



Financial Statements and Supplementary Information

for

**CITY OF ST. MATTHEWS, KENTUCKY**

Year Ended June 30, 2023  
with Report of Independent Auditors

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## **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 ended June 30, 2023 and the related notes to the financial statements, 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 each major fund of the City, as of June 30, 2023, and the respective changes in financial position and each 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.

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

Management is responsible for the preparation and fair presentation of the 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 Responsibilities 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 opinions. 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 42 - 47 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 48 - 49 is presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023 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 Dotson Allen Ford, PLLC*

Louisville, Kentucky  
December 12, 2023

## CITY OF ST. MATTHEWS, KENTUCKY

### Management's Discussion and Analysis (Unaudited)

#### Year Ended June 30, 2023

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 \$43,122,900 (net position) for this fiscal year. This is an increase over the prior year figure of \$36,823,173.
- The three largest sources of general revenues, excluding non-recurring grants, for the City continued to be property taxes, insurance taxes, and occupational taxes. These three revenue sources accounted for 68.95% 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 recognizing income from the American Rescue Plan Act (ARPA) program in this fiscal year as the funds were used.
- Total expenses of the City increased to \$15,998,410 during this fiscal year of which \$1,480,719 was for depreciation expense on capital assets and amortization expense on right of use assets which are discussed later.
- The City shows a long-term liability in the amount of \$797,208 for compensated absences in this fiscal year as well as the City's proportionate share of the unfunded liabilities for pension (\$13,708,869) and other-post employment benefits (OPEB) (\$3,799,993). The increase in compensated absences from year-to-year was almost \$64,000. The pension obligation increased by more than \$2.0 million over the previous year and the OPEB liability increased by approximately \$272,000.
- The City started this fiscal year with \$4,141,166 in unspent ARPA funds that were reported as unearned revenue in the prior audit. During this fiscal year the City spent these remaining ARPA funds which resulted in the recognition of revenue on both the government-wide (page 12) and fund financial statements (page 15).
- As further discussed on page 20 of this report, the City adopted a new accounting standard related to Subscription Based Information Technology Arrangements (SBITAs). The adoption of this standard had no significant impact on the financial statements.

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

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

**Year Ended June 30, 2023**

#### **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, 2023 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.

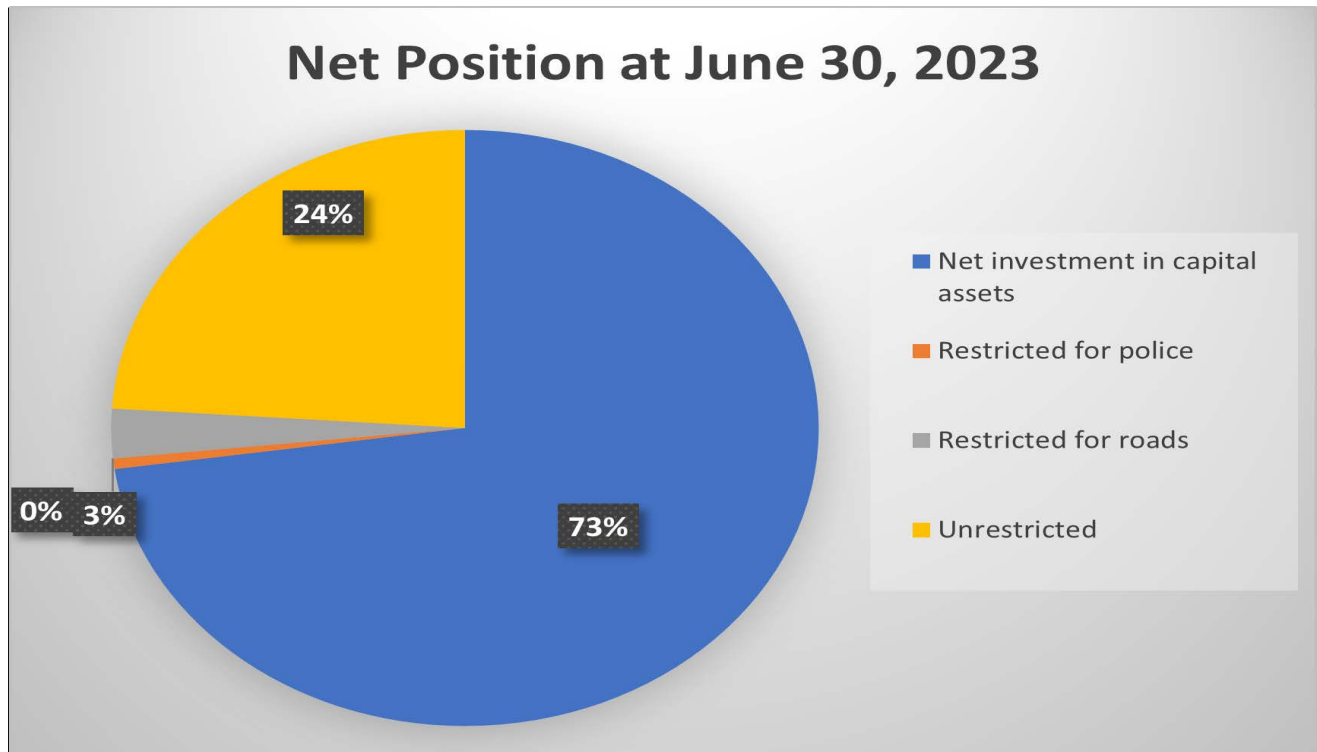
These two statements report the City's net position and changes in them. One can think of the City's net position as one way to measure the City's health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving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

**Year Ended June 30, 2023**

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, 2023 is displayed in the chart below.



