Financial Statements and Supplementary Information

for

CITY OF ST. MATTHEWS, KENTUCKY

Year Ended June 30, 2021
with Report of Independent Auditors

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DEANDORTON

Report of Independent Auditors

To the Honorable 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 (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of June 30, 2021, and the respective changes in financial position and the budgetary comparison for the major funds for the year then ended in accordance 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 on pages 3 through 9, the Schedule of the City's Proportionate Share of the Net Pension Liability on page 39, the Schedule of the City Pension Contributions on page 40, the Schedule of the City's Proportionate Share of the Net OPEB Liability on page 41, and the Schedule of City OPEB Contributions on page 42 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 December 14, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
December 14, 2021

CITY OF ST. MATTHEWS, KENTUCKY

Management's Discussion and Analysis

Year Ended June 30, 2021

The purpose of the management's discussion and analysis is to provide an overview of the financial activities of the City of St. Matthews, Kentucky (the City) based on currently known facts, decisions, and conditions and should be read in conjunction with the City's financial statements, which begin on page 10.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $33,252,051 (net position) for this fiscal year. This is a slight increase over the prior year figure of $31,513,989.

- The three largest sources of general revenues for the City continued to be property taxes, insurance taxes, and occupational taxes. These three revenue sources accounted for 78.51% of the total revenue received by the City as reported on the statement of activities. Total revenues increased from year-to-year primarily as a result of funding received under the CARES Act in the amount of $1,716,248.

- Total expenses of the City decreased to $14,916,239 during this fiscal year of which $1,386,087 was for depreciation expense on capital assets.

- The City shows a long-term liability in the amount of $715,145 for compensated absences in this fiscal year as well as the City's proportionate share of the unfunded liabilities for pension ($14,118,066) and other-post employment benefits (OPEB) ($4,361,479). The increase in compensated absences from year-to-year was just under $5,000. The pension obligation increased by more than $500 thousand dollars over the previous year and the OPEB liability increased by approximately $800 thousand dollars.

- Along with other communities in the Commonwealth, the City was, and will be, impacted by the COVID-19 global pandemic. At this time the City has not experienced a significant disruption in its operations; however, the continued spread of the disease makes it difficult to estimate what, if any, long-term impact there may be on the City. The City applied for and received funding through the CARES Act in this fiscal year and has also received funding under the American Rescue Plan Act right after year end.

Using This Annual Report

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements included in this report provide insight into the financial status of the City for the fiscal year ended June 30, 2020 and are made up of three parts:

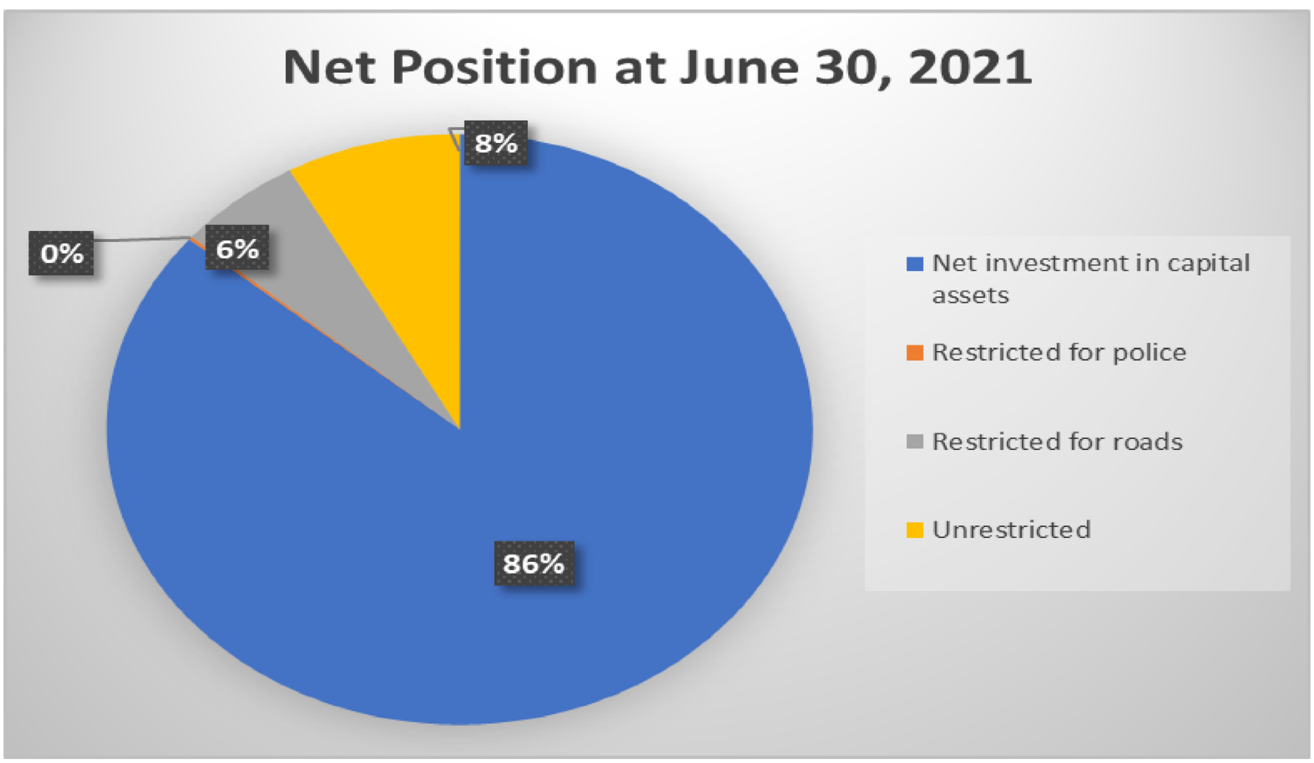
1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Government-wide Financial Statements

