



Financial Statements and Supplementary Information

for

**CITY OF ST. MATTHEWS, KENTUCKY**

Year Ended June 30, 2022  
with Report of Independent Auditors

## CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 3
Management's Discussion and Analysis.....	4 - 10
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	16
Notes to the Financial Statements.....	17 - 39
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability.....	40
Schedule of City Pension Contributions.....	41
Schedule of the City's Proportionate Share of the Net OPEB Liability.....	42
Schedule of City OPEB Contributions.....	43
Notes to the Supplementary Information.....	44 - 45
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 <i>Government         Auditing Standards</i> .....	46 - 47

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited 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 June 30, 2022, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of the City, as of June 30, 2022, and the changes in its 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 (GAAP).

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, effective July 1, 2021, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Report on the Audit of the Financial Statements, continued**

### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on the Audit of the Financial Statements, continued**

***Required Supplementary Information***

GAAP requires that the Management's Discussion and Analysis on pages 4 - 10 and the Supplementary Pension and OPEB Information on pages 40 - 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the 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 GAAS, 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 audits 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 13, 2022 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 13, 2022

## CITY OF ST. MATTHEWS, KENTUCKY

### Management's Discussion and Analysis

Year Ended June 30, 2022

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 11.

#### Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$36,823,173 (net position) for this fiscal year. This is an increase over the prior year figure of \$33,252,051.
- 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 83.36% 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 occupational tax collections returning to pre-covid numbers as well as funding received under the CARES Act as well as the American Rescue Plan Act (ARPA) program.
- Total expenses of the City decreased to \$14,649,903 during this fiscal year of which \$1,404,185 was for depreciation expense on capital assets.
- The City shows a long-term liability in the amount of \$733,472 for compensated absences in this fiscal year as well as the City's proportionate share of the unfunded liabilities for pension (\$11,657,719) and other-post employment benefits (OPEB) (\$3,537,666). The increase in compensated absences from year-to-year was just over \$18,000. The pension obligation decreased by more than \$2.4 million over the previous year and the OPEB liability decreased by approximately \$834,000.
- During this fiscal year, the City received \$4,770,384 in funding from the federal government under the ARPA program. The City spent \$629,218 of these funds during this fiscal year; the remaining unspent funds are shown as Unearned Revenue in both the statement of net position as well as the balance sheet – governmental funds.
- As further discussed on page 20 of this report, the City adopted a new accounting standard related to leases. The City is the lessor of several properties within the City of St. Matthews. Under this standard the City is required, under certain conditions, to recognize a receivable for payments to be received in the future from its tenants as well as a deferred inflow of resources for the tenants right to use the property.

## **CITY OF ST. MATTHEWS, KENTUCKY**

### **Management's Discussion and Analysis, (continued)**

**Year Ended June 30, 2022**

#### **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, 2022 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 11. 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.

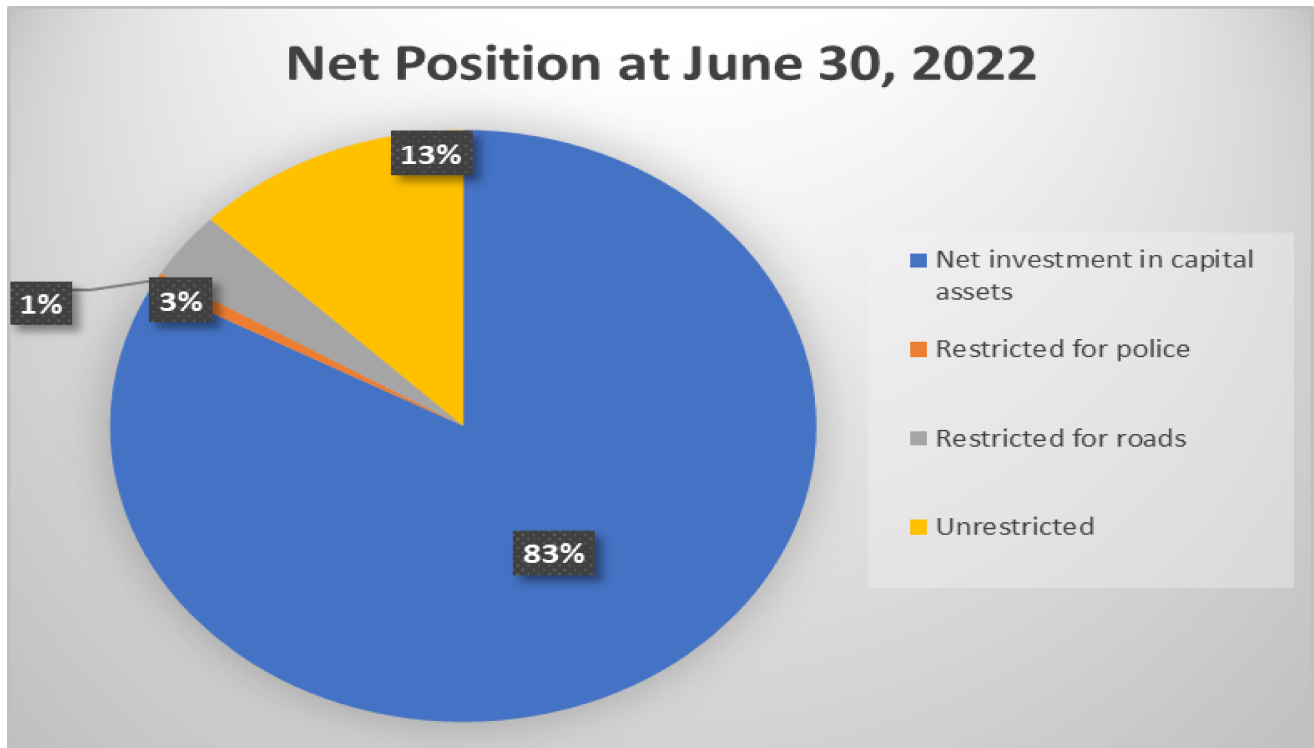
These two statements report the City's net position and changes in them. One can think of the City's net position as one way to measure the City's health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

**Management's Discussion and Analysis, (continued)**

**Year Ended June 30, 2022**

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 called 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, 2022 is displayed in the chart below.



