay	7,500,000	(1,743,911)	5,756,089	5,318,781	437,308
Total Expenditures	<u>19,831,563</u>	<u>(963,433)</u>	<u>18,868,130</u>	<u>18,642,057</u>	<u>226,073</u>
Excess of Revenue Over (Under) Expenditures	(1)	1	-	(3,213,833)	(3,213,833)
<b>OTHER FINANCING SOURCE AND (USES)</b>					
Sale of Surplus Equipment	-	-	-	8,150	8,150
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,150</u>	<u>8,150</u>
Net Change in Fund Balances	(1)	1	-	(3,205,683)	(3,205,683)
Fund Balance, Beginning	-	-	-	16,992,573	16,992,573
Prior Period Adjustment	-	-	-	14,364	14,364
Fund Balance, Ending	<u>\$ (1)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 13,801,254</u>	<u>\$ 13,801,254</u>

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

**CITY OF ST. MATTHEWS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL -**  
**MUNICIPAL ROAD AID FUND**  
**JUNE 30, 2019**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
Municipal Road Aid:					
Intergovernmental Revenue	\$ 292,252	\$ 38,645	\$ 330,897	\$ 357,080	\$ 26,183
Interest Income	-	-	-	2,839	2,839
Total Revenues before Prior Year Fund Balance	<u>292,252</u>	<u>38,645</u>	<u>330,897</u>	<u>359,919</u>	<u>29,022</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>370,248</u>	<u>(370,248)</u>	-	-	-
Total Revenues and Prior Year Fund Balance	<u>662,500</u>	<u>(331,603)</u>	<u>330,897</u>	<u>359,919</u>	<u>29,022</u>
<b><u>EXPENDITURES</u></b>					
Municipal Road Aid	<u>662,500</u>	<u>(331,603)</u>	<u>330,897</u>	<u>220,228</u>	<u>110,669</u>
Excess of Revenue over Expenditures	-	-	-	139,691	139,691
Fund Balance, Beginning	-	-	-	<u>2,224,459</u>	<u>2,224,459</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,364,150</u>	<u>\$ 2,364,150</u>

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

**CITY OF ST. MATTHEWS, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON**  
**BUDGETARY REPORTING**  
**JUNE 30, 2019**

***Budgets and the Budgetary Process***

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

***Encumbrances***

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

***Reconciliation***

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

<u>Budgetary Fund/Department/Line Item</u>	<u>Reported as Capital Outlay in the Fund Financials</u>	
	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>
General Government		
Capital Improvements - Vehicles	\$ 18,344	\$ -
Program Support - Ball Stadium	1,000,000	-
Rental Property Expenses	16,990	-
Police Department		
Capital Improvements - Equipment	12,708	-
Capital Improvements - Vehicles	208,682	-
Radios and Radio Repairs	5,209	-
Repairs and Maintenance - Equipment	2,027	-
Towing	925	-
Public Works		
Capital Improvements - Vehicles	47,553	-
Consulting Engineers	8,028	-
Radios and Radio Repairs	1,629	-
Recreation		
Brown Park	634,874	-
Capital Outlay		
Library	5,318,781	-
Roads		
Capital Improvements	-	215,742
	<u>\$ 7,275,750</u>	<u>\$ 215,742</u>

**CITY OF ST. MATTHEWS, KENTUCKY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON  
BUDGETARY REPORTING - CONTINUED  
JUNE 30, 2019**

*Stewardship*

Expenditures exceeded budget in the following departments within the general fund:

<u>Department</u>	<u>Amount Over Budget</u>
Police Department	\$283,045
Recreation	\$149,156