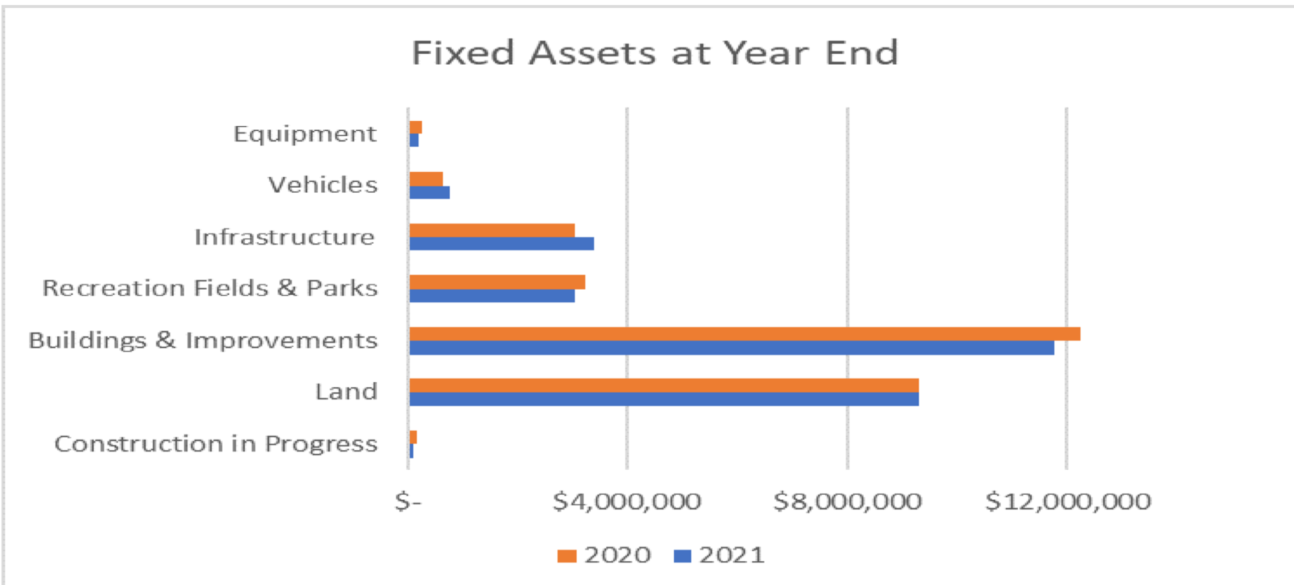
The statement of net position and the statement of activities report information about the City as a whole and about its activities during the current fiscal year and begin on page 10. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting 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 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.

The statement of net position displays the City's assets and deferred outflows of resources as well as the City's liabilities and deferred inflows of resources. The difference between these two groups is call net position. The City's net position is comprised of three components with restricted net position being further broken down by the purpose of such restriction. The makeup of net position at June 30, 2021 is displayed in the chart below.

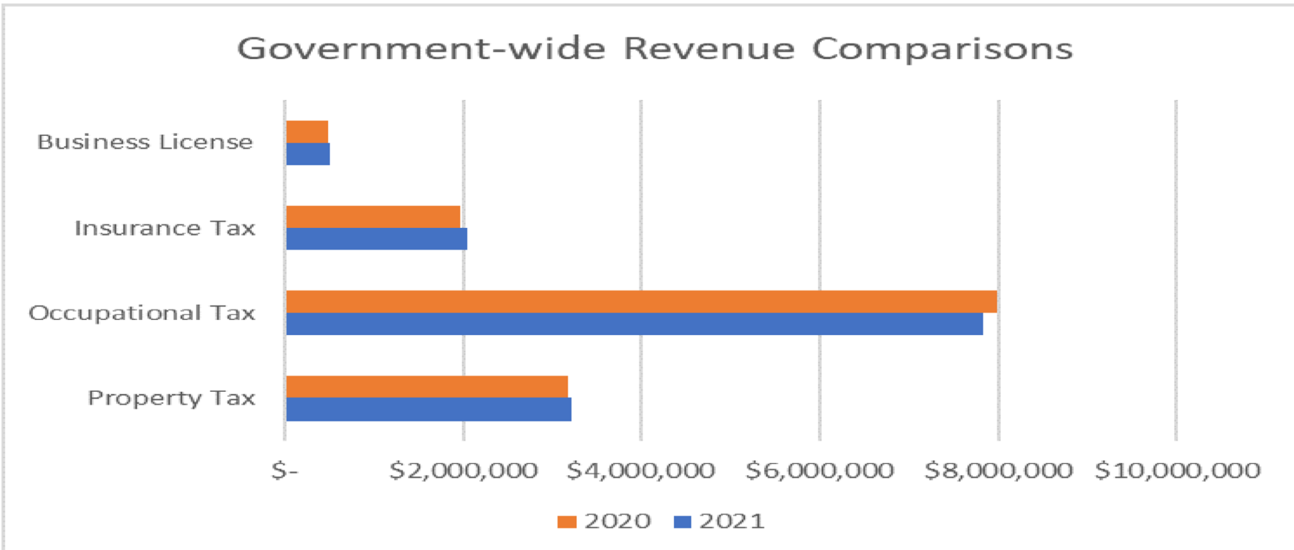


As you can see the majority of the City's net position is comprised of its investment in capital assets. The City placed in service just over $1.1 million dollars in new capital assets this year, with the majority of that being in the form of infrastructure projects within the City. Capital assets of the City are depreciated out over their estimated useful life at the time the asset is placed in service. The difference between the cost of the assets and their accumulated depreciation is referred to as net book value. There was a slight decrease, $270,394, at June 30, 2021 as compared to the previous year. The net book value of the City's capital assets is displayed below:

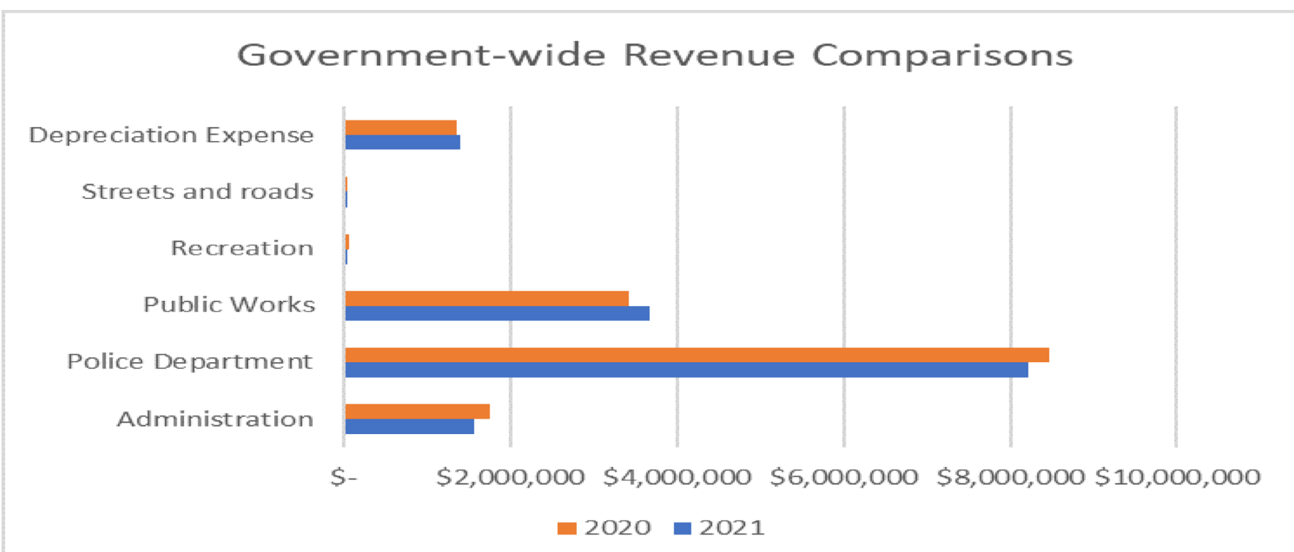


In addition to fixed assets, the statement of net position also shows the liabilities of the City. The largest two liabilities of the City relate to its participation in the County Employees Retirements System and the City's share of the unfunded pension and OPEB liabilities of that system. As of June 30, 2021, the City's pension obligation increased by $551,315 as compared to the prior year to $14,118,066 while the City's OPEB obligation increased by $837,260 to $4,361,479 over the same period. The change in these liabilities is the result of several factors such as changes in actuarial assumptions, differences between expected and actual experience, and changes in the City's proportionate share. The City is also required to recognize financial statement items called deferred outflows/ deferred inflows of resources due to its participation in this plan as well.