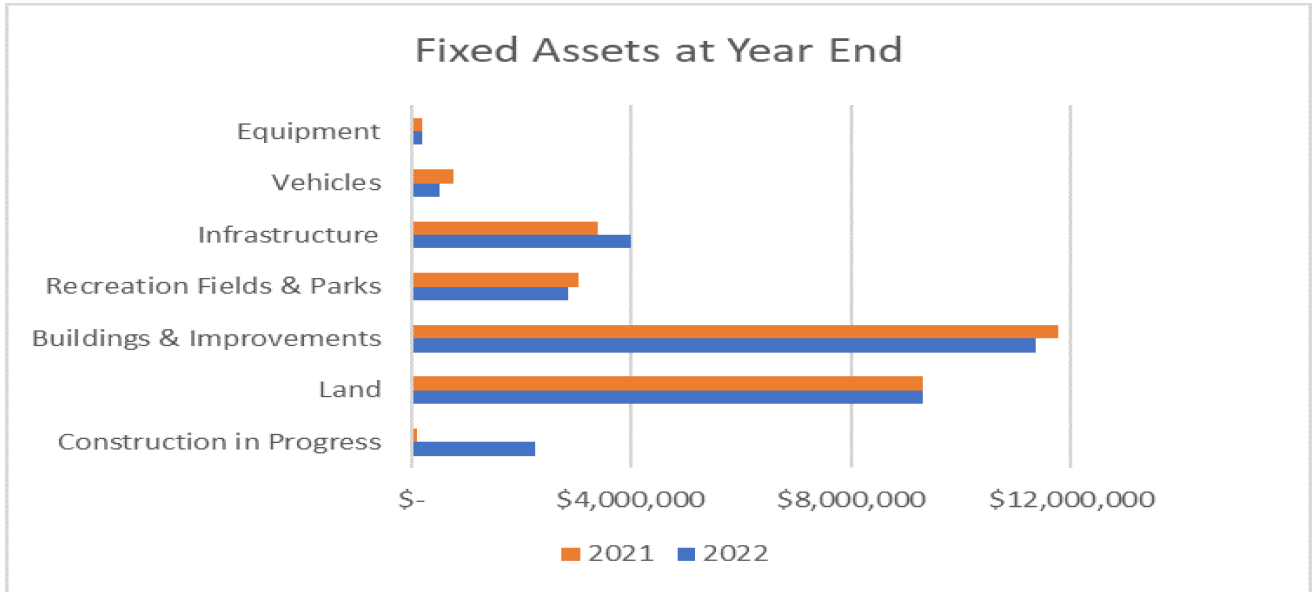
As you can see the majority of the City's net position is comprised of its investment in capital assets. The City placed in service approximately \$1.1 million in new capital assets this year, with the majority of that being in the form of infrastructure projects within the City. Capital assets of the City are depreciated 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 an increase of just over \$1.8 million at June 30, 2022 as compared to the previous year. The net book value of the City's capital assets is displayed below:



CITY OF ST. MATTHEWS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2022



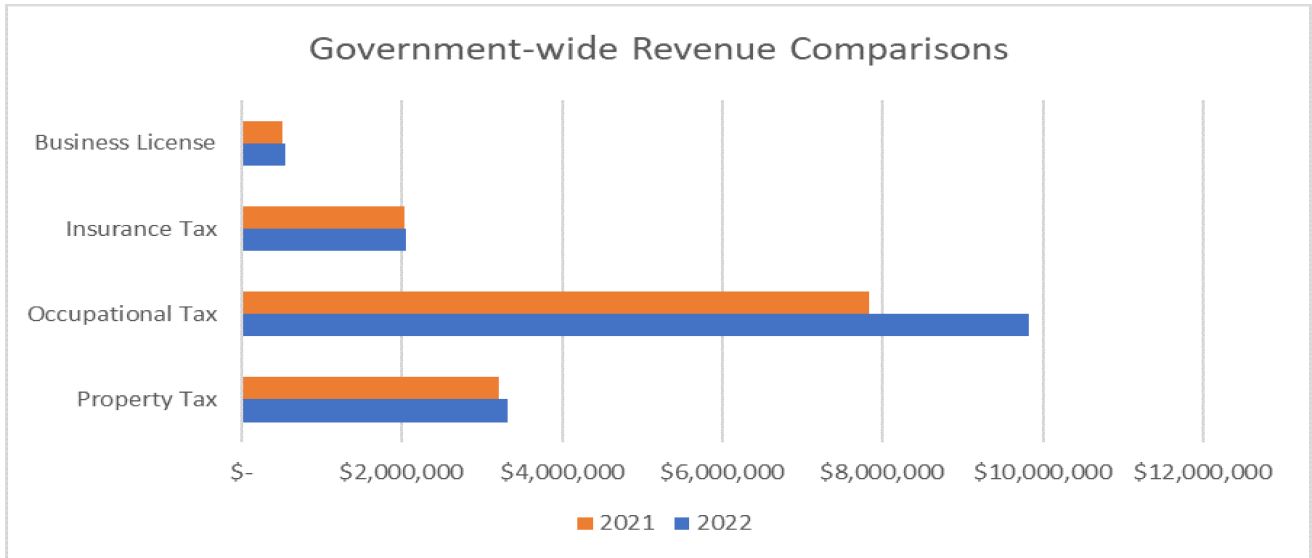
In addition to fixed assets, the statement of net position also shows the liabilities of the City. The largest two liabilities of the City relate to its participation in the County Employees Retirements System and the City's share of the unfunded pension and OPEB liabilities of that system. As of June 30, 2022, the City's pension obligation decreased by \$2,460,347 as compared to the prior year to \$11,657,719 while the City's OPEB obligation decreased by \$833,813 to \$3,527,666 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