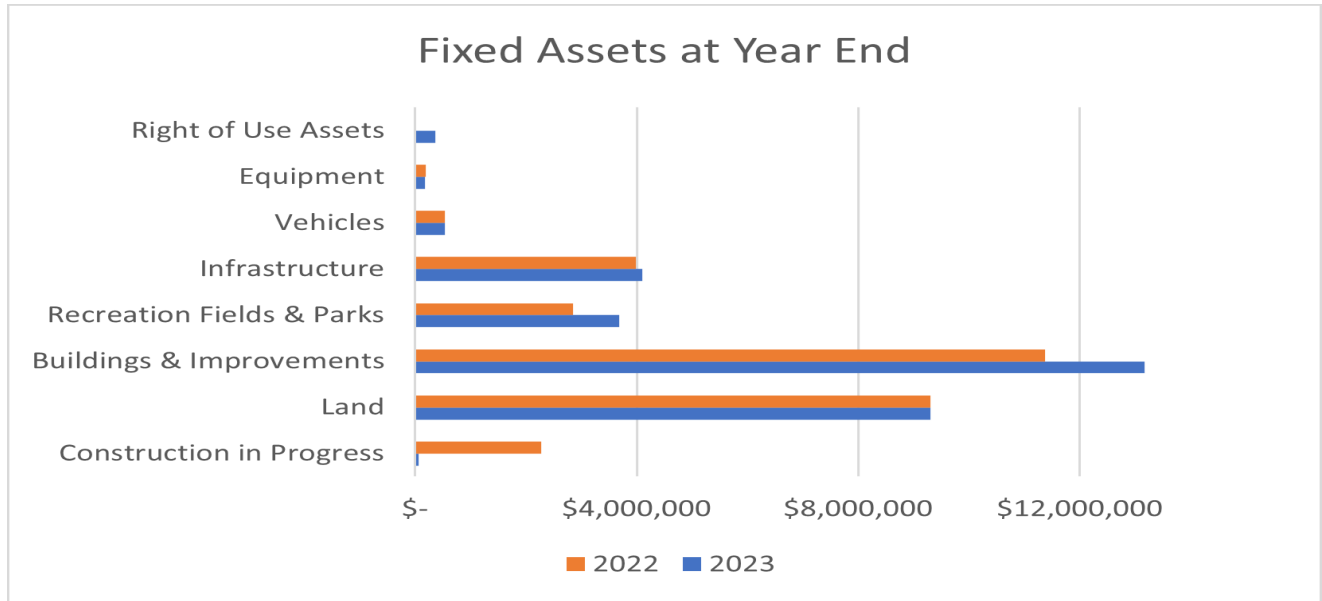
As you can see the majority of the City's net position is comprised of its investment in capital assets. The City placed in service approximately \$4.1 million dollars in new capital assets this year, with the majority of that being in the form of building improvement projects within the City. Capital 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 under \$900,000, at June 30, 2023 as compared to the previous year. A part of that increase is from the recognition of right of use assets that were the result of the City entering into a lease agreement during this fiscal year for multiple police vehicles. At that time leasing vehicles was the most viable way for the City to continue to maintain its fleet of police vehicles at the appropriate level. Amounts related to the right of use asset can be found in Note 4 and the corresponding lease liability is discussed in Note 10. The net book value of the City's capital assets, including right of use assets is displayed below:



**CITY OF ST. MATTHEWS, KENTUCKY**

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

**Year Ended June 30, 2023**



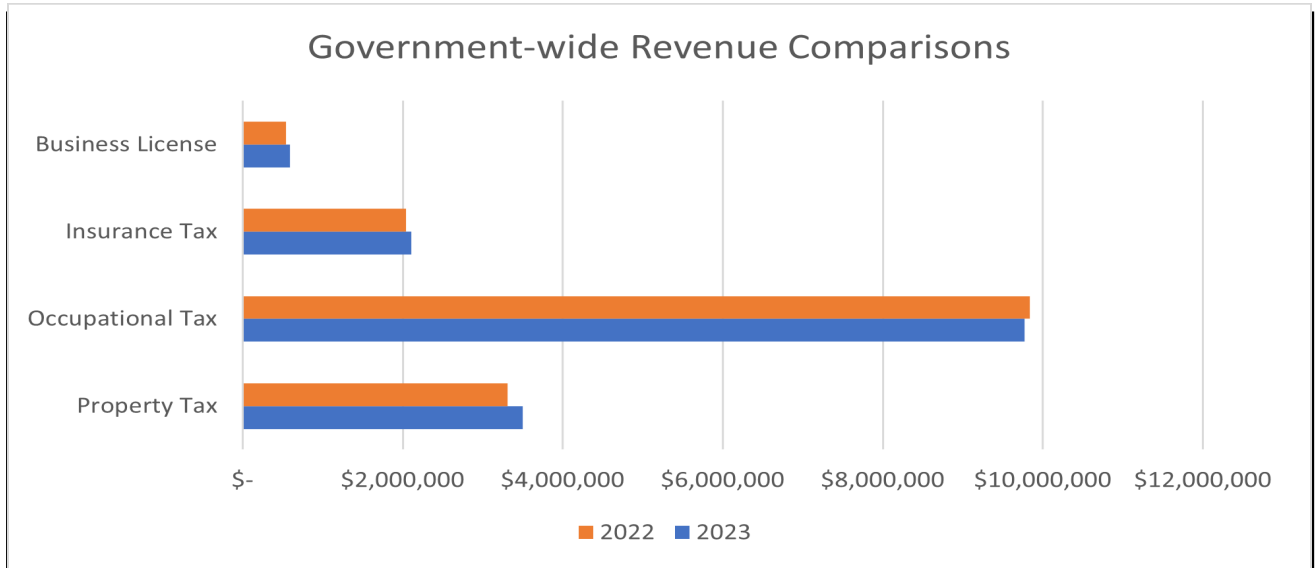
In addition to fixed assets, the statement of net position also shows the liabilities of the City. The largest two liabilities of the City relate to its participation in the County Employees Retirement System and the City's share of the unfunded pension and OPEB liabilities of that system. As of June 30, 2023, the City's pension obligation increased by \$2,051,150 as compared to the prior year to \$13,708,869 while the City's OPEB obligation increased by \$272,327 to \$3,799,993 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**

