

**CITY OF SHEPHERDSVILLE,
KENTUCKY**

FINANCIAL STATEMENTS, REPORTS
OF INDEPENDENT AUDITORS, AND
SUPPLEMENTARY INFORMATION

**FOR THE YEAR ENDED
JUNE 30, 2020**

The City of Shepherdsville, Kentucky

As of June 30, 2020 and
For the Year Then Ended

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The City of Shepherdsville, Kentucky

As of June 30, 2020 and
For the Year Then Ended

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The City of Shepherdsville, Kentucky

As of and for the Year Ended June 30, 2020

Transmittal Letter

City Council and Citizens of Shepherdsville
Shepherdsville, Kentucky

The Annual Financial Report

The Annual Financial Report (AFR) of the City of Shepherdsville, Kentucky, for the fiscal year ended June 30, 2020, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rest with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The AFR is presented in two sections: introductory and financial. The introductory section includes this transmittal letter and a list of principal officials. The financial section includes, under the new Governmental Accounting Standards Board Statement No. 34 as amended, the Report of Independent Auditors, the basic government-wide financial statements, and the required supplementary information.

The City of Shepherdsville is located in Bullitt County, Kentucky. The City is a home rule municipal corporation organized on December 11, 1793, under the laws of the Commonwealth of Kentucky, and as such, operates under its own charter. The City government consists of a mayor and six (6) city council members. The mayor serves a four (4) year term. Council members serve a two (2) year term.

For financial reporting purposes, the City includes in this report all funds, agencies, boards and other commissions that are controlled by the City or dependent on the City's legislative branch. "Controlled by" or "dependent on" is determined on the basis of the budget adoption, taxing authority, outstanding debts secured by revenues or general taxing authority of the City, and the City's obligation to fund any deficits that may occur.

The City provides a full range of municipal services. These services include fire and police protection, park and recreation programs, streets, sidewalks and roads maintenance and a sewer system.

Heartland CPAs and Advisors, PLLC audited the financial statements and the related notes of the City of Shepherdsville, Kentucky. As stated in the auditor's report, the audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We wish to acknowledge the employees of the City of Shepherdsville who are the City's most valuable asset. These individuals serve productively throughout City operations. They continuously provide quality services to the citizens of Shepherdsville, Kentucky.

Respectively submitted:

Mayor

City Clerk

The City of Shepherdsville, Kentucky

Governmental Directory

City Clerk's Office

Post Office Box 400

634 Conestoga Parkway

Shepherdsville, KY 40165

Telephone: 502/543-2923 ~ 502/543-6201 (facsimile)

City Council meetings held 2nd and 4th Monday of each month at 6:30 PM (EST)

City of Shepherdsville Officials

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Curtis Hockenbury	December 31, 2022
Council Member	Deb Huffman	December 31, 2022
Council Member	Lisa Carter	December 31, 2022
Council Member	Bonnie Enlow	December 31, 2022
Council Member	Mike Hibbard, Sr.	December 31, 2022
Council Member	Stacey Cline	December 31, 2022
Council Member	Kenny Newton	December 31, 2022
City Clerk	Tammy Richmond	
Deputy City Clerk/ Flood Plain Coordinator	Brenda Weidekamp	
City Controller	Tonya Taylor	
City Treasurer	Gayla Bright	
Fire Chief	Layne Troutman	
Fire Marshall	Ted Calvert	
Police Chief	Rick McCubbins	
Public Utility Director	Scott Fleming	
Public Works Foreman	Thomas LaFollette	
Wastewater Treatment Alcoholic Beverage Control (ABC) Officer	Jerry Pile	
Civil Service Commission Chair	Debbie Hawkins	



HCA

Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Shepherdsville, Kentucky

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2020, the City adopted Governmental Accounting Standards Board Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, OPEB schedules, and budgetary comparison information on pages 5 - 12 and 53 - 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shepherdsville, Kentucky's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
October 7, 2021

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

As management of the City of Shepherdsville, Kentucky, we offer the readers of the City of Shepherdsville, Kentucky financial statements this narrative overview and analysis of the financial activities of the City of Shepherdsville as of June 30, 2020 and for the fiscal year then ended. We encourage the readers to read information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The ending cash and equivalents balances for the City and the Sewer Department were approximately \$3.730 million and \$8.445 million, respectively.
- The ending net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) for the City and the Sewer Department were approximately \$(465) thousand and \$29.65 million, respectively.
- Overall net position of the City decreased approximately \$1 million from \$30.19 million at June 30, 2019 to \$29.18 million at June 30, 2020.
- General fund revenues before other financing sources and uses, of \$12.38 million were less than expenditures of \$14.8 million for the year ending June 30, 2020. This represents an excess of expenses over revenues of approximately \$2.42 million.
- Long-term debt (bonds, leases, and notes) for the sewer fund was reduced by approximately \$1.2 million during 2020. The total balance bonds, capital lease and notes payable at June 30, 2020 totaled approximately \$18.51 million for the sewer fund. The City issued \$1.35 million in notes during the fiscal year ending June 30, 2020 under governmental activities for various building projects and equipment purchases.
- The City has recorded a net pension liability for the City's proportionate share of the County Employees' Retirement System (CERS) net pension liability at June 30, 2020 of \$19.56 million. This is an increase from the prior year of approximately \$3.79 million.
- The City has recorded a net Other Post-Employment Benefit Obligation (OPEB) liability for the City's proportionate share of the County Employees' Retirement System (CERS) net OPEB liability at June 30, 2020 of \$5.14 million. This represents a increase of \$501 thousand from the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Shepherdsville, Kentucky's basic financial statements as of June 30, 2020 and for the fiscal year then ended. The City's financial statements consist of three (3) components: 1) government - wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The basic financial statements present two (2) different views of the City through the use of government - wide financial statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Shepherdsville, Kentucky.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Required Components of Annual Financial Report

Basic Financial Statements

The first two (2) statements in the basic financial statements are the **government - wide financial statements**. They provide both short - term and long - term information about the City's financial status.

The next statements are **fund financial statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government - wide financial statements. There are four (4) parts to the funds financial statements: 1) the governmental funds financial statements, 2) the budgetary comparison financial statements, 3) the propriety financial statements, and 4) the special funds (police) financial statements.

The next section of the basic financial statements is the notes section. The notes to the financial statements explain in detail some of the data contained in these financial statements. After the notes section, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the generally accepted accounting principles can be found in this part of the financial statements.

Government - Wide Financial Statements

The government - wide financial statements are designed to provide the reader with a broad overview of the City's finances similar to the financial statements of a private - sector business. The government - wide financial statements provide short and long - term information about the City's financial status as a whole.

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of the City's infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

The government-wide financial statements are divided into two (2) categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the City's basic services for residents such as public safety (fire and police protection), public works (streets, roads and sidewalks maintenance), parks and recreation, and general administration. Property taxes, franchise and license fees and occupational tax revenues finance most of these activities. The business-type activity is one that the City charges consumers to provide. This includes sewer service for City residents and businesses.

The government-wide financial statements are reported on pages 13 and 14.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Shepherdsville, Kentucky, like all other governmental entities in Kentucky, used fund accounting to ensure and reflect compliance with finance related legal requirements, such as the City's general budget ordinances. All of the funds of the City of Shepherdsville, Kentucky can be divided into three (3) categories: governmental funds, proprietary fund, and special (police) fund.

Governmental Fund - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted in the governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left over at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using an accounting method called *modified accrual accounting* which gives the reader a short - term spending focus. As a result, the governmental fund financial statements give the reader a detailed short - term view that helps determine if there are more or less financial resources available to finance City programs. The relationship between the City's governmental activities (as reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Shepherdsville, Kentucky adopts an annual budget for its general fund as required by Kentucky Revised Statutes (KRS). The budget is a legally adopted document that incorporates input from the residents of the City, the management of the City and the decisions of the City Council about which services to provide and how to pay for the services. It also authorizes the City to obtain funds from other sources to finance these correct period items. The budgetary financial statement provided for the general fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison financial statement uses budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget documents. The financial statement shows four (4) columns: 1) the original budget as adopted by the council, 2) the final budget as amended by the city council, 3) the actual resources, charges to appropriations and ending balances of the general fund, and 4) the differences or variance between the final budget and the actual resources and charges.