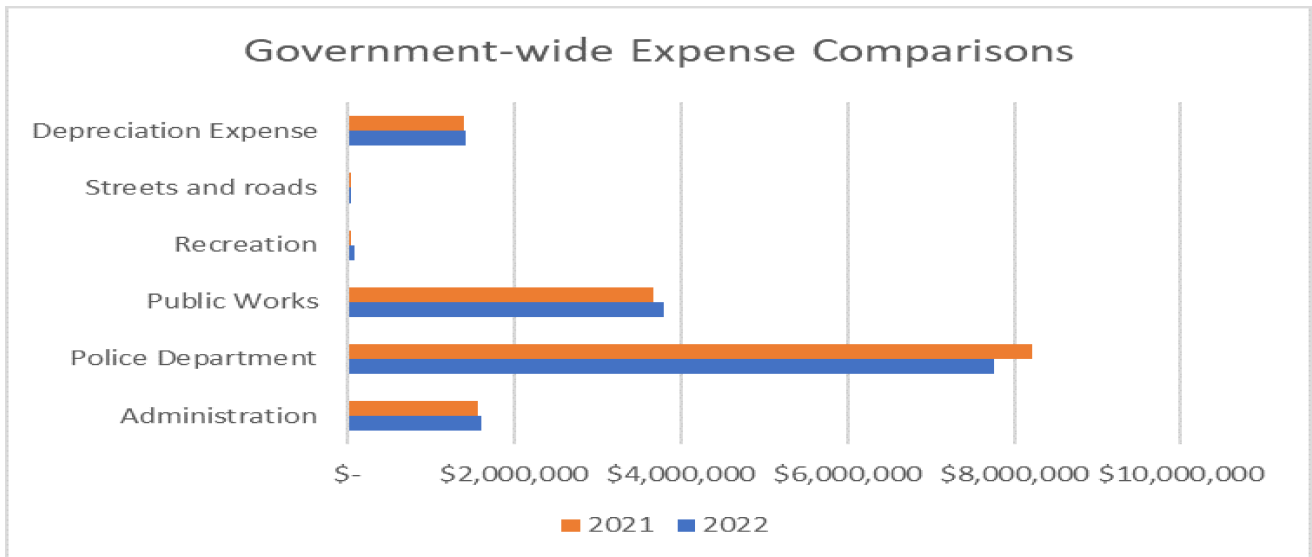
**Management's Discussion and Analysis, (continued)**

**Year Ended June 30, 2022**

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 \$1,566,724. The most significant change from year-to-year was the increase in occupational taxes to just over \$9.8 million. Other selective changes from year to year are noted below.



Expenses of the City were \$14,649,903 for the fiscal year ended June 30, 2022, of which \$1,404,185 was the current depreciation expense on capital assets as previously discussed. Changes from year-to-year are as follows:



**CITY OF ST. MATTHEWS, KENTUCKY**

**Management's Discussion and Analysis, (continued)**

**Year Ended June 30, 2022**

**Fund Financial Statements**

The second component of the annual report is the fund financial statements which begin on page 13. 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 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 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 \$1.9 million during the fiscal year ended June 30, 2022 as compared to the prior year. This increase in fund balance was driven in large part by an increase revenue from occupational taxes. Fund balance for the municipal road aid fund decreased during this fiscal year by approximately \$545,000. The decrease was due to an increase in capital outlay costs related to infrastructure projects within the City.

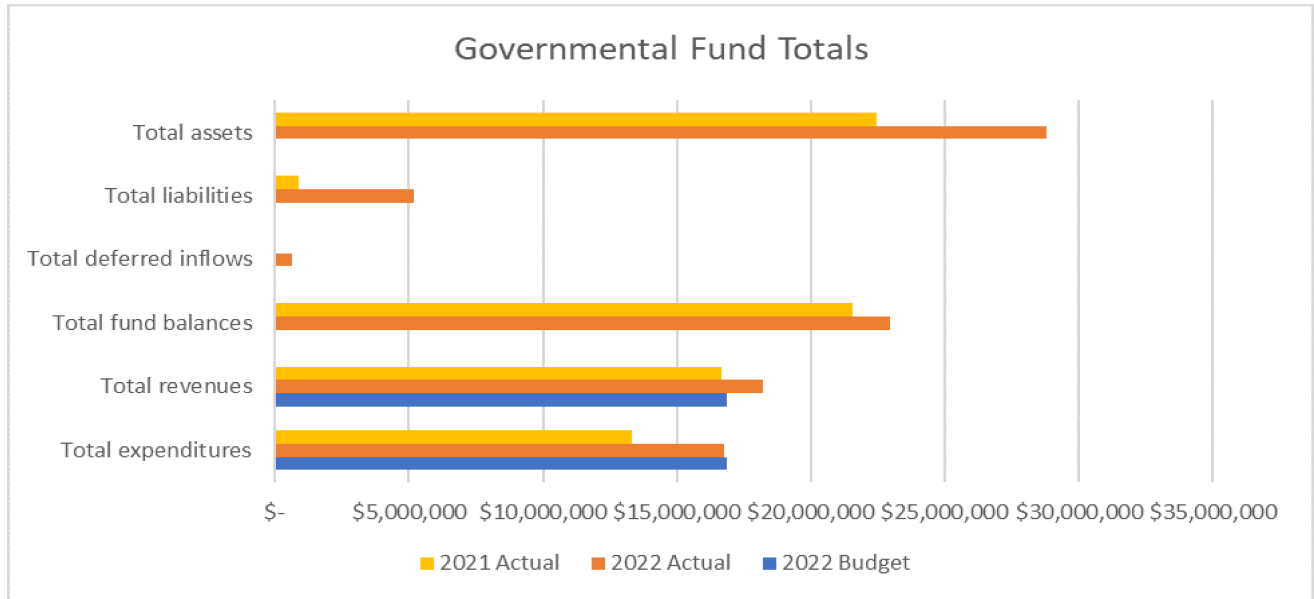
General fund revenues increased by \$1,504,184 to \$17,783,836 during this fiscal year which were \$1,492,686 more than the \$16,291,150 that was budgeted, excluding reserves. General fund expenditures increased by \$3,238,618 to \$15,851,632 during this fiscal year which were \$985,705 less than the amount budgeted. The municipal road aid fund had a smaller increase in revenues of \$16,396 to \$358,577 for this fiscal year which was \$34,077 more than the budgeted revenue amount of \$324,500, excluding reserves. Municipal road aid fund expenses increased by \$232,186 as compared to the prior year, but were still less than the \$866,500 that was budgeted.