The statement of activities reflects the City's revenue and expenses, as well as other transactions that have an impact on the City's net position. During this fiscal year, the City saw an overall increase in revenues as compared to the prior year of $1,486,012. The most significant change from year-to-year was the receipt of $1,716,248 in the form of funding from the CARES Act. Other selective changes from year to year are noted below.



Expenses of the City were $14,916,239 for the fiscal year ending June 30, 2021, of which $1,386,087 was the current depreciation expense on capital assets as previously discussed. Changes from year-to-year are as follows:



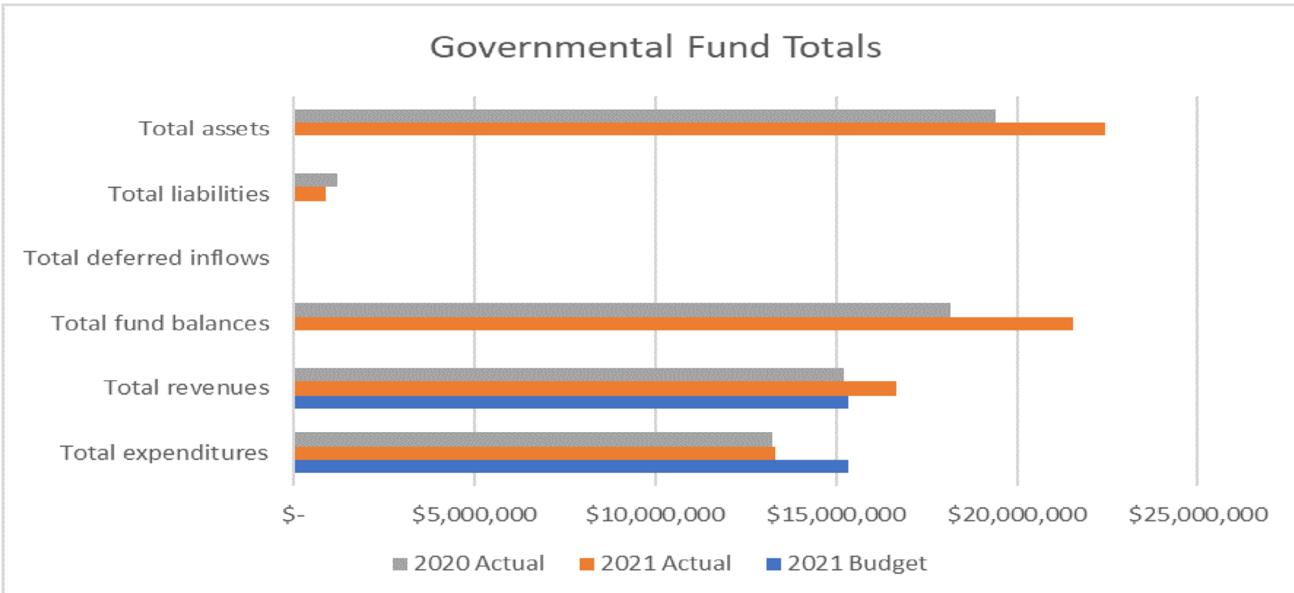
Fund Financial Statements

The second component of the annual report is the fund financial statements which begin on page 12. Fund financial statements consist of a balance sheet – governmental funds and a statement of revenues, expenditures, and changes in fund balances – governmental funds. The fund financial statements provide detailed short-term information about the City's general government operations. Most of the City's basic services are reported in the governmental funds, which focus 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. Governmental fund information helps you to determine whether there are more of 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 funds in a separate statement following each of the respective fund financial statements.

The City has two funds, the general fund and the municipal road aid fund. Fund balance in the general fund increased by over $3.7 million dollars during the fiscal year ending June 30, 2021 as compared to the prior year. This increase in fund balance was driven in large part by an increase revenue due to the CARES Act funding. Fund balance for the municipal road aid fund decreased during this fiscal year by approximately $351 thousand dollars. The decrease was due to an increase in capital outlay costs, for items such as paving, as compared to the prior year.

General fund revenues increased by $1,404,999 to $16,279,652 during this fiscal year which were more than the $14,291,150 that was budgeted, excluding reserves. General fund expenditures decreased by $165,934 to $12,613,014 during this fiscal year which were $1,681,877 less than the amount budgeted. The municipal road aid fund had a small decline in revenues of $6,670 to $342,181 for this fiscal year which was $11,431 more than the budgeted revenue amount of $330,750, excluding reserves. Municipal road aid fund expenses increased by $232,130 as compared to the prior year, but were still less than the $1,044,000 that was budgeted.

Select financial information for the two governmental funds combined is as follows:



Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements and provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Economic Outlook

In March 2020, the coronavirus (COVID-19) outbreak was declared to be a pandemic. This virus has spread across the globe and had an impact on worldwide economic activity and financial markets. We continue to monitor the impact of COVID-19 on all aspects of the City's operations. Just after the end of this fiscal year, the City received $2.3 million from the federal government passed through the Commonwealth of Kentucky as part of the American Rescue Plan Act to assist with the impact of COVID-19 on the City. With all that in mind, the City passed a conservative budget for fiscal year 2022. General fund revenues were budgeted to be $16,837,337 which is an increase of $2.0 million dollars over the amount budgeted for fiscal year 2021 to account for the anticipated receipt of the American Rescue Plan Act money previously discussed. General fund expenditures were budgeted to be $16,837,337 which is an increase of $2.5 million dollars when compared to that same amount in fiscal year 2021.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ST. MATTHEWS, KENTUCKY

Statement of Net Position

June 30, 2021

	Governmental Activities
Assets	
Cash and cash equivalents	$ 17,539,097
Cash and cash equivalents - restricted	2,442,642
Investments	152,726
Receivables	2,240,516
Prepaid expenses	78,809
Capital assets, net	28,633,015
Total assets	$ 51,086,805
Deferred Outflows of Resources	
Deferred amount related to pension plan	$ 2,194,757
Deferred amount related to OPEB	1,546,077
Total deferred outflows of resources	$ 3,740,834
Liabilities	
Accounts payable	$ 193,131
Confiscated funds payable	482,313
Wages payable	180,377
Compensated absences	715,145
User deposits	7,150
Pension obligation	14,118,066
OPEB obligation	4,361,479
Total liabilities	$ 20,057,661
Deferred Inflows of Resources	
Deferred amount related to pension plan	$ 682,304
Deferred amount related to OPEB	835,623
Total deferred inflows of resources	$ 1,517,927
Net Position	
Net investment in capital assets	$ 28,633,015
Restricted for police	58,945
Restricted for roads	1,901,384
Unrestricted	2,658,707
Total net position	$ 33,252,051

See accompanying notes.