Proprietary Funds - The City of Shepherdsville, Kentucky has one proprietary fund. The *Sewer Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Shepherdsville, Kentucky uses the enterprise fund to account for sewer operations. These funds are the same as those functions shown in the business-type activities in the statement of net position and statement of activities.

Notes to the Financial Statements - The notes to the financial statements provide additional information to the reader that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 22 of this report.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Independence with Other Entities - The City receives financial assistance (resources) from both the federal government and the Commonwealth of Kentucky. Because of this the City is subject to changes in specific flows of intergovernmental revenues based upon modifications to federal and state laws and federal and state appropriations.

Government-Wide Financial Analysis

Net Position

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 5,738,489	\$ 8,206,375	\$ 9,831,912	\$ 7,541,282	\$ 15,570,401	\$ 15,747,657
Capital Assets	18,168,825	15,681,850	39,888,649	41,079,848	58,057,474	56,761,698
Total Assets	<u>\$ 23,907,314</u>	<u>\$ 23,888,225</u>	<u>\$ 49,720,561</u>	<u>\$ 48,621,130</u>	<u>\$ 73,627,875</u>	<u>\$ 72,509,355</u>
Deferred outflows of resources	\$ 7,411,137	\$ 6,621,673	\$ 444,990	\$ 374,177	\$ 7,856,127	\$ 6,995,850
Current Liabilities	\$ 2,329,404	\$ 2,379,180	\$ 1,536,526	\$ 1,525,901	\$ 3,865,930	\$ 3,905,081
Long-term Liabilities	27,614,666	23,812,008	18,824,913	19,800,639	46,439,579	43,612,647
Total Liabilities	<u>29,944,070</u>	<u>26,191,188</u>	<u>20,361,439</u>	<u>21,326,540</u>	<u>50,305,509</u>	<u>47,517,728</u>
Deferred inflows of resources	\$ 1,839,638	\$ 1,665,699	\$ 155,204	\$ 126,969	\$ 1,994,842	\$ 1,792,668
Net Position:						
Net Investment in Capital Assets	\$ 12,533,211	\$ 10,309,912	\$ 21,379,782	\$ 21,364,052	\$ 33,912,993	\$ 31,673,964
Restricted	19,737	684,570	524,861	524,335	544,598	1,208,905
Unrestricted	(13,018,205)	(8,341,471)	7,744,265	5,653,411	(5,273,940)	(2,688,060)
	<u>\$ (465,257)</u>	<u>\$ 2,653,011</u>	<u>\$ 29,648,908</u>	<u>\$ 27,541,798</u>	<u>\$ 29,183,651</u>	<u>\$ 30,194,809</u>

As noted earlier, net position may serve over time as one of the useful indicators of a government's financial condition. The combined assets and deferred outflows of resources of the City exceeded the liabilities and deferred inflows of resources by approximately \$29.18 million as of June 30, 2020. The City's net position decreased by approximately \$1 million for the fiscal year ended June 30, 2020. Capital assets of the City increased by approximately \$1.296 million, primarily due to capital additions of \$3.8 million offset by depreciation of \$2.5 million. The City uses capital assets to provide services (fire and police protection, City parks, street, roads and sidewalks maintenance) for residents of the City. Therefore, these assets are not available for future spending. Although the City of Shepherdsville, Kentucky's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay the debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. Long-term debt liabilities (excluding compensated absences and the net pension / OPEB liabilities) decreased by approximately \$941 thousand during fiscal year ended June 30, 2020.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Program Revenue						
Charges for Services	\$ 2,446	\$ 39,143	\$ 7,001,317	\$ 6,649,483	\$ 7,003,763	\$ 6,688,626
Operating Grants and Contributions	749,020	371,457	-	-	749,020	371,457
Capital Grants and Contributions	233,638	244,260	-	-	233,638	244,260
General Revenues						
Property Taxes	2,236,609	2,126,592	-	-	2,236,609	2,126,592
Occupational Taxes	7,287,050	7,332,838	-	-	7,287,050	7,332,838
Fees, Licenses and Permits	448,418	198,394	-	-	448,418	198,394
Insurance Premium Tax	1,176,561	1,143,769	-	-	1,176,561	1,143,769
Motor Vehicle Taxes	117,866	121,588	-	-	117,866	121,588
Telecommunications Tax	76,905	76,564	-	-	76,905	76,564
Franchise Taxes	94,352	89,747	-	-	94,352	89,747
Rent Income	25,161	58,501	-	-	25,161	58,501
Other Income	105,170	244,657	131,299	1,123	236,469	245,780
Interest Income	59,022	16,048	12,278	10,444	71,300	26,492
Gain (loss) on Sale or Disposal of Capi	90,881	-	-	-	90,881	-
Total Revenues	12,703,099	12,063,558	7,144,894	6,661,050	19,847,993	18,724,608
Expenses						
General Government	(2,081,804)	(1,720,793)	-	-	(2,081,804)	(1,720,793)
Fire Department	(5,571,049)	(4,472,909)	-	-	(5,571,049)	(4,472,909)
Police Department	(6,384,824)	(5,654,820)	-	-	(6,384,824)	(5,654,820)
Public Works Department	(1,027,820)	(1,021,459)	-	-	(1,027,820)	(1,021,459)
Municipal Aid - Streets	(638,772)	(484,686)	-	-	(638,772)	(484,686)
Interest on Long-Term Debt	(117,098)	(142,405)	-	-	(117,098)	(142,405)
Sewer Services	-	-	(5,037,784)	(4,728,139)	(5,037,784)	(4,728,139)
Total Expenses	(15,821,367)	(13,497,072)	(5,037,784)	(4,728,139)	(20,859,151)	(18,225,211)
Change in Net Position	\$ (3,118,268)	\$ (1,433,514)	\$ 2,107,110	\$ 1,932,911	\$ (1,011,158)	\$ 499,397

Governmental Activities

Total revenue increased approximately \$600 thousand or 5.0% for governmental activities. Overall revenue changed slightly there were increases for interest on bank accounts, building permits, property taxes and a \$360,000 donation for the park. The increases were offset by decreases in Occupational licenses, Tow Lot, rental revenue due to COVID, and a reduction in miscellaneous expense reimbursement. City departments experienced increases in operating expenses of approximately \$2.32 million (17.22%). Approximately \$3.4 million in additional expenses is related to pension expense and OPEB expenses for changes in deferred inflows, deferred outflows, and net pension and OPEB liabilities related to amounts reported by the County Employees' Retirement System (CERS).

Business-type Activities

Operating revenue related to sewer charges for services offered by the City increased approximately \$484 thousand (7.26%) for fiscal year ended June 30, 2020. Primarily due to increases in service revenue (5.29%) Expenses for sewer services increased approximately \$309 thousand (6.55%). As a result additional expenses related to the net pension and OPEB expenses for changes in deferred inflows, deferred outflows, and net pension liability related to amounts reported by the County Employees' Retirement System (CERS).

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Capital Asset and Debt Administration

Capital Assets

The City of Shepherdsville, Kentucky's total investment in capital assets for its governmental and business-type activities as of June 30, 2020 totals approximately \$58.06 million (net of depreciation). These assets include buildings, infrastructure (streets, roads, sewer lines/system, and sidewalks) land, machinery and equipment, park facilities and vehicles.

Major capital asset transactions during the fiscal year include the following:

1. Construction in process for the following projects:
 - a. Park Improvements
2. Jim Beam sewer line rehab project for approximately \$1.47 million
3. Keystone Project- \$900 thousand
4. New Fire House – \$2.975 million
5. POE Project completed - \$336 thousand
6. Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-term Debt

Governmental Activities

As of June 30, 2020 the City of Shepherdsville, Kentucky had a total debt outstanding of \$5,635,614 reported for governmental activities. During fiscal year 2020, the City drew on an existing general obligation note for \$1,349,311. During the fiscal year, \$1,085,635 of debt was retired.