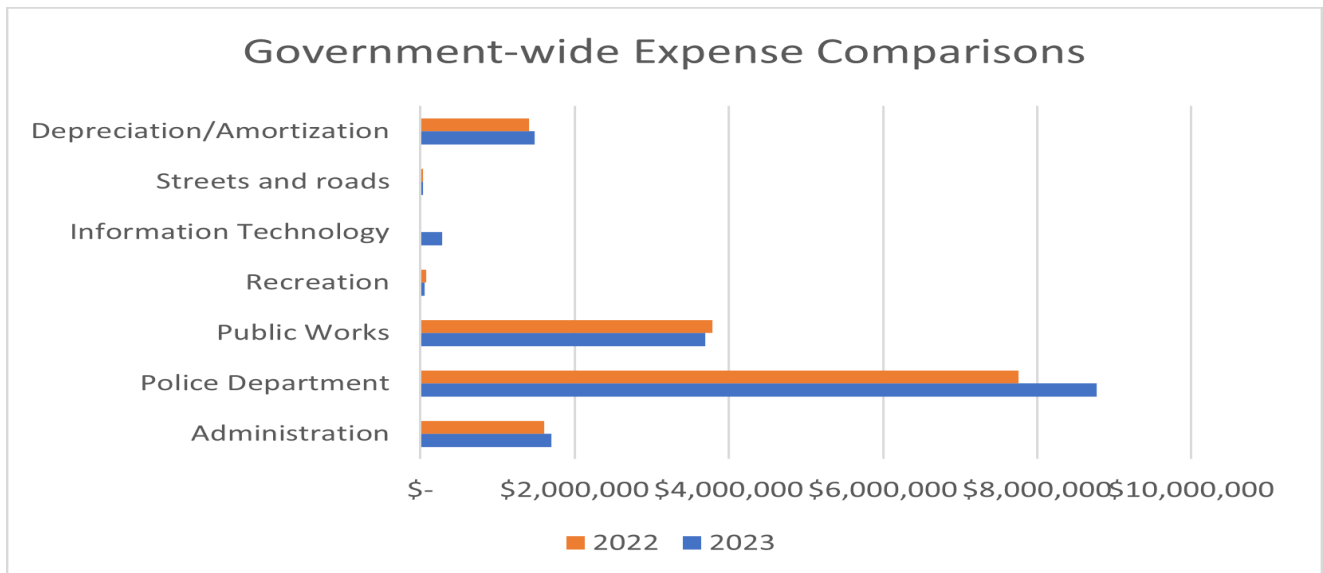
**Management's Discussion and Analysis (Unaudited), (continued)**

**Year Ended June 30, 2023**

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 \$4,077,112. The most significant change from year-to-year was the recognition of revenue from the ARPA program as previously discussed. Other selective changes from year to year are noted below.



Expenses of the City were \$15,998,410 for the fiscal year ended June 30, 2023, of which \$1,480,719 was the current depreciation expense on capital assets and well as the amortization expense of right of use assets as previously discussed. Changes from year-to-year are as follows:



**CITY OF ST. MATTHEWS, KENTUCKY**

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

**Year Ended June 30, 2023**

**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 \$5.8 million dollars during the fiscal year ended June 30, 2023 as compared to the prior year. This increase in fund balance was driven in large part by the recognition of the ARPA funds as revenue. Fund balance for the municipal road aid fund decreased during this fiscal year by approximately \$200,000. The decrease was due in part to ongoing paving and infrastructure projects within the City.