CITY OF ST. MATTHEWS, KENTUCKY

Statement of Activities

Year Ended June 30, 2021

	Governmental Activities
Expenses:	
Administration	$ 1,559,287
Police department	8,216,535
Public works	3,674,974
Recreation	44,683
Streets and roads	34,673
Depreciation expense	1,386,087
Total expenses	14,916,239
General revenues:	
Property tax	3,207,006
Occupational tax	7,827,656
Insurance tax	2,039,880
Franchise tax	144,070
Business license tax	513,467
Bank deposit tax	234,766
Charges for services	281,590
Intergovernmental revenue	546,305
CARES Act funding	1,716,248
Insurance refunds	13,630
Interest income	39,830
Gain on disposal of equipment	33,916
Penalties and interest	35,358
Other	20,579
Total general revenues	16,654,301
Change in net position	1,738,062
Net position, beginning of year	31,513,989
Net position, end of year	$ 33,252,051

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF ST. MATTHEWS, KENTUCKY

Balance Sheet - Governmental Funds

June 30, 2021

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 17,539,097	$ -	$ 17,539,097
Cash and cash equivalents - restricted	541,258	1,901,384	2,442,642
Investments	152,726	-	152,726
Taxes and intergovernmental receivables	2,240,516	-	2,240,516
Prepaid expenses	78,809	-	78,809
Total assets	$ 20,552,406	$ 1,901,384	$ 22,453,790
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	$ 193,131	$ -	$ 193,131
Confiscated funds payable	482,313	-	482,313
Accrued payroll	180,377	-	180,377
User deposits	7,150	-	7,150
Total liabilities	862,971	-	862,971
Deferred inflows of resources:			
Unavailable revenue	41,799	-	41,799
Fund balances:			
Nonspendable	78,809	-	78,809
Restricted for police	58,945	-	58,945
Restricted for roads	-	1,901,384	1,901,384
Unassigned	19,509,882	-	19,509,882
Total fund balances	19,647,636	1,901,384	21,549,020
Total liabilities, deferred inflows of resources and fund balances	$ 20,552,406	$ 1,901,384	$ 22,453,790

See accompanying notes.

CITY OF ST. MATTHEWS, KENTUCKY

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

June 30, 2021

Total fund balances for governmental funds	$ 21,549,020
Total net position reported for governmental activities in the statement of net position is different because:	
Certain tax revenues are earned but not available, and therefore, are shown as unavailable revenue in the fund financial statements.	41,799
Capital assets used in governmental activities are not financial resources, and therefore, not reported in the governmental funds.	28,633,015
Long-term liabilities and deferred inflows and outflows of resources related to pensions are not financial resources or current liabilities, and therefore, the net impact of the pension-related liabilities and deferred inflows and outflows of resources are not reported in the governmental funds.	(12,605,613)
Long-term liabilities and deferred inflows and outflows of resources related to OPEB are not financial resources or current liabilities, and therefore, the net impact of the OPEB-related liabilities and deferred inflows and outflows of resources are not reported in the governmental funds.	(3,651,025)
Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.	(715,145)
Total net position of governmental activities	$ 33,252,051

See accompanying notes.

CITY OF ST. MATTHEWS, KENTUCKY

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2021

	Total Budget	Actual: General Fund	Actual: Municipal Road Aid Fund	Actual: Total Governmental Funds	Over (Under) Budget
Revenues:					
Property taxes	$ 3,100,000	$ 3,208,454	$ -	$ 3,208,454	$ 108,454
Occupational tax	7,300,000	7,827,656	-	7,827,656	527,656
Charges for services	320,000	281,590	-	281,590	(38,410)
Franchise tax	110,000	144,070	-	144,070	34,070
Insurance tax	1,800,000	2,039,880	-	2,039,880	239,880
Bank deposit tax	200,000	234,766	-	234,766	34,766
Intergovernmental	515,150	206,711	339,594	546,305	31,155
CARES Act funding	750,000	1,716,248	-	1,716,248	966,248
License and permits	450,000	513,467	-	513,467	63,467
Insurance refunds	-	13,630	-	13,630	13,630
Interest income	50,750	39,186	644	39,830	(10,920)
Penalties and interest	-	35,358	-	35,358	35,358
Other	16,000	18,636	1,943	20,579	4,579
Reserve	716,991	-	-	-	(716,991)
Total revenues	15,328,891	16,279,652	342,181	16,621,833	1,292,942
Expenditures:					
Administration	1,770,419	1,441,889	-	1,441,889	(328,530)
Police department	7,329,633	7,190,216	-	7,190,216	(139,417)
Public works	3,514,794	3,460,091	34,673	3,494,764	(20,030)
Recreation	82,720	44,683	-	44,683	(38,037)
Capital outlay	2,641,325	476,135	658,291	1,134,426	(1,506,899)
Total expenditures	15,338,891	12,613,014	692,964	13,305,978	(2,032,913)
Excess of revenues over expenditures	(10,000)	3,666,638	(350,783)	3,315,855	3,325,855
Other financing sources:					
Proceeds from sale of equipment	10,000	52,649	-	52,649	42,649
Net change in fund balances	$ -	3,719,287	(350,783)	3,368,504	$ 3,368,504
Fund balances, beginning of year		15,928,349	2,252,167	18,180,516	
Fund balances, end of year		$19,647,636	$ 1,901,384	$ 21,549,020	

See accompanying notes.

CITY OF ST. MATTHEWS, KENTUCKY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2021

Net change in fund balances - total governmental funds	$ 3,368,504
The change in net position reported for governmental activities in the statement of activities is different because:	
Certain tax revenues will not be collected for several months after the City's fiscal year ends and are not considered available revenues in the fund financial statements. This is the difference between the amount not available in the prior year of $43,247 and the current year amount of $41,799.	(1,448)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $1,134,426 was less than depreciation of $1,386,087.	(251,661)
Net difference between pension and OPEB plan contributions of $1,066,114 reported as expense in governmental funds and the pension and OPEB expense of $2,420,006 recorded in the statement of activities.	(1,353,892)
Governmental activities report expenditures for capital assets in the statement of net position. 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.	(18,733)
Changes in the compensated absences accrual are expenses in the statement of activities and do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds	(4,708)
Change in net position of governmental activities	$ 1,738,062

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

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.