The City of Shepherdsville is required by Government Accounting Standards Board Statement No. 68 and No. 75 to begin reporting in its financial statements the City's proportionate share of the unfunded pension and OPEB liabilities of the City related to the City participation in CERS. See notes of these financial statements. The amount of the unfunded pension liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$19,560,390. The amount of the unfunded OPEB liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$5,140,477. The City of Shepherdsville has paid all amounts required to be paid to the Kentucky Retirement System as of June 30, 2020.

The net pension and OPEB liabilities are presented as non-current liabilities as of June 30, 2020 and represents an allocation of the unfunded pension and OPEB liabilities, respectively, of the Kentucky Retirement System measured as of June 30, 2019.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Business-type Activities

As of June 30, 2020 the City of Shepherdsville, Kentucky had \$18,508,867 long-term debt for the Sewer Fund. The City is prohibited from making early payments to retire the debts.

The reserve and replacement sinking funds required by three (3) of the bonds are fully funded as of June 30, 2020.

The sewer fund did not acquire any new debt during fiscal year end June 30, 2020.

Economic Factors, Next Year's Budget and Tax Rates

The following key economic indicators reflect the growth and prosperity of the City of Shepherdsville, Kentucky:

1. Future job growth over the next ten years is expected to be 38.9%.
2. Unemployment rate: The unemployment rate for the Commonwealth of Kentucky June 2020 was 5.7%. June's unemployment was down significantly from April (16.9%) and May (10.9%) due to the shutdown caused by COVID 19. The unemployment rate for Bullitt County July 2020 was back to 4.3%
3. Median household income is \$52,488.
4. Interstate 65 is a major highway that runs north and south through the City of Shepherdsville, Kentucky. There are two (2) exits off the interstate into the City. Large industrial parks have been developed around these exits. The City partnered with the Kentucky Department of Transportation to construct major improvements at Exit 116 on I-65 in Shepherdsville. The improvements to the exit ramps and the addition of another road will improve traffic flow on and off the ramps at Exit 116. A much needed improvement to Highway 61 (Preston Highway) is nearing completion. This new four lane highway will give the City residences and businesses easier access to the City and lessen traffic on Interstate 65.
5. The City is 17 miles from the Louisville International Airport which is a major transportation hub for United Parcel Service (UPS) and FedEx.
6. The cost of living in Shepherdsville, Kentucky is slightly more than the Kentucky and less than national average (90 vs. 100).
7. The real estate property tax for 2020 (due November 1, 2020) was \$0.133 per \$100 of assessed value.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2020

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities

The City did not amend its original annual budgets (General Fund, Sewer Fund and Municipal Aid Fund), with the exception of Police, for fiscal year ended June 30, 2020. Generally, if required, budget amendments fall into one of three (3) categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available, 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants, and 3) increases in appropriations that become necessary to maintain services.

The City is expecting a reduction in tax revenue due to COVID 19. Property tax revenue should stay consistent but Occupational license and withholding tax are expected to come in lower as business are closed or working from home. At this time the impact of COVID 19 is unknown, and the budgeted revenue increase may not be realized.

Request for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information contained herein or request for additional information should be directed to the City Controller, Post Office Box 400, Shepherdsville, KY 40165 or at City Hall, located at 634 Conestoga Parkway, Shepherdsville, Kentucky. One can also call (502) 215-1529 and request to speak with the Controller.

Please visit our website at www.Shepherdsville.net.

City of Shepherdsville, Kentucky
Statement of Net Position

June 30, 2020

	Governmental Activities	Business- Type Activities	Totals
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 3,728,287	\$ 7,920,760	\$ 11,649,047
Receivables, net	2,036,454	777,436	2,813,890
Unbilled Receivables, net	-	412,489	412,489
Internal balances	(28,452)	28,452	-
Due From Louisville Water Company	-	166,814	166,814
Prepaid Expenses	-	1,100	1,100
Restricted Cash and Cash Equivalents	2,200	524,861	527,061
Total Current Assets	5,738,489	9,831,912	15,570,401
Non - current Assets			
Non-Depreciable Capital Assets	2,495,753	592,054	3,087,807
Depreciable Capital Assets, Net	15,673,072	39,296,595	54,969,667
Total Non - current Assets	18,168,825	39,888,649	58,057,474
Total Assets	\$ 23,907,314	\$ 49,720,561	\$ 73,627,875
Deferred Outflow of Resources			
CERS - Pension - Non-Hazardous	\$ 565,274	\$ 320,255	\$ 885,529
CERS - Pension - Hazardous	4,601,026	-	4,601,026
CERS - OPEB - Non-Hazardous	220,167	124,735	344,902
CERS - OPEB - Hazardous	2,024,670	-	2,024,670
Total Deferred Outflows	\$ 7,411,137	\$ 444,990	\$ 7,856,127
Liabilities			
Current Liabilities			
Accounts Payable	\$ 494,476	\$ 175,374	\$ 669,850
Accrued Expenses	421,737	51,551	473,288
Accrued Interest	-	56,361	56,361
Deposits	12,150	-	12,150
Accrued Compensated Absences	33,138	6,898	40,036
Bonds Payable - Due in One Year	-	210,000	210,000
Capital Leases Payable - Due in One Year	-	585,486	585,486
Notes Payable - Due in One Year	1,367,903	450,856	1,818,759
Total Current Liabilities	2,329,404	1,536,526	3,865,930
Long - term Liabilities			
Accrued Compensated Absences	187,781	20,694	208,475
Bonds Payable - Non-current	-	3,070,000	3,070,000
Capital Leases Payable - Non-current	-	12,659,606	12,659,606
Notes Payable - Non-current	4,267,711	1,532,919	5,800,630
Net pension liability - CERS Non-Hazardous	2,196,136	1,244,218	3,440,354
Net pension liability - CERS Hazardous	16,120,037	-	16,120,037
Net OPEB liability - CERS Non-Hazardous	525,067	297,476	822,543
Net OPEB liability - CERS Hazardous	4,317,934	-	4,317,934
Total Long - term Liabilities	27,614,666	18,824,913	46,439,579
Total Liabilities	\$ 29,944,070	\$ 20,361,439	\$ 50,305,509
Deferred Inflows of Resources			
CERS - Pension - Non-Hazardous	\$ 86,839	\$ 49,199	\$ 136,038
CERS - Pension - Hazardous	476,120	-	476,120
CERS - OPEB - Non-Hazardous	187,106	106,005	293,111
CERS - OPEB - Hazardous	1,089,573	-	1,089,573
Total Deferred Inflows	\$ 1,839,638	\$ 155,204	\$ 1,994,842
Net Position			
Net Investment in Capital Assets	\$ 12,533,211	\$ 21,379,782	\$ 33,912,993
Restricted for:			
Municipal Street Fund	19,737	-	19,737
Debt Service	-	221,180	221,180
Construction	-	303,681	303,681
Unrestricted	(13,018,205)	7,744,265	(5,273,940)
Total Net Position	\$ (465,257)	\$ 29,648,908	\$ 29,183,651