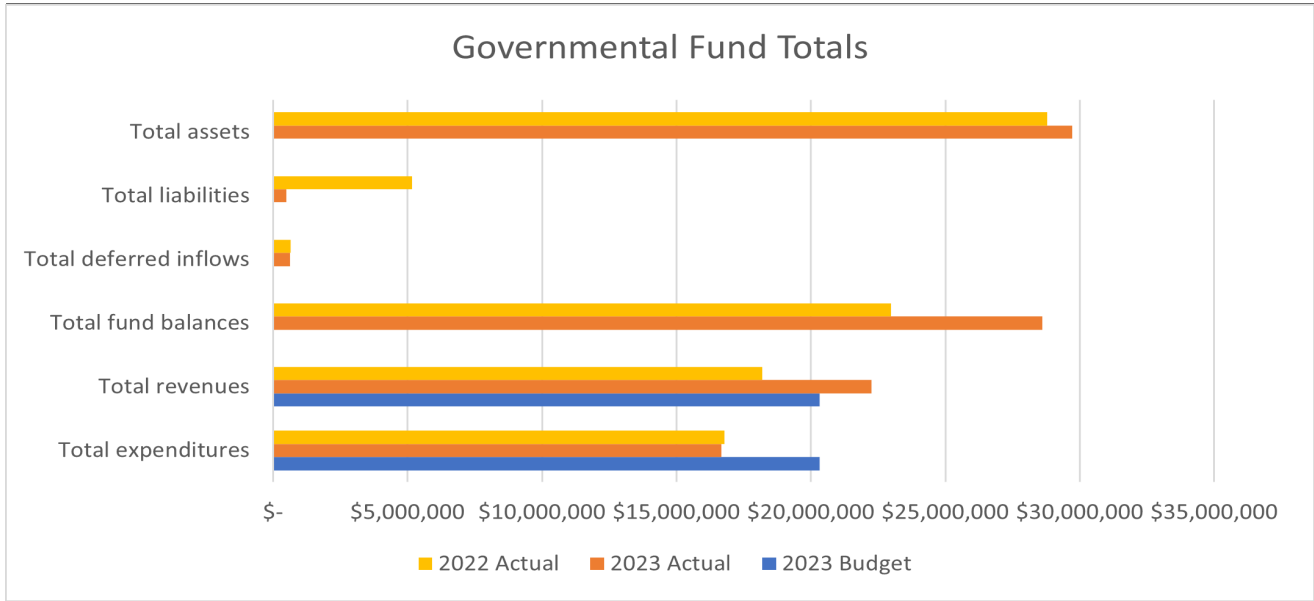
General fund revenues increased by \$4,090,255 to \$21,874,293 during this fiscal year which were \$4,912,593 more than the \$16,961,700 that was budgeted, excluding reserves. General fund expenditures increased by \$95,850 to \$15,947,482 during the fiscal year which was \$3,473,624 less than the amount budgeted. The municipal road aid fund had a small increase in revenues of \$9,390 to \$367,967 for this fiscal year which was \$37,167 more than the budgeted revenue amount of \$330,800, excluding reserves. Municipal road aid fund expenses decreased by \$206,525 as compared to the prior year, and were also less than the \$910,000 that was budgeted.

**CITY OF ST. MATTHEWS, KENTUCKY**

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

**Year Ended June 30, 2023**

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**

The City passed a fiscally prudent budget for fiscal year 2024. General fund revenues were budgeted to be \$16,624,900 which is a decrease of over \$351,000 over the amount budgeted for fiscal year 2023. General fund expenditures were budgeted to be \$22,071,526 which is an increase of over \$2.6 million when compared to that same amount in fiscal year 2023. These increased costs stem from in part from increased costs for garbage collection 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, 2023

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 24,459,519
Cash and cash equivalents - restricted	1,582,005
Investments	89,549
Receivables	2,918,097
Leases receivable, net	588,964
Prepaid expenses	72,458
Capital assets, net	<u>31,392,892</u>
Total assets	<u>\$ 61,103,484</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount related to pension plan	\$ 2,399,649
Deferred amount related to OPEB	<u>1,352,782</u>
Total deferred outflows of resources	<u>\$ 3,752,431</u>
<b>Liabilities</b>	
Accounts payable	\$ 283,079
Confiscated funds payable	183,917
Unearned revenue	5,375
Compensated absences	797,208
User deposits	8,050
Pension obligation	13,708,869
OPEB obligation	3,799,993
Lease liability	<u>371,197</u>
Total liabilities	<u>\$ 19,157,688</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount related to pension plan	\$ 689,211
Deferred amount related to OPEB	1,323,642
Deferred amount related to rental income	<u>562,474</u>
Total deferred inflows of resources	<u>\$ 2,575,327</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 31,392,892
Restricted for police	246,691
Restricted for roads	1,151,078
Unrestricted	<u>10,332,239</u>
Total net position	<u>\$ 43,122,900</u>

See accompanying notes.

**CITY OF ST. MATTHEWS, KENTUCKY**

Statement of Activities

Year Ended June 30, 2023

	<u>Governmental Activities</u>
Expenses:	
Administration	\$ 1,694,821
Police department	8,765,927
Public works	3,692,767
Recreation	51,850
Information technology	278,230
Streets and roads	34,096
Depreciation and amortization expense	<u>1,480,719</u>
Total expenses	15,998,410
General revenues:	
Property tax	3,502,781
Occupational tax	9,768,852
Insurance tax	2,103,871
Franchise tax	145,747
Business license tax	594,012
Bank deposit tax	284,752
Charges for services	384,344
Intergovernmental revenue	4,952,975
Insurance refunds	226,355
Interest income	211,406
Gain on disposal of equipment	47,766
Penalties and interest	43,194
Other	<u>32,082</u>
Total general revenues	<u>22,298,137</u>
Change in net position	6,299,727
Net position, beginning of year	<u>36,823,173</u>
Net position, end of year	<u>\$ 43,122,900</u>

*See accompanying notes.*

## **FUND FINANCIAL STATEMENTS**



**CITY OF ST. MATTHEWS, KENTUCKY**

Balance Sheet - Governmental Funds

June 30, 2023

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,459,519	\$ -	\$ 24,459,519
Cash and cash equivalents - restricted	430,608	1,151,397	1,582,005
Investments	89,549	-	89,549
Taxes and intergovernmental receivables	2,918,097	-	2,918,097
Leases receivable	588,964	-	588,964
Prepaid expenses	<u>72,458</u>	<u>-</u>	<u>72,458</u>
Total assets	<u>\$ 28,559,195</u>	<u>\$ 1,151,397</u>	<u>\$ 29,710,592</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 282,760	\$ 319	\$ 283,079
Confiscated funds payable	183,917	-	183,917
Unearned revenue	5,375	-	5,375
User deposits	<u>8,050</u>	<u>-</u>	<u>8,050</u>
Total liabilities	480,102	319	480,421
Deferred inflows of resources:			
Rental income	562,474	-	562,474
Unavailable revenue	<u>72,235</u>	<u>-</u>	<u>72,235</u>
Total deferred inflows of resources	634,709	-	634,709
Fund balances:			
Nonspendable	72,458	-	72,458
Restricted for police	246,691	-	246,691
Restricted for roads	-	1,151,078	1,151,078
Assigned	5,487,841	-	5,487,841
Unassigned	<u>21,637,394</u>	<u>-</u>	<u>21,637,394</u>
Total fund balances	<u>27,444,384</u>	<u>1,151,078</u>	<u>28,595,462</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 28,559,195</u>	<u>\$ 1,151,397</u>	<u>\$ 29,710,592</u>

See accompanying notes.