**CITY OF ST. MATTHEWS, KENTUCKY**

**Management's Discussion and Analysis, (continued)**

**Year Ended June 30, 2022**

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 light of the ongoing changes to the economy caused by the Covid pandemic as well as the impact of the international issues going on in eastern Europe, the City passed a fiscally prudent budget for fiscal year 2023. General fund revenues were budgeted to be \$16,976,700 which is an increase of over \$600,000 over the amount budgeted for fiscal year 2022. General fund expenditures were budgeted to be \$19,454,851 which is an increase of \$2.6 million when compared to that same amount in fiscal year 2022. These increased cost stem from increasing pension costs as well as ongoing capital projects within the City.

**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, 2022

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 18,917,626
Cash and cash equivalents - restricted	6,008,633
Investments	153,029
Receivables	3,014,633
Leases receivable, net	602,738
Prepaid expenses	86,834
Capital assets, net	<u>30,498,124</u>
Total assets	<u>\$ 59,281,617</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount related to pension plan	\$ 1,596,946
Deferred amount related to OPEB	<u>1,557,355</u>
Total deferred outflows of resources	<u>\$ 3,154,301</u>
<b>Liabilities</b>	
Accounts payable	\$ 834,640
Confiscated funds payable	177,380
Unearned revenue	4,141,166
Compensated absences	733,472
User deposits	6,100
Pension obligation	11,657,719
OPEB obligation	<u>3,527,666</u>
Total liabilities	<u>\$ 21,078,143</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount related to pension plan	\$ 2,329,965
Deferred amount related to OPEB	1,615,893
Deferred amount related to rental income	<u>588,744</u>
Total deferred inflows of resources	<u>\$ 4,534,602</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 30,498,124
Restricted for police	290,391
Restricted for roads	1,355,984
Unrestricted	<u>4,678,674</u>
Total net position	<u>\$ 36,823,173</u>

See accompanying notes.

**CITY OF ST. MATTHEWS, KENTUCKY**

Statement of Activities

Year Ended June 30, 2022

	<u>Governmental Activities</u>
Expenses:	
Administration	\$ 1,601,104
Police department	7,755,836
Public works	3,786,738
Recreation	73,201
Streets and roads	28,839
Depreciation expense	<u>1,404,185</u>
Total expenses	14,649,903
General revenues:	
Property tax	3,313,090
Occupational tax	9,835,833
Insurance tax	2,040,091
Franchise tax	149,995
Business license tax	541,281
Bank deposit tax	199,132
Charges for services	579,796
Intergovernmental revenue	1,219,916
CARES Act funding	135,554
Insurance refunds	39,314
Interest income	57,104
Gain on disposal of equipment	56,492
Penalties and interest	26,490
Other	<u>26,937</u>
Total general revenues	<u>18,221,025</u>
Change in net position	3,571,122
Net position, beginning of year	<u>33,252,051</u>
Net position, end of year	<u>\$ 36,823,173</u>

*See accompanying notes.*

## **FUND FINANCIAL STATEMENTS**



**CITY OF ST. MATTHEWS, KENTUCKY**

Balance Sheet - Governmental Funds

June 30, 2022

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 18,917,626	\$ -	\$ 18,917,626
Cash and cash equivalents - restricted	4,611,112	1,397,521	6,008,633
Investments	153,029	-	153,029
Taxes and intergovernmental receivables	3,014,633	-	3,014,633
Leases receivable	602,738	-	602,738
Prepaid expenses	<u>86,834</u>	<u>-</u>	<u>86,834</u>
Total assets	<u>\$ 27,385,972</u>	<u>\$ 1,397,521</u>	<u>\$ 28,783,493</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 793,103	\$ 41,537	\$ 834,640
Confiscated funds payable	177,380	-	177,380
Unearned revenue	4,141,166	-	4,141,166
User deposits	<u>6,100</u>	<u>-</u>	<u>6,100</u>
Total liabilities	5,117,749	41,537	5,159,286
Deferred inflows of resources:			
Rental income	588,744	-	588,744
Unavailable revenue	<u>63,920</u>	<u>-</u>	<u>63,920</u>
Total deferred inflows of resources	652,664	-	652,664
Fund balances:			
Nonspendable	86,834	-	86,834
Restricted for police	290,391	-	290,391
Restricted for roads	-	1,355,984	1,355,984
Unassigned	<u>21,238,334</u>	<u>-</u>	<u>21,238,334</u>
Total fund balances	<u>21,615,559</u>	<u>1,355,984</u>	<u>22,971,543</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 27,385,972</u>	<u>\$ 1,397,521</u>	<u>\$ 28,783,493</u>

See accompanying notes.