**CITY OF ST. MATTHEWS, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2019**

<u>Year Ended June 30th</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<b>Non-Hazardous:</b>					
2019	Not Available	Not Available	\$ 1,405,699	Not Available	Not Available
2018	0.057205%	\$ 3,483,959	\$ 1,462,970	238.14%	53.54%
2017	0.057037%	\$ 3,338,551	\$ 1,429,742	233.51%	53.32%
2016	0.058282%	\$ 2,869,601	\$ 1,429,191	200.78%	55.50%
2015	0.060273%	\$ 2,591,448	\$ 1,409,174	183.90%	59.97%
2014	0.061507%	\$ 1,995,503	\$ 1,411,059	141.42%	66.80%
2013	Not Available	\$ 2,257,954	\$ 1,408,680	160.29%	Not Available
2012-2010	Not Available	Not Available	Not Available	Not Available	Not Available
<b>Hazardous:</b>					
2019	Not Available	Not Available	\$ 2,807,417	Not Available	Not Available
2018	0.360939%	\$ 8,729,154	\$ 2,787,384	313.17%	49.26%
2017	0.390371%	\$ 8,733,687	\$ 2,873,073	303.98%	49.78%
2016	0.408052%	\$ 7,001,929	\$ 2,780,131	251.86%	53.95%
2015	0.412690%	\$ 6,335,222	\$ 2,620,222	241.78%	57.52%
2014	0.422733%	\$ 5,080,509	\$ 2,499,989	203.22%	63.46%
2013	Not Available	\$ 5,673,616	\$ 2,358,019	240.61%	Not Available
2012-2010	Not Available	Not Available	Not Available	Not Available	Not Available

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

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

**CITY OF ST. MATTHEWS, KENTUCKY  
SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE COUNTY  
EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2019**

Year Ended June 30th	Contractually required contribution	Contribution relative to contractually required contribution	Contribution deficiency (excess)	City's covered employee payroll	Contributions as a percentage of covered employee payroll
<b>Non-Hazardous:</b>					
2019	\$ 228,004	\$ 228,004	\$ -	\$ 1,405,699	16.22%
2018	\$ 211,838	\$ 211,838	\$ -	\$ 1,462,970	14.48%
2017	\$ 199,449	\$ 199,449	\$ -	\$ 1,429,742	13.95%
2016	\$ 177,506	\$ 177,506	\$ -	\$ 1,429,191	12.42%
2015	\$ 179,670	\$ 179,670	\$ -	\$ 1,409,174	12.75%
2014	\$ 193,879	\$ 193,879	\$ -	\$ 1,411,059	13.74%
2013*	\$ 275,397	\$ 275,397	\$ -	\$ 1,408,680	19.55%
2012-2010	Not Available	Not Available	Not Available	Not Available	Not Available
<b>Hazardous:</b>					
2019	\$ 698,204	\$ 698,204	\$ -	\$ 2,807,417	24.87%
2018	\$ 618,799	\$ 618,799	\$ -	\$ 2,787,384	22.20%
2017	\$ 623,744	\$ 623,744	\$ -	\$ 2,873,073	21.71%
2016	\$ 563,254	\$ 563,254	\$ -	\$ 2,780,131	20.26%
2015	\$ 543,172	\$ 543,172	\$ -	\$ 2,620,222	20.73%
2014	\$ 544,248	\$ 544,248	\$ -	\$ 2,499,989	21.77%
2013*	\$ 886,615	\$ 886,615	\$ -	\$ 2,358,019	37.60%
2012-2010	Not Available	Not Available	Not Available	Not Available	Not Available

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

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

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

**CITY OF ST. MATTHEWS, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON PENSION REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE A – ACCOUNTING POLICIES**

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

**NOTE B – CHANGES OF BENEFIT TERMS**

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

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

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

**NOTE C – CHANGES OF ASSUMPTIONS**

**2015**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

**2017**

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

**CITY OF ST. MATTHEWS, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON PENSION REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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

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

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	3.25%
Salary increase	4.00%, average including inflation
Investment rate of return	7.50%

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2018 for reporting information to the City.