All significant activities and organizations on which the City exercises oversight responsibility have been included in the City's financial statements for the year ended June 30, 2021. 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.

Management's Use of Estimates

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

1. Reporting Entity and Summary of Significant Accounting Policies, continued

COVID-19 Impact

During March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The City is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. During fiscal year 2021, the City applied for and received $1,716,248 of Coronavirus, Aid, Relief, and Economic Security (CARES) funding through the Coronavirus Relief Fund grants. These grants were provided from the U.S. Department of Treasury through the Commonwealth of Kentucky. These funds were included in revenues in fiscal year 2021 and were used to cover payroll expenses for public safety, public health, human service and similar employees whose services were substantially dedicated to mitigating or responding to the COVID-19 public health emergency. In accordance with the grant requirements, these were necessary expenditures incurred during the period from March 1, 2020 through December 31, 2020 and not accounted for in the previously approved budget.

As of June 30, 2021 and as of the date that the financial statements were issued, the City has not experienced significant disruption in its operations; however, the continued spread of the disease represents a significant risk that the City's operations could be disrupted in the near future. Since the situation surrounding the COVID-19 pandemic remains fluid, the long-term duration, nature, and extent of the effects on the City cannot be reasonably estimated at this time.

Government-Wide Financial Statements

The City has presented a statement of net position and a statement of activities for the City as a whole. These statements include the primary government and its component units, if applicable. Government-wide accounting is designed to provide a more comprehensive view of the City’s operations and financial position as a single economic entity.

Government-wide financial statements distinguish between governmental-type and business-type activities. Governmental-type activities are those financed through property taxes, intergovernmental revenues, municipal aid, and other non-exchange revenues and are usually reported in governmental and internal service funds. The City has no business-type activities.

Policies specific to the government-wide financial statements are as follows:

Capital Assets – Tangible assets used in operations with an initial useful life that extends beyond one year with a value greater than $5,000 are capitalized. Capital assets, including infrastructure, are recorded at their historical cost or estimated historical cost and are depreciated using the straight-line method of depreciation over their estimated useful lives. They are reported net of accumulated depreciation on the statement of net position. The City capitalizes general infrastructure assets acquired on or after July 1, 2003.

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

Capital assets, including land, buildings, improvements, infrastructure, and equipment, are reported in the governmental activities column in the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred.

All capital assets are depreciated using the straight-line depreciation method over the following estimated useful lives:

Buildings and improvements	20-40 years
Equipment	5-15 years
Infrastructure	25 years
Recreation areas	25 years
Vehicles	5 years

Pensions and Other Post-Employment Benefits (OPEB) – The City participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of the CERS. This is a cost-sharing, multiple employer defined benefit pension and OPEB plan, which covers all eligible full-time employees and provides for retirement, disability, health insurance and death benefits to plan members.

Cost-sharing governmental employers, such as the City, are required to report a net pension and OPEB liability, pension and OPEB expense and pension and OPEB related deferred inflows of resources and deferred outflows of resources, based on their proportionate share of the collective amounts for all governments in the plan. For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of CERS and additions to or deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. The CERS financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

All governments participating in the defined benefit pension plan also are required to disclose various information in the footnotes to the financial statements – see Note 10.

Fund Financial Statements

The City uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Fund Financial Statements, continued

Funds of the City are classified as governmental. This category, in turn, is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

Governmental Funds – Governmental funds account for all or most of the City's general activities, including the collection of legally restricted monies, administrative expenses, and the acquisition or construction of capital assets. Governmental funds include:

General Fund – The general operating fund of the City accounts for all financial resources, except those required to be accounted for in other funds.

Municipal Road Aid Fund – Repairs and improvements to the City's road system are conducted through the Municipal Road Aid Fund.

Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except pension and OPEB liabilities are accounted for as expenditures in the period when contributions are made. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated.

Budgetary Accounting

The budget information reflected in the financial statements is the annual budget adopted by the City in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with GAAP.

Cash and Cash Equivalents

Cash and cash equivalents include cash on-hand and highly liquid investments with an original maturity of three months or less from the date of acquisition.

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents - Restricted

The City had restricted cash and cash equivalents as of June 30, 2021, that relate to funds and highly liquid assets confiscated in the normal course of business by the police department, and as such are restricted for use by that department, as well as funds in the municipal road aid fund whose use is restricted to road maintenance and repairs.

Receivables

Receivables consists of revenue earned but not yet received for property taxes, insurance taxes and occupational taxes. Nonexchange transactions that are 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.

Investments

Investments are stated at fair market value. Realized and unrealized gains and losses are reflected in the statement of activities and the statement of revenues, expenditures, and changes in fund balances – governmental funds. Investments in certificates of deposit are stated at cost plus accrued interest, which approximates fair value.

Net Position/Fund Balances

In the statement of net position, the components of net position are as follows:

Net Investment in Capital Assets – This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowing attributable to the acquisition, construction, or improvement of capital assets.

Restricted – Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City had restricted funds of $58,945 for utilization by police and $1,901,384 for road improvements as of June 30, 2021*.*

Unrestricted – This category represents net position not appropriated for expenditures or legally segregated for a specific future use.

In the balance sheet of governmental funds, fund balance is divided into the following classifications, as applicable:

Nonspendable – These resources include amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The City's nonspendable funds as of June 30, 2021 consisted of $78,809 of prepaid expenses.

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Net Position/Fund Balances, continued

Restricted – Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The City had restricted funds of $58,945 for utilization by police and $1,901,384 for road improvements as of June 30, 2021.

Committed – Amounts constrained for a specific purpose by the City using its highest level of decision-making authority. For resources to be considered committed, the City Council issues an ordinance that can only be changed with another corresponding ordinance. The City had no committed funds as of June 30, 2021.

Assigned – Amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the City Council or by a City official given authority to assign amounts. The City had no assigned funds as of June 30, 2021.

Unassigned – Amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

Accounts Payable

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

Confiscated Fund Payable

Confiscated fund payables relate to obligations to remit funds confiscated in the normal course of business by the police department.

Compensated Absences

Compensated absences includes accumulated unpaid leave benefits. City employees are granted leave benefits in varying amounts in accordance with administrative policy.

The City allows employees to accumulate up to 160 hours of vacation time and up to 1,920 hours of sick leave. Upon termination, the City will pay out compensation for unused vacation at a rate of 100% of the employees' respective base pay and unused sick leave at a rate of 50% of the employees' respective base pay.

All accumulated leave benefits are accrued when incurred in the government-wide financial statements. In governmental funds, compensated absences are not payable with available and spendable resources, therefore, they are only recorded when they have matured, for example, as a

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Compensated Absences, continued

result of employee resignations and retirements, or when employees have taken vacation or sick time.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through December 14, 2021, the date that the financial statements were available to be issued.