**CITY OF ST. MATTHEWS, KENTUCKY**

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

June 30, 2022

Total fund balances for governmental funds	\$ 22,971,543
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.	63,920
Capital assets used in governmental activities are not financial resources, and therefore, not reported in the governmental funds.	30,498,124
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.	(12,390,738)
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.	(3,586,204)
Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.	<u>(733,472)</u>
Total net position of governmental activities	\$ <u>36,823,173</u>

*See accompanying notes.*

**CITY OF ST. MATTHEWS, KENTUCKY**

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

Year Ended June 30, 2022

	Total Budget	Actual			Over (Under) Budget
		General Fund	Municipal Road Aid Fund	Total Governmental Funds	
Revenues:					
Property tax	\$ 3,228,000	\$ 3,290,970	\$ -	\$ 3,290,970	\$ 62,970
Occupational tax	7,700,000	9,835,833	-	9,835,833	2,135,833
Charges for services	136,700	579,796	-	579,796	443,096
Franchise tax	140,000	149,995	-	149,995	9,995
Insurance tax	2,030,000	2,040,091	-	2,040,091	10,091
Bank deposit tax	210,000	199,132	-	199,132	(10,868)
Intergovernmental revenue	2,524,000	862,653	357,263	1,219,916	(1,304,084)
CARES Act funding	-	135,554	-	135,554	135,554
License and permits	536,000	541,281	-	541,281	5,281
Insurance refunds	-	39,314	-	39,314	39,314
Interest income	37,500	55,790	1,314	57,104	19,604
Penalties and interest	26,700	26,490	-	26,490	(210)
Other	31,750	26,937	-	26,937	(4,813)
Reserve	1,088,187	-	-	-	(1,088,187)
<b>Total revenues</b>	<b>17,688,837</b>	<b>17,783,836</b>	<b>358,577</b>	<b>18,142,413</b>	<b>453,576</b>
Expenditures:					
Administration	1,528,761	1,541,536	-	1,541,536	12,775
Police department	8,271,022	8,125,973	-	8,125,973	(145,049)
Public works	3,957,529	3,737,539	28,839	3,766,378	(191,151)
Recreation	72,225	73,201	-	73,201	976
Capital outlay	3,874,300	2,373,383	896,311	3,269,694	(604,606)
<b>Total expenditures</b>	<b>17,703,837</b>	<b>15,851,632</b>	<b>925,150</b>	<b>16,776,782</b>	<b>(927,055)</b>
Excess of revenues over expenditures (expenditures over revenues)	(15,000)	1,932,204	(566,573)	1,365,631	1,380,631
Other financing sources:					
Proceeds from sale of equipment	15,000	56,892	-	56,892	41,892
Transfers					
Transfers to (from) other funds	-	(21,173)	21,173	-	-
<b>Net change in fund balances</b>	<b>\$ -</b>	<b>1,967,923</b>	<b>(545,400)</b>	<b>1,422,523</b>	<b>\$ 1,422,523</b>
Fund balances, beginning of year		19,647,636	1,901,384	21,549,020	
Fund balances, end of year		\$21,615,559	\$ 1,355,984	\$ 22,971,543	

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, 2022

Net change in fund balances - total governmental funds	\$ 1,422,523
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 \$41,799 and the current year amount of \$63,920.	22,121
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 \$3,269,694 were greater than depreciation of \$1,404,185.	1,865,509
Net difference between pension and OPEB plan contributions of \$1,331,242 reported as expense in governmental funds and the pension and OPEB expense of \$1,051,546 recorded in the statement of activities.	279,696
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.	(400)
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. This is the amount by which the compensated absences accrued in the prior year of \$715,145 increased to the current year balance of \$733,472.	<u>(18,327)</u>
Change in net position of governmental activities	<u>\$ 3,571,122</u>

See accompanying notes.

# CITY OF ST. MATTHEWS, KENTUCKY

## Notes to the Financial Statements

### 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, 2022. 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 Kentucky 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.

#### **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.

# CITY OF ST. MATTHEWS, KENTUCKY

## Notes to the Financial Statements, continued

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

#### Government-Wide Financial Statements, continued

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.

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.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### **Government-Wide Financial Statements, continued**

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 11.

##### **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.

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.

CITY OF ST. MATTHEWS, KENTUCKY

Notes to the Financial Statements, continued

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

**Measurement Focus and Basis of Accounting, continued**

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.

**Adoption of New Accounting Standard**

Effective July 1, 2021, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognize inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Net position has not been impacted as a result of the implementation of GASB 87. The table below reflects the impact on the financial statement amounts from implementation of GASB 87.

	<u>Leases Receivable</u>	<u>Deferred Inflows related to Rental Income</u>
June 30, 2021	\$ -	\$ -
Adjustment from implementation of GASB 87	<u>662,228</u>	<u>662,228</u>
July 1, 2021, as restated	<u>\$ 662,228</u>	<u>\$ 662,228</u>



# CITY OF ST. MATTHEWS, KENTUCKY

## Notes to the Financial Statements, continued

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

#### **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.

#### **Cash and Cash Equivalents - Restricted**

The City had restricted cash and cash equivalents as of June 30, 2022, 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.