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Statement of Activities

For the Year Ended June 30, 2020

Functions/Programs	Net Revenue (Expense) and Changes in Net Position						Totals
	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Government Business-type Activities	
Governmental Activities:							
General Government	(2,081,804)	61	412,390	-	\$ (1,669,353)	\$ -	\$ (1,669,353)
Fire Department	(5,571,049)	-	151,909	-	(5,419,140)	-	(5,419,140)
Police Department	(6,384,824)	2,385	184,721	-	(6,197,718)	-	(6,197,718)
Public Works Department	(1,027,820)	-	-	-	(1,027,820)	-	(1,027,820)
Municipal Aid - Streets	(638,772)	-	-	233,638	(405,134)	-	(405,134)
Interest on Long-Term Debt	(117,098)	-	-	-	(117,098)	-	(117,098)
Total Governmental Activities	(15,821,367)	2,446	749,020	233,638	(14,836,263)	-	(14,836,263)
Business-type Activities:							
Sewer Services	\$ (5,037,784)	\$ 7,001,317	\$ -	\$ -	-	1,963,533	1,963,533
General Revenues							
Property Taxes					2,236,609	-	2,236,609
Occupational Taxes					7,287,050	-	7,287,050
Fees, Licenses and Permits					448,418	-	448,418
Insurance Premium Tax					1,176,561	-	1,176,561
Motor Vehicle Taxes					117,866	-	117,866
Telecommunications Tax					76,905	-	76,905
Franchise Taxes					94,352	-	94,352
Rent Income					25,161	-	25,161
Other Income					105,170	131,299	236,469
Interest Income					59,022	12,278	71,300
Gain (loss) on Sale or Disposal of Capital Assets					90,881	-	90,881
Total General Revenues					11,717,995	143,577	11,861,572
Change in Net Position					(3,118,268)	2,107,110	(1,011,158)
Net Position, Beginning					2,653,011	27,541,798	30,194,809
Net Position, Ending					\$ (465,257)	\$ 29,648,908	\$ 29,183,651

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Balance Sheet

June 30, 2020

	General Government <u>Fund</u>	Municipal Aid <u>Fund</u>	<u>Totals</u>
Assets			
Cash and Cash Equivalents			
Cash	\$ 3,728,287	\$ -	\$ 3,728,287
Cash, Restricted	-	2,200	2,200
Receivables, Net	2,018,917	17,537	2,036,454
Due from Sewer Fund	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 5,747,204</u>	<u>\$ 19,737</u>	<u>\$ 5,766,941</u>
Liabilities			
Accounts Payable	\$ 494,476	\$ -	\$ 494,476
Accrued Expenses	421,737	-	421,737
Deposits	12,150	-	12,150
Due to Sewer Fund	<u>28,452</u>	<u>-</u>	<u>28,452</u>
Total Liabilities	<u>956,815</u>	<u>-</u>	<u>956,815</u>
Fund Balance			
Spendable:			
Restricted For:			
Municipal Aid Fund	-	19,737	19,737
Unassigned Fund Balance	<u>4,790,389</u>	<u>-</u>	<u>4,790,389</u>
Total Fund Balances	<u>4,790,389</u>	<u>19,737</u>	<u>4,810,126</u>
Total Liabilities and Fund Balances	<u>\$ 5,747,204</u>	<u>\$ 19,737</u>	<u>\$ 5,766,941</u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Reconciliation of the Balance Sheet – Governmental Funds
To the Statement of Net Position

June 30, 2020

Fund Balances - Total Governmental Funds \$ 4,810,126

Amounts reported for *Governmental Activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Governmental capital assets	\$ 28,058,862	
Less: accumulated depreciation	<u>(9,890,037)</u>	18,168,825

Deferred outflows of resources and deferred inflows of resources related to the City's proportionate share of CERS:

Deferred outflows of resources - CERS	7,411,137	
Deferred inflows of resources - CERS	<u>(1,839,638)</u>	5,571,499

Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds.

Governmental notes and capital leases payable	(5,635,614)	
Net pension liability	(18,316,173)	
Net OPEB liability	(4,843,001)	
Compensated Absences	<u>(220,919)</u>	<u>(29,015,707)</u>

Net Position of Government Activities **\$ (465,257)**

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds

For the Year Ended June 30, 2020

	General Government Fund	Municipal Aid Fund	Totals
Revenues			
Property Taxes	\$ 2,236,609	\$ -	\$ 2,236,609
Occupational Taxes	7,287,050	-	7,287,050
Fees, Licenses and Permits	448,418	-	448,418
Insurance Premium Tax	1,176,561	-	1,176,561
Motor Vehicle Taxes	117,866	-	117,866
Telecommunications Tax	76,905	-	76,905
Franchise Taxes	94,352	-	94,352
Charges for Services	2,446	-	2,446
Rent Income	25,161	-	25,161
Other Income	105,169	-	105,169
Intergovernmental Revenues	749,020	233,638	982,658
Interest Income	59,022	-	59,022
Total Revenues	<u>12,378,579</u>	<u>233,638</u>	<u>12,612,217</u>
Expenditures			
General Government	(1,338,768)	-	(1,338,768)
Public Safety, Fire Department	(3,812,417)	-	(3,812,417)
Public Safety, Police Department	(4,509,784)	-	(4,509,784)
Public Works	(1,466,715)	-	(1,466,715)
Municipal Road Aid Expense	-	(223,749)	(223,749)
Capital Outlay	(2,464,012)	(1,066,627)	(3,530,639)
Debt Service:			
Principal	(1,085,635)	-	(1,085,635)
Interest	(117,098)	-	(117,098)
Total Expenditures	<u>(14,794,429)</u>	<u>(1,290,376)</u>	<u>(16,084,805)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(2,415,850)</u>	<u>(1,056,738)</u>	<u>(3,472,588)</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	-	391,905	391,905
Transfers to Other Funds	(391,905)	-	(391,905)
Note Payable Proceeds	1,349,311	-	1,349,311
Proceeds From Sale of Capital Assets	90,881	-	90,881
Insurance recovery	29,721	-	29,721
Total Other Financing Sources (Uses)	<u>1,078,008</u>	<u>391,905</u>	<u>1,469,913</u>
Net Change in Fund Balances	(1,337,842)	(664,833)	(2,002,675)
Fund Balances, Beginning	<u>6,128,231</u>	<u>684,570</u>	<u>6,812,801</u>
Fund Balances, Ending	<u>\$ 4,790,389</u>	<u>\$ 19,737</u>	<u>\$ 4,810,126</u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Reconciliation of Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
To the Statement of Activities

For the Year Ended June 30, 2020

Net change in fund balance- total governmental funds \$ (2,002,675)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives. This is the amount capital outlays exceeded depreciation expense in the current fiscal year.

Expenditures for capital assets	\$ 3,530,639	
Current year's depreciation	<u>(1,013,946)</u>	2,516,693

In the statement of activities, the net gain (loss) on the sale/disposal of capital assets is reported, whereas in the governmental funds, only the proceeds from the sale of capital assets is recorded as a financial resource. Therefore, the change in net position differs from the change in fund balance by the cost of the assets sold / disposed less the related accumulated depreciation. (29,721)

Note payable proceeds are reported as revenues in the fund statements because they create current financial resources, but they are reported as long-term debt on the statement of net position. (1,349,311)

Repayment of long-term debt principal is considered an expenditure in the governmental funds, but their repayment reduces long-term liabilities in the statement of net position. 1,085,635

Some items reported in the Statement of Activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds.

These activities include:

Pension expense related to changes in the net pension liability and the net changes in deferred inflows and deferred outflows related to CERS	(3,405,166)	
Changes in compensated absences	<u>66,277</u>	<u>(3,338,889)</u>

Total change in net position of governmental activities \$ (3,118,268)

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Statement of Net Position – Proprietary Fund