2. Deposits and Investments

Deposits

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by Kentucky Revised Statutes (KRS) 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Consistent with the City's deposit policy, as of June 30, 2021 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Investments

At June 30, 2021, the City's investment balances were as follows:

	Maturity	Fair Value
Certificates of deposit:		
Interest rate of 1.49%	9/30/2021	$ 88,525
Interest rate of 0.20%	5/07/2023	64,201
Total		$ 152,726

Interest Rate Risk – The City does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates.

Credit Risk – Commonwealth of Kentucky law under KRS 66.480, limits investments to obligations of the United States Government, obligations backed by the full faith and credit of the United States Government, obligations of any corporation or agency of the United States Government, certificates of deposits, commercial paper, bonds or securities issued by a state or local government, and shares of mutual funds. The City has no written investment policy that would further limit its investment choices as they are defined in KRS 66.480.

2. Deposits and Investments, continued

Investments, continued

*Concentration of Credit Ris*k – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the City will not be able to recover the value of its investments held in the possession of an outside party. Consistent with the City's investment policy, as of June 30, 2021, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

3. Receivables

Receivables at June 30, 2021 consisted of the following:

Property tax	$ 45,248
Occupational tax	1,671,348
Insurance tax	504,001
KLEFPF (police incentive)	15,054
Local law enforcement	4,865
Total receivables	$ 2,240,516

4. Capital Assets

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 9,300,315	$ -	$ -	$ 9,300,315
Buildings and improvements	16,170,769	66,811	-	16,237,580
Recreation fields and parks	4,832,796	-	-	4,832,796
Infrastructure	6,755,085	709,783	-	7,464,868
Vehicles	2,827,628	400,588	(126,117)	3,102,099
Equipment	1,057,166	16,465	-	1,073,631
Construction in progress	161,176	414,358	(473,579)	101,955
Total capital assets	41,104,935	1,608,005	(599,696)	42,113,244
Less accumulated depreciation				
Buildings and improvements	(3,938,160)	(511,069)	-	(4,449,229)
Recreation fields and parks	(1,587,030)	(201,067)	-	(1,788,097)
Infrastructure	(3,694,661)	(370,964)	-	(4,065,625)
Vehicles	(2,180,734)	(246,422)	107,384	(2,319,772)
Equipment	(800,941)	(56,565)	-	(857,506)
Total accumulated depreciation	(12,201,526)	(1,386,087)	107,384	(13,480,229)
Capital assets, net	$ 28,903,409	$ 221,918	$ (492,312)	$ 28,633,015

5. Property Taxes

Property taxes are levied in November of each year based upon the taxable value as of January 1 for all real property located within the City. Taxable values are assessed periodically by the Property Valuation Administrator (PVA) of Jefferson County, Kentucky who is required by Commonwealth of Kentucky law to maintain total assessments at approximately 100% of fair market value.

As of January 1, 2020, the taxable value of real and certain personal property, as assessed by the PVA, was $2,572,761,390. The City currently levies a property tax rate of $.20 per $100 of the taxable value of real property and certain personal property, as determined by the PVA. Property tax payments are due by January 1 of each year. After January 1, a penalty of 10% is added, plus interest at 1.5% per month compounded monthly, or a flat $10 in the event the penalty and interest is less than that amount. Delinquent tax collections shall incur minimum legal costs of $150 for lien filing and release. If there are additional costs for collection the collection fees will be charged at a rate of $150 per hour. Taxpayers receive a 40% discount if property taxes are paid by October 31. Property tax revenues, after applicable discounts, were $3,208,454 for the year ended June 30, 2021.

6. Occupational Tax

The City imposes a tax of .75 percent of wages on persons who work within the City 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.

7. Insurance Tax

The City receives insurance fee income based on the number of insurance policies held by residents of the City and based on the size of the associated premiums paid.

8. Conduit Debt Obligations

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 there-of 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.

9. Lease Arrangements

During the fiscal year ended June 30, 2005, the City entered into an agreement to lease office space in a building it owns to a third party. The initial term of the lease is 6 years with six additional 3 year options. Rent payments began 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.

Effective January 1, 2020, the tenant exercised the fourth of its six options to renew the lease for another 3 year period. Total rent received in this fiscal year under this agreement was $64,500. Future payments to be received by the City during this fourth renewal of the lease for the fiscal years ended June 30th are as follows:

2022	$64,500
2023	$32,250

During the fiscal year ending June 30, 2019, the City entered into an agreement to lease a baseball facility to a third party. The term of the lease is 50 years and shall terminate in August 2069. Lease payments from the third party began on January 1, 2019. The agreement requires annual lease payments of $10,000 plus an additional $3,000 annually for maintenance during the lease period.

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 $750 (524 Kentucky Ave), $1,250 (179 St. Matthews Ave), and $1,350 (169 St. Matthews Ave).

10. Retirement Plan

CERS Plan

Plan description and benefits provided – House Bill 484, passed during the 2020 Regular Session of the Kentucky General Assembly, and House Bill 9, passed during the 2021 Regular Session of the General Assembly, made significant changes to the governance and administrative structure of the Kentucky Retirement Systems. Most notably, the governance of the County Employees Retirement System (CERS) has been transferred to a separate 9-member board of trustees. Another 9-member board of trustees called the Kentucky Retirement Systems oversees the Kentucky Employees Retirement Systems (KERS) and the State Police Retirement System (SPRS). The administrative entity comprising the office of counselors and professional staff that has traditionally been known as the Kentucky Retirement System has changed its name to the Kentucky Public Pensions Authority (KPPA), which is governed by a third 8-member board composed of trustees from CERS and the Kentucky Retirement Systems. CERS, KERS, and SPRS are cost-sharing, multiple employer defined benefit pension and OPEB plans. The City has elected to participate in CERS pursuant to KRS Section 78.530. The Board of Trustees of the Kentucky Retirement Systems and CERS administer the Kentucky Retirement Systems' Insurance Fund (the Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds: (1) KERS; (2) CERS; and (3) SPRS.

The CERS Pension Fund and CERS Insurance Fund cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Non-hazardous employees can retire with full retirement benefits after 27 years of service or age 65. Non-hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. Retirement benefits are determined based upon a maximum of 2.2 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the five highest fiscal years (or last five fiscal years for employees who begin participation on or after September 1, 2008) of salary prior to attainment of the CERS specified age (or age and service combinations).

Hazardous employees can retire with full retirement benefits after 20 years of service or age 55. Hazardous employees who begin participation on or after September 1, 2008 must have 25 years of service or the member is age 60, with a minimum of 60 months of service credit. Retirement benefits are determined based upon a maximum of 2.5 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the three highest fiscal years of salary prior to attainment of the CERS specified age (or age and service combinations).