**CITY OF ST. MATTHEWS, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB**  
**LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2019**

<u>Year ended June 30th</u>	<u>City's proportion of the net OPEB liability</u>	<u>City's proportionate share of the net OPEB liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
<b>Non-Hazardous:</b>					
2019	Not Available	Not Available	\$ 1,405,699	Not Available	Not Available
2018	0.057202%	\$ 1,015,610	\$ 1,462,970	69.42%	57.62%
2017	0.057037%	\$ 1,146,639	\$ 1,429,742	80.20%	52.39%
2016	Not Available	\$ 899,389	\$ 1,429,191	62.93%	Not Available
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available
<b>Hazardous:</b>					
2019	Not Available	Not Available	\$ 2,807,417	Not Available	Not Available
2018	0.360959%	\$ 2,573,491	\$ 2,787,384	92.33%	57.62%
2017	0.390371%	\$ 3,227,086	\$ 2,873,073	112.32%	52.39%
2016	Not Available	\$ 1,928,302	\$ 2,780,131	69.36%	Not Available
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available

*This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.*

**CITY OF ST. MATTHEWS, KENTUCKY  
SCHEDULE OF THE CITY'S INSURANCE CONTRIBUTIONS TO THE COUNTY  
EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Year ended June 30th</u>	<u>Contractually required contribution</u>	<u>Contribution relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<b>Non-Hazardous:</b>					
2019	\$ 73,940	\$ 73,940	\$ -	\$ 1,405,699	5.26%
2018	\$ 68,760	\$ 68,760	\$ -	\$ 1,462,970	4.70%
2017	\$ 67,627	\$ 67,627	\$ -	\$ 1,429,742	4.73%
2016	\$ 66,314	\$ 66,314	\$ -	\$ 1,429,191	4.64%
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available
<b>Hazardous:</b>					
2019	\$ 293,937	\$ 293,937	\$ -	\$ 2,807,417	10.47%
2018	\$ 260,621	\$ 260,621	\$ -	\$ 2,787,384	9.35%
2017	\$ 268,632	\$ 268,632	\$ -	\$ 2,873,073	9.35%
2016	\$ 352,799	\$ 352,799	\$ -	\$ 2,780,131	12.69%
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available

*This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.*

**CITY OF ST. MATTHEWS, KENTUCKY  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 ON OPEB REPORTING  
 FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE A – ACCOUNTING POLICIES**

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

**NOTE B – CHANGES OF BENEFIT TERMS**

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

**NOTE C – CHANGES OF ASSUMPTIONS**

2017

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

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

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2017 and 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50%

**Healthcare Trend Rates:**

- Pre 65 – Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over 5 years.
- Post 65 – Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over 2 years.

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2018 for reporting information to the City.

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



# STEPHENS & LAWSON

Certified Public Accountants

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

To the Mayor and City Council  
City of St. Matthews, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of St. Matthews, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of St. Matthews, Kentucky's basic financial statements and have issued our report thereon dated January 10, 2020.

#### Internal Control Over Financial Reporting

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

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

Our consideration of the 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-1 that we consider to be a material weakness.

#### Compliance and Other Matters

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

### **City of St. Matthews, Kentucky's Response to Findings**

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

### **Purpose of this Report**

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

*Stephens & Lawson CPAs*

Louisville, Kentucky  
January 10, 2020

**CITY OF ST. MATTHEWS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2019**

**Findings:**

2019-1 *Condition:* The City does not have internal controls in place that enable it to prepare complete financial statements, including footnote disclosures, in compliance with generally accepted accounting principles

*Criteria:* Generally accepted accounting principles require that an entity have internal controls in place that enable it to prepare complete financial statements, including note disclosures.

*Cause:* The City lacks personnel with the expertise to prepare its financial statements, including note disclosures, in conformity with generally accepted accounting principles.

*Effect:* Management engaged the auditor to prepare draft financial statements, including related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements, or review the financial statements as drafted by the auditor, for compliance with generally accepted accounting principles.

*Management's Response:* Management has determined that the most efficient way to resolve this issue is to have the auditor's, as allowed by their professional standards, to render assistance in the drafting of the financial statements and related notes to the financial statements. The City also has an external CPA performing consulting services and will utilize that individual along with the auditors to obtain the above referenced knowledge and training.