June 30, 2020

	Sewer Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 7,920,760
Accounts Receivable, net	777,436
Unbilled Receivables, net	412,489
Due from General Fund	28,452
Due from Louisville Water Company	166,814
Prepaid Expenses	1,100
Restricted Cash and Cash Equivalents	<u>524,861</u>
Total Current Assets	<u>9,831,912</u>
Non-current Assets	
Non-Depreciable Capital Assets	592,054
Depreciable Capital Assets, Net	<u>39,296,595</u>
Total Non-current Assets	<u>39,888,649</u>
Total Assets	<u>\$ 49,720,561</u>
Deferred Outflow of Resources	
CERS - Pension - Non-Hazardous	\$ 320,255
CERS - OPEB - Non-Hazardous	<u>124,735</u>
Total Deferred Outflows of Resources	<u>\$ 444,990</u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 175,374
Accrued Expenses	51,551
Accrued Interest	56,361
Accrued Compensated Absences	6,898
Bonds Payable - Due in One Year	210,000
Capital Leases Payable - Due in One Year	585,486
Notes Payable - Due in One Year	<u>450,856</u>
Total Current Liabilities	<u>1,536,526</u>
Non-current Liabilities	
Accrued Compensated Absences	\$ 20,694
Net pension liability - CERS	1,244,218
Net OPEB liability - CERS	297,476
Bonds Payable - Non-current	3,070,000
Capital Leases Payable - Non-current	12,659,606
Notes Payable - Non-current	<u>1,532,919</u>
Total Non-current Liabilities	<u>18,824,913</u>
Total Liabilities	<u>20,361,439</u>
Deferred Inflow of Resources	
CERS - Pension - Non-Hazardous	\$ 49,199
CERS - OPEB - Non-Hazardous	<u>106,005</u>
Total Deferred Inflows of Resources	<u>\$ 155,204</u>
Net Position	
Net Investment in Capital Assets	21,379,782
Restricted for Debt Service	221,180
Restricted for Construction	303,681
Unrestricted	<u>7,744,265</u>
Total Net Position	<u>\$ 29,648,908</u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Statement of Revenues, Expenses and Changes
In Net Position – Proprietary Fund

For the Year Ended June 30, 2020

	Sewer Fund
Operating Revenues	
Sewer Service	\$ 3,991,289
Jim Beam Service	2,589,077
Sewer Connection	415,311
Other Fees	5,640
Total Operating Revenues	<u>7,001,317</u>
 Operating Expenses	
Personnel Expenses	\$ 604,671
Personnel Benefits	497,897
Sewer Plant Operating Expenses	595,037
Repairs and Maintenance	659,916
Training and Travel	7,050
General Administrative and Supplies	162,822
Professional Fees	149,025
Insurance	69,728
Other	545
Depreciation and Amortization	1,499,635
Total Operating and Maintenance Expenses	<u>4,246,326</u>
 Operating Income	<u>2,754,991</u>
 Non-operating Revenues (Expenses)	
Interest Expense	\$ (791,458)
Interest Income	12,278
Other Income	131,299
Total Non-operating Income (Expenses)	<u>(647,881)</u>
 Change in Net Position	2,107,110
 Net Position, Beginning	<u>27,541,798</u>
Net Position, Ending	<u>\$ 29,648,908</u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Statement of Cash Flows – Proprietary Fund

For the Year Ended June 30, 2020

	Sewer Fund
Cash Flow from Operating Activities:	
Cash Received from Customers	\$ 7,015,377
Cash Payments made to Suppliers for Goods and Services	(1,597,773)
Cash Payments made to Employees and Professional Contractors for Services	<u>(849,856)</u>
Net Cash Provided by Operating Activities	<u>4,567,748</u>
Cash Flows from Non-Capital Financing Activities:	
Other Miscellaneous Income	<u>131,299</u>
Net Cash Provided by Non-Capital Financing Activities	<u>131,299</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(308,436)
Principal Paid on Long-term Debt	(1,206,929)
Interest Paid on Long-term Debt	<u>(794,543)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(2,309,908)</u>
Cash Flows from Investing Activities	
Interest Income	<u>12,278</u>
Net Increase in Cash and Cash Equivalents	2,401,417
Cash and Cash Equivalents, Beginning	<u>6,044,204</u>
Cash and Cash Equivalents, Ending	<u>\$ 8,445,621</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 2,754,991
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and Amortization	1,499,635
Increases (Decreases) In:	
Receivables (net) Billed	(74,197)
Receivables (net) Unbilled	88,257
Prepaid Expenses	89,941
Accounts Payable	(43,591)
Accrued Expenses	18,763
Accrued Compensated Absences	(3,495)
Net Change in Pension / OPEB Related Items	230,658
Due To / From General Fund, Net	<u>6,786</u>
Net Cash Provided by Operating Activities	<u>\$ 4,567,748</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	\$ 7,920,760
Cash and Cash Equivalents - Restricted	<u>524,861</u>
Total Cash and Cash Equivalents	<u>\$ 8,445,621</u>
Noncash Transactions:	
CERS Pension / OPEB	<u>\$ 230,658</u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies

These financial statements of the City of Shepherdsville, Kentucky (City) were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP). The following summary of the more significant policies of the City is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The City of Shepherdsville, Kentucky was incorporated December 11, 1793. The City operates under a Mayor-Council form of government. The City's major operations include fire and police protection, parks and recreation, streets, sidewalks and roads maintenance and general administrative services. In addition, the City operates a sewer system.

The citizens of Shepherdsville elect a mayor and six (6) city council members.

The financial statements of the City of Shepherdsville, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City's ability to significantly influence operations, select the governing body, and participate in fiscal management and the scope of public service.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements Measurement Focus and Basis of Accounting

The City Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three (3) categories: 1) charges for services, 2) operating grants and contributions.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements.

Governmental Fund Financial Statements Measurement Focus and Basis of Accounting

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, insurance premium tax, occupational tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified receivables as being non-spendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain cash accounts as being restricted because their use is restricted by Kentucky Revised Statutes and/or a City Ordinance. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for Other Capital Projects that are to be used for the repair and replacement of equipment.

- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds. City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Proprietary Fund Financial Statements Measurement Focus and Basis of Accounting

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

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

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

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

Component Units

There are no governmental component units incorporated in the basic government-wide financial statements. A *component unit* is a legally separate entity that is included in the primary government's financial reporting entity using the criteria of Government Standards Accounting Board Statement No. 14.

Budgetary Information, Compliance and Accountability

Annual budgets are adopted on a basis consistent with Section 91A .030 of the Kentucky Revised Statutes (KRS) for the general, enterprise fund and the special revenue fund. Budgets for all government activities and business-type activities are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

On or before June 30th of each year, the Mayor must present the proposed budget to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than July 1st of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the governing council. Certain supplemental budgetary appropriations were made during the year, which were not considered material.

Budgeted amounts, as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance Accounting

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Accounts Receivable

Amounts due from private individuals, businesses, organizations or other government entities which pertain to charges for services rendered by the City departments are reported as receivables.

Receivables are reviewed periodically to establish or update the provisions for uncollectible amounts.

These provisions are estimated based on an analysis for the age of the various accounts. The City records the amount of earned but unbilled revenues for the Sewer Utilities System enterprise funds.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Shepherdsville, Kentucky, like all other governmental entities in Kentucky, uses fund accounting to ensure and reflect compliance with finance - related legal requirements, such as the City's general budget ordinances. All of the funds of the City of Shepherdsville, Kentucky can be divided into two (2) categories: governmental funds and a proprietary fund.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted in the governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left over at year-end that will be available for spending in the next fiscal year. Governmental funds are reported using an accounting method called *modified accrual accounting* which gives the reader a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance City programs. The relationship between governments' activities (as reported in the statement of net position and the statement activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Shepherdsville, Kentucky adopts an annual budget for its general fund as required by the Kentucky Revised Statutes (KRS). The budget is a legally adopted document that incorporates input from the residents of the City, the management of the City and the decisions of the City Council about which services to provide and how to pay for the services. It also authorizes the City to obtain funds from other sources to finance these current period items. The budgetary financial statement provided for the general fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison financial statement uses budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget documents. The financial statement shows four (4) columns: 1) the original budget as adopted by the council, 2) the final budget as amended by the city council, 3) the actual resources, charges to appropriations and ending balances of the general fund, and 4) the differences or variance between the final budget and the actual resources and charges.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

The City reports the funds:

Major Governmental Fund: General Fund - accounts for the City's primary operating activities. It is used to account for and report all financial resources except those required to be accounted for in another fund.

Non-major Governmental Fund: Special Revenue Fund (Municipal Road Aid Fund) - used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. This includes revenue received from the State of Kentucky and expenditures from this fund are restricted to additions and improvements to City roads.

Proprietary Funds - The City of Shepherdsville, Kentucky has one proprietary fund. The *Sewer Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Shepherdsville, Kentucky uses the enterprise fund to account for sewer operations. These funds are the same as those functions shown in the business-type activities in the statement of net position and statement of activities. This is a major fund.