10. Retirement Plan, continued

CERS Plan, continued

CERS allows non-hazardous and hazardous employees to retire prior to meeting the requirements above and receive partial benefits, providing they meet certain age and service related criteria.

Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits equal the employee's final full-year salary.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of service	% Paid by Insurance Fund	% Paid by Member through Payroll Deductions
20 or more	100%	0%
15 - 19	75%	25%
14 - 10	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Contributions – Benefit and contribution rates are established by state statute. Non-hazardous covered employees are required to contribute 5.00% of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to be allocated as follows: 5.00% will go to the member’s account and 1.00% will go to the Insurance Fund. The City’s contribution rate for non-hazardous employees was 24.06%, 24.06%, and 21.48% for the years ended June 30, 2021, 2020 and 2019, respectively.

10. Retirement Plan, continued

CERS Plan, continued

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9.00% of their salary to be allocated as follows: 8.00% will go to the member’s account and 1.00% will go to the Insurance Fund. The City’s contribution rate for hazardous employees was 39.58%, 39.58%, and 35.34% for the years ended June 30, 2021, 2020 and 2019, respectively.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute 5% (non-hazardous) and 8% (hazardous) of their creditable compensation each month to their own account, and 1% to the Insurance Fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Trustees of the Kentucky Retirement Systems and CERS based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Plan

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2021, the City reported a liability of $14,118,066 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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 actual contributions to the pension plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described previously.

10. Retirement Plan, continued

Pension Plan, continued

For the year ended June 30, 2021, the City recognized pension expense of $1,881,161. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments:		
Hazardous	$ 221,648	$ -
Non-hazardous	107,080	-
Difference between expected and actual experience:		
Hazardous	304,530	-
Non-hazardous	106,708	-
Change of assumptions:		
Hazardous	373,148	-
Non-hazardous	167,093	-
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	-	611,724
Non-hazardous	88,921	70,580
City's contributions subsequent to the measurement date of June 30, 2020:		
Hazardous	537,372	-
Non-hazardous	288,257	-
Total	$ 2,194,757	$ 682,304

10. Retirement Plan, continued

Pension Plan, continued

The deferred outflows of resources related to the City's contributions to the CERS pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. The deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred inflows and outflows of resources related to pensions are amortized and recognized in pension expense over the average expected remaining service life of the entire plan membership, which is 3.14 years for non-hazardous employees and 4.39 years for hazardous employees. The net increase in pension expense related to the amortization of these deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2022	$ 325,582
2023	206,252
2024	61,227
2025	93,763
Total	$ 686,824

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles.

The Board of Trustees of the Kentucky Retirement Systems and CERS have not adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2020, was determined using these assumptions.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

10. Retirement Plan, continued

Pension Plan, continued

The actuarial assumptions for CERS are:

Inflation	2.30 percent
Payroll growth rate	2.0%
Salary increases	3.30% to 10.30%, varies by service for CERS non-hazardous 3.55% to 19.05%, varies by service for CERS hazardous
Investment rate of return	6.25%

The mortality table used for active members was the PUB-2010 General Mortality table, for the Non-Hazardous System, and the PUB-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
Growth:		
US Equity	18.75 %	4.50%
Non-US Equity	18.75 %	5.25%
Private Equity	10.00 %	6.65%
Specialty Credit/High Yield	15.00 %	3.90%
Liquidity:		
Core Bonds	13.50 %	(0.25)%
Cash	1.00 %	(0.75)%
Diversifying Strategies:		
Real Estate	5.00 %	5.30%
Opportunistic	3.00 %	2.25%
Real Return	15.00 %	3.95%
Total	100%	

10. Retirement Plan, continued

Pension Plan, continued

*Discount rat*e – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's share of the net pension liability	$17,436,621	$14,118,066	$11,397,497

OPEB Plan

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2021, the City reported a liability of $4,361,479 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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 actual contributions to the OPEB plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described previously.

10. Retirement Plan, continued

OPEB, continued

For the year ended June 30, 2021, the City recognized OPEB expense of $538,845. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments:		
Hazardous	$ 135,695	$ -
Non-hazardous	44,765	-
Difference between expected and actual experience:		
Hazardous	103,452	301,049
Non-hazardous	225,021	225,197
Change of assumptions:		
Hazardous	491,810	2,778
Non-hazardous	234,263	2,778
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	-	259,641
Non-hazardous	23,273	44,180
City's contributions subsequent to the measurement date of June 30, 2020:		
Hazardous	183,652	-
Non-hazardous	104,146	-
Total	$ 1,546,077	$ 835,623

10. Retirement Plan, continued

OPEB, continued

The deferred outflows of resources related to the City's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. The deferred outflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is 5.92 years for hazardous employees and 4.94 years for non-hazardous employees. The net increase in OPEB expense for future years related to the amortization of deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2022	$ 107,202
2023	63,391
2024	125,516
2025	119,865
2026	6,682
Total	$ 422,656

Actuarial assumptions – For financial reporting the actuarial valuation as of June 30, 2020 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

10. Retirement Plan, continued

OPEB, continued

The actuarial assumptions for CERS are:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service for CERS non-hazardous
	3.55% to 19.05%, varies by service for CERS hazardous
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality:	
Pre-retirement	PUB-2010 General Mortality table for the Non-Hazardous Systems and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

10. Retirement Plan, continued

OPEB, continued

Discount Rate – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34% for the non-hazardous fund and from 5.69% to 5.30% for the hazardous fund. The projection of cash flows used to determine the discount rate of 5.34 % for non-hazardous and 5.30% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of KPPA's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of KPPA's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the pension section above.

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

	1% Decrease (4.30% hazardous) (4.34% non-hazardous)	Current Discount Rate (5.30% hazardous) (5.34% non-hazardous)	1% Increase (6.30% hazardous) (6.34% non-hazardous)
City's share of the net OPEB liability	$ 5,822,590	$ 4,361,479	$ 3,178,161

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

	1% Decrease	Current Trend Rate	1% Increase
City's share of the net OPEB liability	$ 3,197,137	$ 4,361,479	$ 5,788,105

10. Retirement Plan, continued

Deferred Compensation Plans

The City's employees may elect to participate in two deferred compensation plans offered by the Kentucky Public Employees Deferred Compensation Authority under sections 401(k) and 457 of the Internal Revenue Code. Under the plans, employees may defer up to 100% of their compensation after deducting required contributions to the CERS plan. The City does not make matching contributions to these plans.

11. 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.

12. Recent GASB Pronouncements

In June 2017, the GASB issued Statement No. 87 "*Leases*" requiring all leases to be recognized as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the City will recognize: 1) a lease liability for the City's obligation to make payments under the lease agreement, measured on a present value basis; and 2) a right-of-use asset that represents the City's right to use, or control the use of, the specified asset for the lease term. Over the term of the lease, the City will report amortization expense for using the leased asset, interest expense on the lease liability, and note disclosures about the City's leases. Another objective of this Statement is to address government lessors recognition of a lease receivable and deferred inflow, and to report lease revenue, interest income, and note disclosures about the government's leases. This Statement becomes effective for the fiscal year June 30, 2022. The City is evaluating the impact of this Statement on the financial statements.