**CITY OF ST. MATTHEWS, KENTUCKY**

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

June 30, 2023

Total fund balances for governmental funds	\$ 28,595,462
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.	72,235
Capital assets used in governmental activities are not financial resources, and therefore, not reported in the governmental funds.	31,392,892
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.	(11,998,431)
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.	(3,770,853)
Long-term liabilities applicable to the City's governmental activities are not reported as fund liabilities. Thus, lease liabilities are not reported in the governmental funds.	(371,197)
Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.	<u>(797,208)</u>
Total net position of governmental activities	\$ <u>43,122,900</u>

*See accompanying notes.*

**CITY OF ST. MATTHEWS, KENTUCKY**

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

Year Ended June 30, 2023

	<u>Actual</u>				Over (Under) Budget
	Total Budget	General Fund	Municipal Road Aid Fund	Total Governmental Funds	
Revenues:					
Property tax	\$ 3,250,000	\$ 3,494,669	\$ -	\$ 3,494,669	\$ 244,669
Occupational tax	8,000,000	9,768,852	-	9,768,852	1,768,852
Charges for services	132,600	384,344	-	384,344	251,744
Franchise tax	145,000	145,747	-	145,747	747
Insurance tax	1,900,000	2,103,871	-	2,103,871	203,871
Bank deposit tax	195,000	284,752	-	284,752	89,752
Intergovernmental revenue	2,970,800	4,587,984	364,991	4,952,975	1,982,175
License and permits	583,000	594,012	-	594,012	11,012
Insurance refunds	-	226,355	-	226,355	226,355
Interest income	45,000	209,232	2,174	211,406	166,406
Penalties and interest	28,700	43,194	-	43,194	14,494
Other	42,400	31,281	802	32,083	(10,317)
Reserve	<u>3,023,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,023,606)</u>
Total revenues	20,316,106	21,874,293	367,967	22,242,260	1,926,154
Expenditures:					
Administration	1,180,504	1,612,776	-	1,612,776	432,272
Police department	9,659,292	9,088,951	-	9,088,951	(570,341)
Public works	3,892,573	3,644,274	34,096	3,678,370	(214,203)
Recreation	28,000	51,850	-	51,850	23,850
Information technology	479,617	278,230	-	278,230	(201,387)
Capital outlay	<u>5,091,120</u>	<u>1,271,401</u>	<u>684,529</u>	<u>1,955,930</u>	<u>(3,135,190)</u>
Total expenditures	<u>20,331,106</u>	<u>15,947,482</u>	<u>718,625</u>	<u>16,666,107</u>	<u>(3,664,999)</u>
Excess of revenues over expenditures (expenditures over revenues)	(15,000)	5,926,811	(350,658)	5,576,153	5,591,153
Other financing sources:					
Proceeds from sale of equipment	15,000	47,766	-	47,766	32,766
Transfers:					
Transfers to (from) other funds	<u>-</u>	<u>(145,752)</u>	<u>145,752</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>-</u>	5,828,825	(204,906)	5,623,919	\$ <u>5,623,919</u>
Fund balances, beginning of year		<u>21,615,559</u>	<u>1,355,984</u>	<u>22,971,543</u>	
Fund balances, end of year		\$ <u>27,444,384</u>	\$ <u>1,151,078</u>	\$ <u>28,595,462</u>	

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, 2023

Net change in fund balances - total governmental funds	\$ 5,623,919
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 \$64,121 and the current year amount of \$72,235.	8,114
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$1,955,930 were greater than depreciation of \$1,480,719.	475,211
Net difference between pension and OPEB plan contributions of \$1,593,502 reported as expense in governmental funds and the pension and OPEB expense of \$1,337,283 recorded in the statement of activities.	256,219
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 \$733,472 increased to the current year balance of \$797,208.	<u>(63,736)</u>
Change in net position of governmental activities	<u>\$ 6,299,727</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, 2023. 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, 2022, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements (SBITAs)* (GASB 96). The objective of this statement is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for SBITAs, improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The statement requires recognition of certain right to use subscription assets and subscription liabilities for SBITAs and recognition of inflows of resources or outflows of resources based on the payment provisions of the agreement.

The adoption of this new standard had no significant impact on the financial statements of the City and there was no adjustment necessary to the opening balance of net position or fund balance as a result of the implementation of GASB 96.

##### **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, 2023, that relate primarily 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.



## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### 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 Lessee*

Lease liabilities on the statement of net position represent the present value of payments expected to be made during the lease term. Lease payments are discounted to present value using the rate implicit in the lease, when it can be readily determined, or the City's incremental borrowing rate at the commencement of the lease. In subsequent years, amortization of the discount is included in interest expense in the statement of activities.

Variable payments based on future performance of the City, usage of the underlying asset or criteria other than an index or rate are not included in the measurement of the lease liability. Those variable payments are recognized as lease expense in the period in which the obligation for those payments is incurred.

At commencement of the lease, a right to use asset is recorded on the statement of net position in an amount equal to the corresponding lease liability plus lease payments paid by the City at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The right to use asset also includes any initial direct costs that are necessary to place the leased asset into service. The right to use asset is amortized over the shorter of the lease term or the useful life of the right to use asset.