#### **Leases**

Leases are contracts that convey control of a right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

##### *Short-term Leases*

For leases with a maximum term of 12-months or less at the commencement date of the lease, the City recognizes rental income or expense as amounts become due under the lease agreement.

##### *The City as Lessor*

The City, as a lessor, has lease agreements involving a baseball facility and other buildings with maturity dates through August 2069 (see note 10).

Leases receivable represent the present value of payments expected to be received during the lease term, reduced by a provision for estimated uncollectible amounts, if necessary. Lease payments are discounted to present value using the rate implicit in the lease. In subsequent years, amortization of the discount is recognized as interest income and included within rental income.

Variable payments based on the future performance of the lessee, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the leases receivable. Those variable payments are recognized as rental income in the period to which those payments relate.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### Leases, continued

At commencement of the lease, a deferred inflow of resources is recorded in an amount equal to the corresponding leases receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflow of resources is recognized as rental income in a systematic and rational manner (generally, straight-line approach) over the term of the lease.

Subsequent to the commencement of the lease, the leases receivable and the deferred inflow of resources are remeasured if certain criteria are met.

##### 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 \$290,391 for utilization by police and \$1,355,984 for road improvements as of June 30, 2022.

***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, 2022 consisted of \$86,834 of prepaid expenses.

***Restricted*** – Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The City had restricted funds of \$290,391 for utilization by police and \$1,355,984 for road improvements as of June 30, 2022.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### **Net Position/Fund Balances, continued**

**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, 2022.

**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, 2022.

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

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

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

**Subsequent Events**

Management has evaluated subsequent events for accounting and disclosure requirements through December 13, 2022, 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, 2022 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Investments**

At June 30, 2022, the City's investment balances were as follows:

	<u>Maturity</u>	<u>Fair Value</u>
Certificates of deposit:		
Interest rate of 0.30%	9/30/2022	\$ 88,815
Interest rate of 0.20%	5/07/2023	<u>64,214</u>
Total		<u>\$ 153,029</u>

*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.

*Concentration of Credit Risk* – 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**2. Deposits and Investments, continued**

**Investments, continued**

*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. As of June 30, 2022, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

**3. Receivables**

Receivables at June 30, 2022 consisted of the following:

Property tax	\$	64,780
Occupational tax		2,417,498
Insurance tax		510,500
KLEFPF (police incentive)		15,990
Local law enforcement		<u>5,865</u>
Total receivables	\$	<u><u>3,014,633</u></u>

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$ 9,300,315	\$ -	\$ -	\$ 9,300,315
Buildings and improvements	16,237,580	99,036	-	16,336,616
Recreation fields and parks	4,832,796	-	-	4,832,796
Infrastructure	7,464,868	979,989	-	8,444,857
Vehicles	3,102,099	-	(226,390)	2,875,709
Equipment	1,073,631	20,056	-	1,093,687
Construction in progress	<u>101,955</u>	<u>2,480,720</u>	<u>(310,107)</u>	<u>2,272,568</u>
Total capital assets	42,113,244	3,579,801	(536,497)	45,156,548
Less accumulated depreciation				
Buildings and improvements	(4,449,229)	(514,231)	-	(4,963,460)
Recreation fields and parks	(1,788,097)	(200,645)	-	(1,988,742)
Infrastructure	(4,065,625)	(391,451)	-	(4,457,076)
Vehicles	(2,319,772)	(249,940)	225,990	(2,343,722)
Equipment	<u>(857,506)</u>	<u>(47,918)</u>	<u>-</u>	<u>(905,424)</u>
Total accumulated depreciation	<u>(13,480,229)</u>	<u>(1,404,185)</u>	<u>225,990</u>	<u>(14,658,424)</u>
Capital assets, net	<u>\$ 28,633,015</u>	<u>\$ 2,175,616</u>	<u>\$ (310,507)</u>	<u>\$ 30,498,124</u>

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 5. American Rescue Plan Act Funds

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law. As a result of ARPA, the U.S. Department of Treasury provided funding to all of the States to help local, county and State governments recover from the impacts of the Coronavirus pandemic. Funds received were provided to assist with Coronavirus-related matters 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 the Coronavirus pandemic, and replace lost tax revenue. During the current fiscal year, the City received \$4,770,384 in ARPA funding from the U.S. Department of Treasury through the Commonwealth of Kentucky. Upon receipt of these funds the City recorded unearned revenue until the funds are expended for their intended purpose, at which point the corresponding revenue is recorded. As of June 30, 2022, the City has recorded revenue of \$629,218 for the amounts expended for premium pay for its police officers. The remaining \$4,141,166 is reported as unearned revenue in the accompanying financial statements. The City expects to utilize these funds within the next fiscal year.

#### 6. 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, 2021, the taxable value of real and certain personal property, as assessed by the PVA, was \$2,679,053,046. 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 \$3,290,970 for the year ended June 30, 2022.

#### 7. 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.

#### 8. 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.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 9. 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.

#### 10. 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	\$64,500
Option 6	\$69,500

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 10. Lease Arrangements, continued

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 parking 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. In determining the amount of lease receivable, the City has considered all renewal periods because it is probable that the lessee will renew the lease.

During the fiscal year ended 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.

During the year ended June 30, 2022, the City recognized \$59,133 in rental income including \$31,760 in interest income related to these leases. The leases receivable and deferred inflow of resources related to rental income were \$602,738 and \$588,744, respectively, at June 30, 2022.

#### 11. Retirement Plan

##### CERS Plan

CERS is governed by a 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 is the Kentucky Public Pensions Authority (KPPA). It is governed by a third 8-member board composed of trustees from CERS and the Kentucky Retirement Systems. CERS is a cost-sharing, multiple employer defined benefit pension and OPEB plan. 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.