In May 2019, the GASB issued Statement No. 91 "*Conduit Debt Obligations*" requiring a single method of reporting conduit debt obligations by issuers and eliminating diversity in practice associated with related obligations, commitments, and footnote disclosures. This Statement becomes effective for the fiscal year June 30, 2023. The City is evaluating the impact of this Statement on the financial statements.

13. Subsequent Events

In July 2021, the City received approximately $2.3 million provided from the U.S. Department of Treasury through the Commonwealth of Kentucky as part of the American Rescue Plan Act. Funds received provided to assist with COVID-19 including, but not limited to, support public health expenditures, provide premium pay for essential workers, invest in infrastructure to improve access to clean drinking water or support vital wastewater and storm water or expand access to broadband internet, address negative impacts caused by COVID-19, and replace lost tax revenue. As of December 14, 2021, the City has not determined how these funds will be spent.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. MATTHEWS, KENTUCKY
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees Retirement System
For the Years Ended June 30 for the Last Ten Years

	2021	2020	2019	2018	2017
City's proportionate percentage of the net pension liability:					
Hazardous	0.33 %	0.35 %	0.36 %	0.36 %	0.39 %
Non-hazardous	0.06 %	0.05 %	0.06 %	0.06 %	0.06 %
City's proportionate share of the net pension liability	$14,118,066	$13,566,751	$12,213,113	$12,072,238	$ 9,871,530
City's covered-employee payroll*	$ 3,333,238	$ 4,213,116	$ 4,250,354	$ 4,302,815	$ 4,209,322
City's proportionate share of the net pension liability as a percentage of its covered payroll	423.55 %	322.01 %	287.34 %	280.57 %	234.52 %
Plan fiduciary net position as a percentage of the total pension liability	46.82 %	46.63 %	49.26 %	49.78 %	53.95 %

	2016	2015
City's proportionate percentage of the net pension liability:		
Hazardous	0.41 %	0.41 %
Non-hazardous	0.06 %	0.06 %
City's proportionate share of the net pension liability	$ 8,926,670	$ 7,076,012
City's covered-employee payroll*	$ 4,029,396	$ 3,911,048
City's proportionate share of the net pension liability as a percentage of its covered payroll	221.54 %	180.92 %
Plan fiduciary net position as a percentage of the total pension liability	59.35 %	65.96 %

*The amounts presented for each fiscal year were determined as of the measurement date of the net pension liability, which is as of the City's prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Report of Independent Auditors.

CITY OF ST. MATTHEWS, KENTUCKY
Schedule of City Contributions - Pension
County Employees Retirement System
For the Years Ended June 30 for the Last Ten Years

	2021	2020	2019	2018	2017
Contractually required contribution	$ 825,629	$ 848,295	$ 926,208	$ 830,637	$ 823,193
Contributions in relation to the contractually required contribution	$ 825,629	$ 848,295	$ 926,208	$ 830,637	$ 823,193
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered-employee payroll	$ 3,281,221	$ 3,333,238	$ 4,213,116	$ 4,250,354	$ 4,302,815
Contributions as a percentage of covered employee payroll	25.16 %	25.45 %	21.98 %	19.54 %	19.13 %

	2016	2015
Contractually required contribution	$ 740,760	$ 722,842
Contributions in relation to the contractually required contribution	$ 740,760	$ 722,842
Contribution deficiency (excess)	$ -	$ -
City's covered-employee payroll	$ 4,209,322	$ 4,029,396
Contributions as a percentage of covered employee payroll	17.60 %	17.94 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Report of Independent Auditors.

CITY OF ST. MATTHEWS, KENTUCKY
Schedule of the City's Proportionate Share of the Net OPEB Liability
County Employees Retirement System
For the Years Ended June 30 for the Last Ten Years

	2021	2020	2019	2018
City's proportionate percentage of the net OPEB liability:				
Hazardous	0.33 %	0.35 %	0.36 %	0.39 %
Non-hazardous	0.06 %	0.05 %	0.06 %	0.06 %
City's proportionate share of the net OPEB liability	$ 4,361,479	$ 3,524,219	$ 3,589,101	$ 4,373,725
City's covered-employee payroll*	$ 3,333,238	$ 4,213,116	$ 4,250,354	$ 4,302,815
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	130.85 %	83.65 %	84.44 %	101.65 %
Plan fiduciary net position as a percentage of the total OPEB liability	53.89 %	61.75 %	64.24 %	58.99 %

*The amounts presented for each fiscal year were determined as of the measurement date of the net OPEB liability, which is as of the City's prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Report of Independent Auditors.

CITY OF ST. MATTHEWS, KENTUCKY
Schedule of City OPEB Contributions
County Employees Retirement System
For the Years Ended June 30 for the Last Ten Years

	2021	2020	2019	2018
Contractually required contribution	$ 240,485	$ 249,341	$ 367,877	$ 329,381
Contributions in relation to the contractually required contribution	$ 240,485	$ 249,341	$ 367,877	$ 329,381
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
City's covered-employee payroll	$ 3,281,221	$ 3,333,238	$ 4,213,116	$ 4,250,354
Contributions as a percentage of covered employee payroll	7.33 %	7.48 %	8.73 %	7.75 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Report of Independent Auditors.

OTHER SUPPLEMENTARY INFORMATION

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

To the Honorable Mayor and 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 (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
December 14, 2021

CITY OF ST. MATTHEWS, KENTUCKY

Summary of Prior Year Audit Findings

Year Ended June 30, 2021

2020-01 Accurate and Complete Financial Information

Criteria: Generally accepted accounting principles require that an entity have internal controls in place that enable it to ensure all financial information and adjustments are properly included in the City's financial statements.

Condition: The City did not have proper internal controls in place to ensure all financial information and adjustments were properly included in the City's financial statements.

Cause: In the prior year, the City lacked personnel with the expertise to prepare its financial statements, including note disclosures, in conformity with generally accepted accounting standards.

Effect: The City did not properly accrue for vacation and unused sick leave, resulting in a prior period adjustment that affected beginning net position as of July 1, 2019. The City also did not properly record the deferred outflow of resources for contributions made to the County Employees Retirement System plan subsequent to the actuarial measurement date of the plan, resulting in an adjustment to the beginning net position as of July 1, 2019.

Current Status: The City of St. Matthews has taken significant steps to improve proper controls of all financial information and adjustments. The City hired the CPA firm of Stephens and Lawson to serve in a consulting capacity and assist with the bookkeeping and financial reporting.