Subsequent to the commencement of the lease, the lease liability and right to use asset are remeasured if certain criteria are met. Subsequent lease payments are recognized as expenditures when they become due under the lease agreement.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### Leases, continued

###### *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.

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.

## 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

**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 \$246,691 for utilization by police and \$1,151,078 for road improvements as of June 30, 2023.

**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, 2023 consisted of \$72,458 of prepaid expenses.

**Restricted** – Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The City had restricted funds of \$246,691 for utilization by police and \$1,151,078 for road improvements as of June 30, 2023.

**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, 2023.

**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 \$5,487,841 of assigned funds as of June 30, 2023.

**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.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

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

##### **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.

##### **Subsequent Events**

Management has evaluated subsequent events for accounting and disclosure requirements through December 12, 2023, 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, 2023 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### **Investments**

At June 30, 2023, the City's investment balance was as follows:

	<u>Maturity</u>	<u>Fair Value</u>
Certificates of deposit: Interest rate of 1.00%	September 30, 2023	\$ 89,549

*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.

*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, 2023, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

#### **3. Receivables**

Receivables at June 30, 2023 consisted of the following:

Property tax	\$ 79,118
Occupational tax	2,313,477
Insurance tax	506,230
KLEFPF (police incentive)	<u>19,272</u>
Total receivables	<u>\$ 2,918,097</u>

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Capital assets not being depreciated:				
Land	\$ 9,300,315	\$ -	\$ -	\$ 9,300,315
Construction in progress	<u>2,272,568</u>	<u>1,261,912</u>	<u>(3,466,829)</u>	<u>67,651</u>
Total capital assets not being depreciated	11,572,883	1,261,912	(3,466,829)	9,367,966
Capital assets being depreciated:				
Buildings and improvements	16,336,616	2,323,697	-	18,660,313
Recreation fields and parks	4,832,796	1,043,523	-	5,876,319
Infrastructure	8,444,857	547,966	-	8,992,823
Vehicles	2,875,709	213,562	(193,177)	2,896,094
Equipment	<u>1,093,687</u>	<u>32,099</u>	<u>(5,495)</u>	<u>1,120,291</u>
Total, at historical cost	33,583,665	4,160,847	(198,672)	37,545,840
Less accumulated depreciation				
Buildings and improvements	(4,963,460)	(527,156)	-	(5,490,616)
Recreation fields and parks	(1,988,742)	(207,601)	-	(2,196,343)
Infrastructure	(4,457,076)	(432,313)	-	(4,889,389)
Vehicles	(2,343,722)	(212,347)	193,177	(2,362,892)
Equipment	<u>(905,424)</u>	<u>(40,714)</u>	<u>5,495</u>	<u>(940,643)</u>
Total accumulated depreciation	<u>(14,658,424)</u>	<u>(1,420,131)</u>	<u>198,672</u>	<u>(15,879,883)</u>
Net capital assets being depreciated	18,925,241	2,740,716	-	21,665,957
Leased assets, being amortized:				
Right of use assets - vehicles	-	419,557	-	419,557
Less: accumulated amortization	<u>-</u>	<u>(60,588)</u>	<u>-</u>	<u>(60,588)</u>
Net leased assets, being amortized	<u>-</u>	<u>358,969</u>	<u>-</u>	<u>358,969</u>
Capital assets, net	<u>\$ 30,498,124</u>	<u>\$ 4,361,597</u>	<u>\$ (3,466,829)</u>	<u>\$ 31,392,892</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 prior 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 in prior years, the City recorded unearned revenue until the funds were expended for their intended purpose, at which point the corresponding revenue was recorded. As of June 30, 2022, the City recorded revenue of \$629,218 and had \$4,141,166 of unearned revenue. For the year ended June 30, 2023, the City recorded revenue of \$4,141,166 for the amounts expended for premium pay for its public works' employees and police officers. There is no unearned revenue as of June 30, 2023.

#### 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, 2022, the taxable value of real and certain personal property, as assessed by the PVA, was \$2,843,998,231. The City currently levies a property tax rate of \$0.20 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 \$3,502,781 for the year ended June 30, 2023.

#### 7. Occupational Tax

The City imposes a tax of 0.75 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

##### *The City as Lessor*

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, 2023, the tenant exercised the fifth 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 fiscal year ended June 30, 2023, the City entered into an agreement to lease residential property it owns to a third party. The term of the lease is 3 years. Rent payments began on October 1, 2022. The agreement requires monthly rent payments of \$1,325. There is a \$25 step up in rent annually throughout the lease term.

During the year ended June 30, 2023, the City recognized \$106,445 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 \$588,964 and \$562,474, respectively, at June 30, 2023.

*The City as Lessee*

The City, as a lessee, has entered into various lease agreements involving vehicles. The maturity of each of these leases range between four to five years and the monthly payments range between \$697 to \$921.

The future payments under lease agreements are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 76,469	\$ 37,086	\$ 113,555
2025	85,466	28,089	113,555
2026	95,559	17,995	113,554
2027	88,219	7,509	95,728
2028	<u>25,484</u>	<u>925</u>	<u>26,409</u>
	<u>\$ 371,197</u>	<u>\$ 91,604</u>	<u>\$ 462,801</u>

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**10. Lease Arrangements, continued**

The following is a summary of changes in lease liabilities for the year ended June 30, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance
Lease Liability	\$ -	\$ 419,557	\$ (48,360)	\$ 371,197

**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 Insurance Trust 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 the 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.

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).