Inter-fund Transactions

Inter-fund transactions are reflected as loans, services provided, and reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to / from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures / expenses. The City's General Fund charges the Sewer fund a monthly administrative fee of \$10,000 considered to be the market value of personnel and other administrative expenses related to the administration of the Sewer Fund. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Inter-fund receivables and payables as of June 30, 2020, are as follows:

	Inter-fund Receivables	Inter-fund Payables
General Fund	\$ -	\$ 28,452
Sewer Fund	28,452	-
Total	\$ 28,452	\$ 28,452

Inventories

The City does not maintain inventories for general government operations or the business-type proprietary operations. Materials and goods for operations are purchased and expensed as needed.

Restricted Assets

The use of certain assets of general government funds and business-type proprietary funds is restricted by specific provisions of City ordinances, Kentucky Revised Statutes and bond resolutions. Assets so designated are identified as restricted assets in the balance sheet. When both restricted and unrestricted resources are available for use, the City’s policy is to use restricted resources first, then unrestricted resources as they are needed. Restricted assets are classified as non-current if they are for the acquisition or construction of capital assets, for liquidation of long-term debt or other than current operations.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. The City has established a threshold of \$5,000 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but charged to an expense account in the current year.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Capital assets are depreciated using the straight-line method. Capital assets of the government are depreciated using the straight-line method over the estimated useful lives as follows:

Asset Class	Estimated Useful Lives (Years)
Public infrastructure	15 – 50
Sewer system infrastructure	25 – 39
Buildings and improvements	20 – 39
General furniture and equipment	5 – 10
Sewer system equipment	5 – 25
Vehicles	5 – 10

Impairment Loss

General Government Activities and Business-type Activities revenues do not include impairment losses due to the elimination of equipment (net of accumulated depreciation) that was no longer of service for City use.

Infrastructure

The City has elected not to use the modified approach in accounting for its street network (pavement, drainage, sidewalks, and curbs). The modified approach allows governments to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the street network are capitalized and depreciation is recognized over the estimated life of the capital asset. The City has not used a pavement rating system to rate street condition and quantifies the results of maintenance efforts.

Operating and Non-operating Revenues and Expenses

The business-type proprietary fund financial statements distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses are those that result from providing services associated with the principal activities of the respective fund. Primary examples of operating revenues are charges for wastewater treatment services of the City's utility system. Operating expenses include the cost of sales and services, administration costs and depreciation expenses.

Non-operating revenues and expenses are all those that do not meet the criteria described previously, and include interest and tax revenues, and debt service expenses.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Accrued Compensated Absences

It is the policy of the City to permit City employees to accumulate a limited amount of earned but unused leave benefits which will be paid to City employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned. The valuation of accrued leave benefits is calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The liability is typically liquidated with resources of the same fund that has paid the applicable employee's regular salary and fringe benefits. In governmental funds, compensated absences are not payable with available and spendable resources, and, therefore, are only recorded when they have matured, for example, as a result of employee resignations and retirements. Changes in the City's obligations related to compensated absences are as follows:

Compensated Absences:	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>	<u>Current Portion</u>
Governmental activities	\$ 287,192	\$ 297,306	\$ 363,579	\$ 220,919	\$ 44,184
Business-type activities	<u>31,087</u>	<u>25,556</u>	<u>29,051</u>	<u>27,592</u>	<u>5,518</u>
Total	<u>\$ 318,279</u>	<u>\$ 322,862</u>	<u>\$ 392,630</u>	<u>\$ 248,511</u>	<u>\$ 49,702</u>

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the City-wide financial statements. Net positions are classified in the following categories:

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Use of Estimates

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

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

Property Tax Calendar

Property tax (real property) rolls are prepared by the Bullitt County Property Tax Assessors office on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The property tax rates assessed for the year ended June 30, 2019 to finance the General Fund operations were \$0.139 per \$100 valuation of real property and \$0.136 per \$100 valuation for motor vehicles. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<u>Description</u>	<u>Date per KRS 134.015</u>
• Due date for payment	Upon receipt
• 2% discount applies	To November 30
• Face value payment period	To December 31
• Past due date, 10% penalty	January 1
• Interest charges	1.0% per month effective January 1

Real estate taxes are collected by the Bullitt County Sheriff's Office. Vehicle taxes are collected by the County Clerk of Bullitt County. Vehicle taxes are due in the birth month of the licensee.

Pensions and OPEB Plans

For purposes of measuring the net pension liability, net 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 the County Employees Retirement System Non-Hazardous ("CERS Non-Hazardous") and County Employees Retirement System Hazardous ("CERS Hazardous") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until that period. The City has one item that qualifies as a deferred outflow of resources for CERS pension and OPEB contributions made subsequent to the pension plan's measurement date.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category; that item is the proportionate share of CERS amounts reported for the net difference between projected and actual earnings on pension and OPEB plan investments. This item is reported in the governmental balance sheet and on the statement of net position. These amounts are deferred and recognized as an inflow from resources in the period that the amounts become available.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2020, the GASB issued Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, Fiduciary Activities. This statement was effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, Leases. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. This statement is effective for periods beginning after December 15, 2019, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. This statement is effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, Conduit Debt Obligations. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, Omnibus 2020. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, Replacement of Interbank Offered Rates. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 1 Summary of Significant Accounting Policies (continued)

In June 2020, the GASB issued Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District’s financial statements.

Note 2 Deposits and Investments

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned or that the City will not be able to recover collateral securities in the possession of an outside party. At June 30, 2020, \$11,814,775 of the government’s bank balance of \$12,564,773 was exposed to custodial credit risk. Of the amount exposed to custodial credit risk, \$11,167,129 was collateralized by securities held by the pledging financial institution and \$647,645 was uncollateralized.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 3 Receivables

As of June 30, 2020, the receivables due the City consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Occupational Tax Receivable	\$ 1,681,413	\$ -
Property Tax Receivable	264	-
Vehicle Tax Receivable	8,034	-
Insurance Tax Receivable	303,042	-
Telecommunications Tax	6,942	-
KLEFP Receivable	15,356	-
Municipal Aid Receivable	17,537	-
Other	3,866	
Customers Receivable	-	788,844
Less Provision for Uncollectible Accounts	<u>-</u>	<u>(11,408)</u>
 Total Net Receivables	 <u><u>\$ 2,036,454</u></u>	 <u><u>\$ 777,436</u></u>

Note 4 Capital Assets

Capital asset activities for the governmental activities for the year ended June 30, 2020 are as follows:

<u>Governmental Activities</u>	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Non-depreciable capital assets:				
Land	\$ 717,196	\$ -	\$ -	\$ 717,196
Construction in process	2,559,438	2,194,209	2,975,090	1,778,557
Depreciable capital assets:				
Building and improvements	2,501,234	2,975,090	-	5,476,324
City Park	84,090	-	-	84,090
Furniture and fixtures	101,859	-	-	101,859
Equipment	2,320,749	40,123	-	2,360,872
Vehicles	5,275,550	342,771	29,683	5,588,638
Infrastructure	<u>11,018,604</u>	<u>932,722</u>	<u>-</u>	<u>11,951,326</u>
Total capital assets	24,578,720	6,484,915	3,004,773	28,058,862
Accumulated depreciation	<u>8,896,867</u>	<u>1,013,946</u>	<u>20,776</u>	<u>9,890,037</u>
Governmental capital assets, net	<u><u>\$ 15,681,853</u></u>	<u><u>\$ 5,470,969</u></u>	<u><u>\$ 2,983,997</u></u>	<u><u>\$ 18,168,825</u></u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 4 Capital Assets (continued)

Depreciation expense was charged to governmental functions in the statement of activities as follows:

Governmental Activities

General Government	\$ 72,133
Fire	226,237
Police	211,032
Public Works	89,521
Infrastructure	<u>415,023</u>
Total depreciation	<u>\$ 1,013,946</u>

Capital asset activity for the business-type activity for the year ended June 30, 2020:

<u>Business-type Activities</u>	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Non-depreciable capital assets:				
Land	\$ 592,054	\$ -	\$ -	\$ 592,054
Construction in Process	437,951	308,436	-	746,387
Depreciable capital assets:				
Equipment	942,412	-	-	942,412
Vehicles	689,903	-	-	689,903
Wastewater treatment plant and lines	32,106,300	-	-	32,106,300
Building Improvements	227,070	-	-	227,070
Pump stations	182,948	-	-	182,948
Salt River Interceptor	11,173,712	-	-	11,173,712
South Bullitt Regional Interceptor	10,879,076	-	-	10,879,076
Solids processing building	<u>3,109,500</u>	<u>-</u>	<u>-</u>	<u>3,109,500</u>
Total capital assets	60,340,926	308,436	-	60,649,362
Accumulated depreciation	<u>19,261,078</u>	<u>1,499,635</u>	<u>-</u>	<u>20,760,713</u>
Business-type capital assets, net	<u>\$ 41,079,848</u>	<u>\$ (1,191,199)</u>	<u>\$ -</u>	<u>\$ 39,888,649</u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 5 Long-term Liabilities

As of June 30, 2020, the governmental activities debt of the City of Shepherdsville, Kentucky consisted of the following:

	Original Principal	Outstanding Principal June 30, 2020
Series 2017 General Obligation Development Revenue Note dated July 31, 2017, annual principal and quarterly interest payments at 2.59%, maturing July 30, 2022	\$ 3,000,000	\$ 1,670,515
Note payable with a local bank dated September 1, 2018, principal and interest payments due monthly bearing interest at 3.55%, maturing August 1, 2023	2,350,000	1,965,670
Note payable with a local bank dated September 1, 2018, principal and interest payments due monthly bearing interest at 3.50%, maturing August 1, 2023	2,262,791	1,999,429
	\$ 7,913,436	\$ 5,635,614

Long-term liability activity for the year ended June 30, 2020 is as follows:

Governmental Activities	July 1, 2019	Additions	Deletions	June 30, 2020	Current Portion
Notes payable	\$ 5,371,938	\$ 1,349,311	\$ 1,085,635	\$ 5,635,614	\$ 1,367,903
Net pension liability	14,785,727	3,530,446	-	18,316,173	-
Net OPEB liability	4,352,757	490,244	-	4,843,001	-
Compensated absences	287,192	43,079	109,352	220,919	33,138
Governmental activities, long-term liabilities	\$ 24,797,614	\$ 5,413,080	\$ 1,194,987	\$ 29,015,707	\$ 1,401,041
Business-type Activities	July 1, 2019	Additions	Deletions	June 30, 2020	Current Portion
Bonds	\$ 3,485,000	\$ -	\$ 205,000	\$ 3,280,000	\$ 210,000
Notes payable	2,429,284	-	445,509	1,983,775	450,856
Capital lease	13,801,512	-	556,420	13,245,092	585,486
Net pension liability	982,148	262,070	-	1,244,218	-
Net OPEB liability	286,310	11,166	-	297,476	-
Compensated absences	31,087	1,168	4,663	27,592	6,898
Business-type activities, long-term liabilities	\$ 21,015,341	\$ 274,404	\$ 1,211,592	\$ 20,078,153	\$ 1,253,240

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 5 Long-term Liabilities (continued)

Compensated absences are generally paid through the general and sewer funds. The general fund, the water and sewer fund and gas fund were the funds with reductions in compensated absences during the fiscal year.

The net pension and OPEB liabilities – CERS pension and OPEB are generally paid through the general fund and sewer fund.

Interest expense of \$117,098 is included in governmental activities in the statement of activities.

Principal and interest requirements to retire the City’s governmental activities long-term obligations are as follows:

Governmental Activities - Notes Payable

**Amount to be paid during
Fiscal Year Ended June 30,**

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	\$ 1,367,903	\$ 106,503	\$ 1,474,406
2022	1,466,247	119,729	1,585,976
2023	1,367,797	70,566	1,438,363
2024	<u>1,433,667</u>	<u>15,774</u>	<u>1,449,441</u>
Totals	<u>\$ 5,635,614</u>	<u>\$ 312,572</u>	<u>\$ 5,948,186</u>

Principal and interest requirements to retire the City’s Business-type activities long-term obligations are as follows:

Business-type activities – Bonds payable

**Amount to be paid during
Fiscal Year Ended June 30,**

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	\$ 210,000	\$ 146,649	\$ 356,649
2022	220,000	137,789	357,789
2023	230,000	127,720	357,720
2024	240,000	117,054	357,054
2025	255,000	99,604	354,604
2026-2030	1,445,000	268,959	1,713,959
2031-2032	<u>680,000</u>	<u>8,400</u>	<u>688,400</u>
Totals	<u>\$ 3,280,000</u>	<u>\$ 906,175</u>	<u>\$ 4,186,175</u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 5 Long-term Liabilities (continued)

Business-type activities – Notes payable

**Amount to be paid during
Fiscal Year Ended June 30,**

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	450,856	32,006	\$ 482,862
2022	456,282	25,825	482,107
2023	461,791	19,495	481,286
2024	257,700	13,073	270,773
2025	50,548	10,338	60,886
2026-2030	276,603	27,828	304,431
2031	29,995	450	30,445
Totals	<u>\$ 1,983,775</u>	<u>\$ 129,015</u>	<u>\$ 2,112,790</u>

Business-type activities – Capital lease payable

**Amount to be paid during
Fiscal Year Ended June 30,**

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	585,486	569,881	\$ 1,155,367
2022	612,763	544,727	1,157,490
2023	642,445	517,362	1,159,807
2024	672,581	489,579	1,162,160
2025	706,859	457,994	1,164,853
2026-2030	4,076,804	1,789,827	5,866,631
2031-2035	5,162,982	788,556	5,951,538
2036	785,172	15,931	801,103
Totals	<u>\$ 13,245,092</u>	<u>\$ 5,173,857</u>	<u>\$ 18,418,949</u>

Bond payable

On May 31, 2006, the City entered into an agreement with Kentucky Rural Water Finance Corporation to issue \$5,385,000 in public project revenue bonds. The bonds are to be used to finance the expansion of the City's sewer lines. The bonds are secured by a pledge of the additional revenues generated by this expansion. These bonds begin to mature annually starting August 1, 2007 through August 1, 2031. The bonds carry a variable interest rate from 3.60% to 4.80%, depending on the amount of time to maturity. Interest payments are due semi-annually in February and August of each year. Principal payments are due semi-annually in August. These bonds also require the City to make an annual payment of \$450 in August for trustee fees. There is no collateral assigned to the bonds. The City is required to establish a sinking fund for the segregation of funds to repay the bonds. 1/6 of the required amount to pay interest is to be deposited in the sinking fund by the due date of the interest payment. 1/12 of the required amount to pay principal is to be deposited in the sinking fund by the due date of the principal payment. The City is required to create a depreciation reserve account and segregate funds for the repair and replacement of property associated with the bonds. As of June 30, 2020 the sinking fund was fully funded.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 5 Long-term Liabilities (continued)

Notes Payable

On June 1, 2002 the City entered into an agreement with Kentucky Infrastructure Authority (KIA) to borrow up to \$8,187,728 for the upgrade and expansion of the City sewer system. Proceeds from this loan were drawn down by the City to cover project construction cost. Upon completion of the project, or upon reaching the maximum amount to be borrowed; the loan will convert to an installment note bearing interest at rate of 1% per annum. Repayment will be semi-annually, (June 1st and December 1st) over a period of twenty (20) years. During the fiscal year ended June 30, 2004, the note converted to an installment note. The note is secured by service revenue of the business-type activity. The City is required to establish maintenance and replacement reserve account. \$40,000 is to be deposited in the reserve account by December 1 of each year until the balance in the reserve account is \$400,000. As of June 30, 2020, the reserve account is fully funded.