*Plan description and benefits provided* – 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 actuarially determined, per KRS Section 78.454(33), each year. CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the KPPA, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.



**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**CERS Plan, continued**

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).

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:

<u>Years of service</u>	<u>% Paid by Insurance</u>	
	<u>Fund</u>	<u>% Paid by Member</u>
20 or more	100%	0%
15 - 19	75%	25%
14 - 10	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 11. Retirement Plan, continued

##### CERS Plan, continued

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 26.95%, 24.06% and 24.06% for the years ended June 30, 2022, 2021 and 2020, respectively.

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 44.33%, 39.58% and 39.58% for the years ended June 30, 2022, 2021 and 2020, 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**Pension Plan**

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* – At June 30, 2022, the City reported a liability of \$11,657,719 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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](http://www.kyret.ky.gov) or can be obtained as described previously.

For the year ended June 30, 2022, the City recognized pension expense of \$817,191. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments:		
Hazardous	\$ -	\$ 854,402
Non-hazardous	-	492,994
Difference between expected and actual experience:		
Hazardous	219,479	-
Non-hazardous	42,474	35,900
Change of assumptions:		
Hazardous	99,405	-
Non-hazardous	49,643	-
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	-	926,503
Non-hazardous	159,602	20,166
City’s contributions subsequent to the measurement date:		
Hazardous	694,550	-
Non-hazardous	331,793	-
<b>Total</b>	<b><u>\$ 1,596,946</u></b>	<b><u>\$ 2,329,965</u></b>

CITY OF ST. MATTHEWS, KENTUCKY

Notes to the Financial Statements, continued

11. 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, 2023. The deferred inflows 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 3.07 years for non-hazardous employees and 4.39 years for hazardous employees. The net decrease in pension expense related to the amortization of these deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2022	\$ (334,165)
2023	(474,639)
2024	(472,927)
2025	<u>(477,631)</u>
Total	\$ <u>(1,759,362)</u>

*Actuarial assumptions* – For financial reporting, the actuarial valuation as of June 30, 2021 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ended June 30, 2021 using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions. There were no other material plan provision changes.

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%

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**Pension Plan, continued**

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 2019. 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	21.75 %	5.70%
Non-US Equity	21.75 %	6.35%
Private Equity	10.00 %	9.70%
Specialty Credit/High Yield	15.00 %	2.80%
Liquidity:		
Core Bonds	10.00 %	0.00%
Cash	1.50 %	(0.60)%
Diversifying Strategies:		
Real Estate	10.00 %	5.40%
Real Return	10.00 %	4.55%
Total	100.00 %	

*Discount rate* – 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 required 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**Pension Plan, continued**

*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:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City's share of the net pension liability	\$14,888,633	\$11,657,719	\$ 9,011,493

**OPEB Plan**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* – At June 30, 2022, the City reported a liability of \$3,527,666 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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](http://www.kyret.ky.gov) or can be obtained as described previously.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**OPEB, continued**

For the year ended June 30, 2022, the City recognized OPEB expense of \$234,355. At June 30, 2022, 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	\$ -	\$ 454,988
Non-hazardous	-	173,704
Difference between expected and actual experience:		
Hazardous	75,536	260,060
Non-hazardous	174,608	331,523
Change of assumptions:		
Hazardous	606,200	903
Non-hazardous	294,383	1,032
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	-	360,153
Non-hazardous	47,523	33,530
City's contributions subsequent to the measurement date:		
Hazardous	231,980	-
Non-hazardous	127,125	-
<b>Total</b>	<b>\$ 1,557,355</b>	<b>\$ 1,615,893</b>

CITY OF ST. MATTHEWS, KENTUCKY

Notes to the Financial Statements, continued

11. 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, 2023. The deferred inflows 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 5.90 years for hazardous employees and 4.92 years for non-hazardous employees. The net decrease or 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	\$ (120,210)
2023	(64,103)
2024	(69,096)
2025	(180,610)
2026	16,376
Total	\$ <u>(417,643)</u>

*Actuarial assumptions* – For financial reporting the actuarial valuation as of June 30, 2021 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions. 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, 2020 valuation process and was updated to better reflect the plans' anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.



**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. 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 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65 Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**OPEB, continued**

*Discount Rate* – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20% for the non-hazardous fund and from 5.30% to 5.05% for the hazardous fund. The projection of cash flows used to determine the discount rate of 5.20% for non-hazardous and 5.05% 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 1.92%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 28, 2021. 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 (4.05% hazardous) (4.20% non-hazardous)	Current Discount Rate (5.05% hazardous) (5.20% non-hazardous)	1% Increase (6.05% hazardous) (6.20% non-hazardous)
	<hr/>	<hr/>	<hr/>
City's share of the net OPEB liability	\$ 5,029,150	\$ 3,527,666	\$ 2,314,178

*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
	<hr/>	<hr/>	<hr/>
City's share of the net OPEB liability	\$ 2,383,279	\$ 3,527,666	\$ 4,923,747

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 11. 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.

#### 12. 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.

#### 13. Recent GASB Pronouncements

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 ending June 30, 2023. The City is evaluating the impact of this statement on the financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, requiring all SBITAs to be recognized as a right to use subscription intangible asset and a corresponding subscription liability, unless the SBITA is a short-term agreement (generally an agreement with a term of twelve months or less). At the commencement date of the agreement, the City will recognize: 1) a subscription liability for the City's obligation to make payments under the SBITA, measured on a present value basis; and 2) a right to use subscription asset that represents the City's right to use, or control the use of, the specified asset for the SBITA term. Over the term of the SBITA, the City will report amortization expense for using the subscription asset, interest expense on the lease liability, and note disclosures about the City's SBITAs. This statement becomes effective for the fiscal year ending June 30, 2023. The City is evaluating the impact of this statement on the financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, requiring the City to recognize liabilities for compensated absences for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement becomes effective for the fiscal year ending June 30, 2025. The City is evaluating the impact of this statement on the financial statements.