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**CERS Plan, continued**

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%

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.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Financial Statements, continued

#### 11. Retirement Plan, continued

##### CERS Plan, continued

*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 26.79%, 26.95% and 24.06% for the years ended June 30, 2023, 2022 and 2021, 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% to the member's account and 1.00% to the Insurance Fund. The City's contribution rate for hazardous employees was 49.59%, 44.33%, and 39.58% for the years ended June 30, 2023, 2022 and 2021, respectively.

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

##### Pension Plan

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* – At June 30, 2023, the City reported a liability of \$13,708,869 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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.

**CITY OF ST. MATTHEWS, KENTUCKY**

Notes to the Financial Statements, continued

**11. Retirement Plan, continued**

**Pension Plan, continued**

For the year ended June 30, 2023, the City recognized pension expense of \$842,379. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments:		
Hazardous	\$ 221,992	\$ -
Non-hazardous	105,050	-
Difference between expected and actual experience:		
Hazardous	275,569	-
Non-hazardous	4,381	36,492
Change of assumptions:		
Hazardous	-	-
Non-hazardous	-	-
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	371,704	599,183
Non-hazardous	64,072	53,536
City's contributions subsequent to the measurement date:		
Hazardous	987,046	-
Non-hazardous	369,835	-
<b>Total</b>	<b>\$ 2,399,649</b>	<b>\$ 689,211</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, 2024. The deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred inflows and outflows of resources related to pensions are amortized and recognized in pension expense over the average expected remaining service life of the entire plan membership, which is 2.90 years for non-hazardous employees and 4.26 years for hazardous employees. The net increase or decrease in pension expense related to the amortization of these deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2024	\$ (19,372)
2025	(16,075)
2026	8,093
2027	<u>380,911</u>
Total	\$ <u>353,557</u>

*Actuarial assumptions* – For financial reporting, the actuarial valuation as of June 30, 2022 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ended June 30, 2022 using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would impact the total pension liability since June 30, 2021.

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:		
Public Equity	50.00 %	4.45%
Private Equity	10.00 %	10.15%
Fixed Income:		
Core Bonds	10.00 %	0.28%
Specialty Credit/High Yield	10.00 %	2.28%
Cash	- %	(0.91)%
Inflation Protected:		
Real Estate	7.00 %	3.67%
Real Return	13.00 %	4.07%
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 the 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%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1% Increase</u>
City's share of the net pension liability	\$17,093,900	\$13,708,869	\$10,939,023

**OPEB Plan**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* – At June 30, 2023, the City reported a liability of \$3,799,993 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2023, the City recognized OPEB expense of \$494,904. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB plan investments:		
Hazardous	\$ 97,874	\$ -
Non-hazardous	45,395	-
Difference between expected and actual experience:		
Hazardous	59,250	158,815
Non-hazardous	112,583	256,491
Change of assumptions:		
Hazardous	447,624	461,394
Non-hazardous	176,894	145,759
Change in proportion and differences between employer contributions and proportionate share of contributions:		
Hazardous	99,760	253,898
Non-hazardous	33,923	47,285
City's contributions subsequent to the measurement date:		
Hazardous	185,575	-
Non-hazardous	<u>93,904</u>	<u>-</u>
Total	<u>\$ 1,352,782</u>	<u>\$ 1,323,642</u>

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, 2024. The deferred outflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is 5.82 years for hazardous employees and 4.82 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:	
2024	\$ (38,479)
2025	(43,853)
2026	(156,657)
2027	53,640
2028	(64,990)
Total	\$ <u>(250,339)</u>

*Actuarial assumptions* – For financial reporting the actuarial valuation as of June 30, 2022 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

Senate Bill 209, passed during the 2022 legislative session, increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022, 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, 2021 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 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 9.00% at January 1, 2024, 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 increased from 5.20% to 5.70% for the non-hazardous fund and from 5.05% to 5.61% for the hazardous fund. The projection of cash flows used to determine the discount rate of 5.70% for non-hazardous and 5.61% 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 3.69%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022. 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	Current Discount Rate	1% Increase
City's share of the net OPEB liability	\$ 5,221,112	\$ 3,799,993	\$ 2,640,323

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

	1% Decrease	Current Trend Rate	1% Increase
City's share of the net OPEB liability	\$ 2,704,031	\$ 3,730,679	\$ 5,130,709

## 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 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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
City's proportionate percentage of the net pension liability:					
Hazardous	0.31 %	0.30 %	0.33 %	0.35 %	0.36 %
Non-hazardous	0.06 %	0.06 %	0.06 %	0.05 %	0.06 %
City's proportionate share of the net pension liability	\$13,708,869	\$11,657,719	\$14,118,066	\$13,566,751	\$12,213,113
City's covered-employee payroll*	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116	\$ 4,250,354
City's proportionate share of the net pension liability as a percentage of its covered payroll	378.85 %	355.29 %	423.55 %	322.01 %	287.34 %
Plan fiduciary net position as a percentage of the total pension liability					
Hazardous	47.11 %	52.26 %	44.11 %	46.63 %	49.26 %
Non-hazardous	52.45 %	57.33 %	47.81 %	50.45 %	53.54 %
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
City's proportionate percentage of the net pension liability:					
Hazardous	0.36 %	0.39 %	0.41 %	0.41 %	
Non-hazardous	0.06 %	0.06 %	0.06 %	0.06 %	
City's proportionate share of the net pension liability	\$12,072,238	\$ 9,871,530	\$ 8,926,670	\$ 7,076,012	
City's covered-employee payroll*	\$ 4,302,815	\$ 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	280.57 %	234.52 %	221.54 %	180.92 %	
Plan fiduciary net position as a percentage of the total pension liability					
Hazardous	49.78 %	53.95 %	57.52 %	63.46 %	
Non-hazardous	53.32 %	55.50 %	59.97 %	66.80 %	

\*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 and Notes to the Supplementary Information.*

**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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 1,356,880	\$ 1,026,343	\$ 825,629	\$ 848,295	\$ 926,208
Contributions in relation to the contractually required contribution	<u>1,356,880</u>	<u>1,026,343</u>	<u>825,629</u>	<u>848,295</u>	<u>926,208</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,886,133	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116
Contributions as a percentage of covered employee payroll	34.92 %	28.36 %	25.16 %	25.45 %	21.98 %
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Contractually required contribution	\$ 830,637	\$ 823,193	\$ 740,760	\$ 722,842	
Contributions in relation to the contractually required contribution	<u>830,637</u>	<u>823,193</u>	<u>740,760</u>	<u>722,842</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 4,250,354	\$ 4,302,815	\$ 4,209,322	\$ 4,029,396	
Contributions as a percentage of covered employee payroll	19.54 %	19.13 %	17.60 %	17.94 %	

*See Report of Independent Auditors and Notes to the Supplementary Information.*



**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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
City's proportionate percentage of the net OPEB liability:					
Hazardous	0.31 %	0.30 %	0.33 %	0.35 %	0.36 %
Non-hazardous	0.06 %	0.06 %	0.06 %	0.05 %	0.06 %
City's proportionate share of the net OPEB liability	\$ 3,799,993	\$ 3,527,666	\$ 4,361,479	\$ 3,524,219	\$ 3,589,101
City's covered-employee payroll*	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116	\$ 4,250,354
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	105.02 %	107.51 %	130.85 %	83.65 %	84.44 %
Plan fiduciary net position as a percentage of the total OPEB liability					
Hazardous	64.13 %	66.81 %	58.84 %	64.44 %	64.24 %
Non-hazardous	60.95 %	62.91 %	51.67 %	60.44 %	57.62 %
	<u>2018</u>				
City's proportionate percentage of the net OPEB liability:					
Hazardous	0.39 %				
Non-hazardous	0.06 %				
City's proportionate share of the net OPEB liability	\$ 4,373,725				
City's covered-employee payroll*	\$ 4,302,815				
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	101.65 %				
Plan fiduciary net position as a percentage of the total OPEB liability					
Hazardous	58.99 %				
Non-hazardous	52.39 %				

\*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 and Notes to the Supplementary Information.*

**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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 209,901	\$ 305,354	\$ 240,485	\$ 249,341	\$ 367,877
Contributions in relation to the contractually required contribution	<u>209,901</u>	<u>305,354</u>	<u>240,485</u>	<u>249,341</u>	<u>367,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,886,133	\$ 3,618,520	\$ 3,281,221	\$ 3,333,238	\$ 4,213,116
Contributions as a percentage of covered employee payroll	5.40 %	8.44 %	7.33 %	7.48 %	8.73 %
	<u>2018</u>				
Contractually required contribution	\$ 329,381				
Contributions in relation to the contractually required contribution	<u>329,381</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 4,250,354				
Contributions as a percentage of covered employee payroll	7.75 %				

*See Report of Independent Auditors and Notes to the Supplementary Information.*

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Required 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.

2023 (CERS plan year ended June 30, 2022): Since the prior measurement date, there have been no significant assumption changes. However, Senate Bill 209, passed during the 2022 Legislative Session, increased the insurance dollar contribution for members hired on or after July 1, 2003 and is first payable January 1, 2023.

2022 (CERS plan year ended June 30, 2021): Since the prior measurement date, there have been no significant assumption changes. However, 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 discount rate used to calculate the total OPEB liability changed from 5.34% to 5.20% for the non-hazardous plan.

2021 (CERS plan year ended June 30, 2020): 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.

2020 (CERS plan year ended June 30, 2019): 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.

## CITY OF ST. MATTHEWS, KENTUCKY

### Notes to the Required Supplementary Information, continued

2019 (CERS plan year ended June 30, 2018): Since the prior measurement date, there have been no changes in actuarial assumptions. However, 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 have been 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 have been 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. The total liability as of June 30, 2018 was determined using the updated benefit provisions.

2018 (CERS plan year ended June 30, 2017): Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (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%.

2017 (CERS plan year ended June 30, 2016): None.

2016 (CERS plan year ended June 30, 2015): Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (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 the 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 was changed to 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF ST. MATTHEWS, KENTUCKY**

Schedule of Expenditures of Federal Awards

For the years ended June 30, 2023

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
Pass Through from Commonwealth of Kentucky: American Rescue Plan Act	21.027	\$ 4,141,166

*See Report of Independent Auditors and accompanying notes to the Schedule of Expenditures of Federal Awards.*

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

### Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2023

#### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of St. Matthews (the City) under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

#### **2. Summary of Significant Accounting Policies**

Expenditures reported in the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **3. Indirect Cost Rate**

The City has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

To the Honorable Mayor and Members of the 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 (*Government Auditing Standards*), 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, 2023, 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 12, 2023.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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



Mayor and City Council  
City of St. Matthews, Kentucky  
Report of Independent Auditors, continued

### **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 12, 2023

**Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the City of St. Matthews' (the City) compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget's (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dean Dotson Allen Ford, PLLC*

Louisville, Kentucky  
December 12, 2023

**CITY OF ST. MATTHEWS, KENTUCKY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?

Yes  No

*Identification of Major Federal Programs*

Assistance Listing Number  
21.027

Name of Federal Program or Cluster  
American Rescue Plan Act

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

**CITY OF ST. MATTHEWS, KENTUCKY**

Schedule of Findings and Questioned Costs, continued

Year ended June 30, 2023

**II. FINANCIAL STATEMENT FINDINGS**

No matters reported.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

No matters reported.