**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**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
City's proportionate percentage of the net pension liability:					
Hazardous	0.30 %	0.33 %	0.35 %	0.36 %	0.36 %
Non-hazardous	0.06 %	0.06 %	0.05 %	0.06 %	0.06 %
City's proportionate share of the net pension liability	\$11,657,719	\$14,118,066	\$13,566,751	\$12,213,113	\$12,072,238
City's covered-employee payroll*	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116	\$ 4,250,354	\$ 4,302,815
City's proportionate share of the net pension liability as a percentage of its covered payroll	355.29 %	423.55 %	322.01 %	287.34 %	280.57 %
Plan fiduciary net position as a percentage of the total pension liability	55.95 %	46.82 %	46.63 %	49.26 %	49.78 %
	<u>2017</u>	<u>2016</u>	<u>2015</u>		
City's proportionate percentage of the net pension liability:					
Hazardous	0.39 %	0.41 %	0.41 %		
Non-hazardous	0.06 %	0.06 %	0.06 %		
City's proportionate share of the net pension liability	\$ 9,871,530	\$ 8,926,670	\$ 7,076,012		
City's covered-employee payroll*	\$ 4,209,322	\$ 4,029,396	\$ 3,911,048		
City's proportionate share of the net pension liability as a percentage of its covered payroll	234.52 %	221.54 %	180.92 %		
Plan fiduciary net position as a percentage of the total pension liability	53.95 %	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.

*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**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 1,026,343	\$ 825,629	\$ 848,295	\$ 926,208	\$ 830,637
Contributions in relation to the contractually required contribution	\$ 1,026,343	\$ 825,629	\$ 848,295	\$ 926,208	\$ 830,637
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116	\$ 4,250,354
Contributions as a percentage of covered employee payroll	28.36 %	25.16 %	25.45 %	21.98 %	19.54 %
	<u>2017</u>	<u>2016</u>	<u>2015</u>		
Contractually required contribution	\$ 823,193	\$ 740,760	\$ 722,842		
Contributions in relation to the contractually required contribution	\$ 823,193	\$ 740,760	\$ 722,842		
Contribution deficiency (excess)	\$ -	\$ -	\$ -		
City's covered-employee payroll	\$ 4,302,815	\$ 4,209,322	\$ 4,029,396		
Contributions as a percentage of covered employee payroll	19.13 %	17.60 %	17.94 %		

*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**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
City's proportionate percentage of the net OPEB liability:					
Hazardous	0.30 %	0.33 %	0.35 %	0.36 %	0.39 %
Non-hazardous	0.06 %	0.06 %	0.05 %	0.06 %	0.06 %
City's proportionate share of the net OPEB liability	\$ 3,527,666	\$ 4,361,479	\$ 3,524,219	\$ 3,589,101	\$ 4,373,725
City's covered-employee payroll*	\$ 3,281,221	\$ 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	107.51 %	130.85 %	83.65 %	84.44 %	101.65 %
Plan fiduciary net position as a percentage of the total OPEB liability	64.16 %	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.

*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**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 305,354	\$ 240,485	\$ 249,341	\$ 367,877	\$ 329,381
Contributions in relation to the contractually required contribution	\$ 305,354	\$ 240,485	\$ 249,341	\$ 367,877	\$ 329,381
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116	\$ 4,250,354
Contributions as a percentage of covered employee payroll	8.44 %	7.33 %	7.48 %	8.73 %	7.75 %

*See Report of Independent Auditors.*



## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Supplementary Information

1. Each of the supplemental schedules is intended to show information for ten years. Additional years will be displayed as they become available.
2. The following summarizes key changes in assumptions and benefit terms from year to year.

Changes in Assumptions and Benefit Terms from 2020 to 2021: Since the prior measurement date, there have been no significant assumption changes. However, 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. Additionally, House Bill 271, passed during the 2020 Legislative Session, removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries.

Changes in Assumptions and Benefit Terms from 2019 to 2020: Since the prior measurement date, annual salary increases were updated based on the 2018 Experience Study; annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study; the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members; the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees; and the assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003.

Changes in Assumptions and Benefit Terms from 2018 to 2019: Since the prior measurement date, there were no changes in actuarial assumptions. During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members were increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children were increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Changes in Assumptions and Benefit Terms from 2017 to 2018: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows: (i) the assumed investment rate of return was decreased from 7.50% to 6.25%, (ii) the assumed rate of inflation was reduced from 3.25% to 2.30%, and (iii) payroll growth assumption was reduced from 4.00% to 2.00%.

Changes in Assumptions and Benefit Terms from 2016 to 2017: None.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Supplementary Information, continued

Changes in Assumptions and Benefit Terms from 2015 to 2016: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows: (i) the assumed investment rate of return was decreased from 7.75% to 7.50%, (ii) the assumed rate of inflation was reduced from 3.50% to 3.25%, (iii) the assumed rate of wage inflation was reduced from 1.00% to 0.75%, (iv) payroll growth assumption was reduced from 4.50% to 4.00%, (v) 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, and (vi) the assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

**OTHER SUPPLEMENTARY INFORMATION**

**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***

**Report of Independent Auditors**

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, 2022, 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 13, 2022.

**Report on 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 opinion 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 or significant deficiencies may exist that have not been identified.

### **Report on 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 Dotson Allen Ford, PLLC*

Louisville, Kentucky  
December 13, 2022