September 1, 2009 the City entered into an agreement with the Kentucky Infrastructure Authority (KIA) to borrow \$3,000,000 of America Recovery and Reinvestment Act (ARRA) fund for the South Bullitt Regional Interceptor Project. Proceeds from this loan were drawn by the City to cover project cost. Upon completion of the project the loan will convert to an installment note requiring semi-annual payments (June 1 and December 1) of principal. The loan has an interest rate of 3%, and a loan service fee of .20%. The note will be repaid over a twenty (20) year term. The note contains a provision in which 52% (\$1,563,000) of the principal will be forgiven. The note is secured by service revenue of the business-type activity. The City is to establish a replacement reserve account. \$7,500 is to be deposited in the reserve account by December 1 each year until a balance of \$75,000 is reached. As of June 30, 2020 the reserve account is fully funded.

Capital Lease Agreement

On October 28, 2008 the City entered into a 27 ¼ year fixed rate lease agreement with Kentucky League of Cities in the amount of \$18,000,000 to finance the construction of a new interceptor line for the City's sewer system. The lease agreement requires monthly payments in varying amount, including interest at 3.86%, plus related fees. The final payment is due February 1, 2036. Total future minimum payments required by the lease agreement as of June 30, 2020 total \$18,418,949. The lease is secured by property associated with the lease.

Note 6 Compliance with Debt Obligations

The City is required to establish sinking fund accounts, depreciation reserve accounts and repair and replacements accounts in order to be compliant with some of the debt financing agreements. As of June 30, 2020 all required sinking funds were fully funded. The City was not in compliance with an annual requirement to hire an independent consultant to perform an assessment of required financial ratios. The City has requested a waiver for the requirement.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 7 – Fund Balances

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2020, there was no nonspendable fund balance.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2020, the City had \$19,737 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Council. The Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. There were no committed fund balances at June 30, 2020.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. There were no assigned fund balances at June 30, 2020.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. At June 30, 2020, the City had \$4,790,389 unassigned fund balance.

The City considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the City has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note 8 Risk Management

The City of Shepherdsville is exposed to various risk of loss to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters. In addition to its general liability insurance, the City also carries commercial risk insurance for all risk of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) years.

The City is a defendant in various pending litigation and administrative proceedings. Management anticipates that any potential claims, if any, against the City would be covered by insurance and would not materially affect the City's financial position.

Note 9 Economic Dependency

The City is not economically dependent on one or more major taxpayers or suppliers.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 10 Tax Abatements

The City enters into occupational tax abatement agreements with local businesses authorized by Kentucky Revised Statutes (KRS) 154.25-010 and 154-24-150. The KRS established the Kentucky Jobs Development Authority (KJDA) for encouraging the development and expansion of the service and technology industries in the Commonwealth of Kentucky.

For the fiscal year ended June 30, 2020, the City abated occupational license fees totaling \$507,698 under this program including the following occupational license fee abatement agreement exceeding 10% of the total amount abated:

- A one-half percent (.5%) to one percent (1%) occupational license fee abatement based upon qualifying wages to a distribution company. The amount of the abatement was \$63,016.
- A one-half percent (.5%) to one percent (1%) occupational license fee abatement based upon qualifying wages to a manufacturing company. The amount of the abatement was \$373,389.

Note 11 Retirement Plans

The City participates in the County Employees Retirement System (CERS).

Plan Description - The City participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.

This system consists of two plans – *Nonhazardous and Hazardous*. Each plan is a cost-sharing multiple employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 11 Retirement Plans (Continued)

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

For the fiscal year ended June 30, 2020 plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section 78.545(33) CERS normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% for nonhazardous and 9% for hazardous of their annual creditable compensation, 5% for nonhazardous and 8% for hazardous of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% for nonhazardous and 8% for hazardous of their annual creditable compensation.

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, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health 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 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.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 11 Retirement Plans (Continued)

A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City's contractually required contribution rate for the year ended June 30, 20120 was 19.30 percent of annual creditable compensation for nonhazardous employees and 30.06 percent of annual creditable compensation for hazardous employees. Contributions to the pension plan from the City were \$1,448,835 (\$290,092 for nonhazardous and \$1,158,743 for hazardous).

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

At June 30, 2020, the City reported a liability of \$19,560,391 for its proportionate share of the net pension liability (\$3,440,354 for nonhazardous and \$16,120,037 for hazardous). The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the City's proportion was 0.048917 percent for nonhazardous and 0.583574 percent for hazardous which was an increase of 0.001231 percent for nonhazardous and an increase of 0.051679 percent for hazardous from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$419,017 for nonhazardous and \$2,763,801 for hazardous. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CERS Non-Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 87,843	\$ 14,537
Changes in actuarial assumptions	348,203	-
Difference between projected and actual investment earnings	66,041	121,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	93,350	-
Contributions paid to CERS subsequent to the measurement date	<u>290,092</u>	<u>-</u>
	<u>\$ 885,529</u>	<u>\$ 136,038</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$290,092 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 11 Retirement Plans (Continued)

Year Ending <u>June 30</u>	Pension Expense <u>Amount</u>
2021	\$ 296,378
2022	115,446
2023	43,640
2024	3,935
	<u>\$ 459,399</u>

CERS Hazardous:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Differences between expected and actual economic experience	\$ 684,903	\$ -
Changes in actuarial assumptions	1,564,759	-
Difference between projected and actual investment earnings	247,980	476,120
Changes in proportion and differences between employer contributions and proportionate share of contributions	944,641	-
Contributions paid to CERS subsequent to the measurement date	<u>1,158,743</u>	<u>-</u>
	<u>\$ 4,601,026</u>	<u>\$ 476,120</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$1,158,743 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>June 30</u>	Pension Expense <u>Amount</u>
2021	\$ 1,822,805
2022	838,265
2023	290,563
2024	14,530
	<u>\$ 2,966,163</u>

The City also owed \$143,442 to the plan for June 2020.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 11 Retirement Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3 percent
Salary increases	3.30% to 10.30% varies by service, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is a Pub-2010 General Mortality Table 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 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 actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018 and adopted by the Board on April 18, 2019.

The long-term expected return on plan assets 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit / High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunities	3.00%	2.97%
Real Return	15.00%	4.10%
	<u>100.0%</u>	

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 11 Retirement Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

Sensitivity Of The City's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

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

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
City's proportionate share of the net pension liability - Non-Hazardous	\$ 4,302,908	\$ 3,440,354	\$ 2,721,425
City's proportionate share of the net pension liability - Hazardous	\$ 20,153,664	\$ 16,120,037	\$ 12,813,046

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Note 12 Other Post-Employment Benefit Plans

The City participates in the County Employees Retirement System (CERS).

Plan Description - The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 12 Other Post-Employment Benefit Plans (Continued)

to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

This system consists of two plans – *Nonhazardous and Hazardous*. Each plan is a cost-sharing multiple employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS.

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions – For the fiscal year ended June 30, 2019, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The County's contractually required contribution rate for the year ended June 30, 2019, was 4.76 percent of annual creditable compensation for non-hazardous employees and 9.52 percent of annual creditable compensation for hazardous employees. Contributions to the OPEB plan from the City were \$438,520 (\$71,546 for nonhazardous and \$366,974 for hazardous).

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2020, the City reported a liability of \$5,140,477 for its proportionate share of the net OPEB liability (\$822,543 for non-hazardous and \$4,317,934). The net OPEB liability was measured as of June 30, 2019, 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 a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2019, the City's proportion was 0.048904 percent for nonhazardous and 0.583615 percent for hazardous which was an increase of 0.001220 percent for nonhazardous and an increase of 0.051685 percent for hazardous from its proportion measured as of June 30, 2018.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 12 Other Post-Employment Benefit Plans (Continued)

For the year ended June 30, 2020, the City recognized OPEB expense of \$452,545 (\$22,288 for non-hazardous and \$430,257 for hazardous). At June 30, 2020, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

CERS Non-Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,418	\$ 248,180
Changes in actuarial assumptions	243,398	1,628
Difference between projected and actual investment earnings	-	41,952
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,540	1,351
Contributions paid to TRS subsequent to the measurement date	71,546	-
	\$ 344,902	\$ 293,111

Of the total amount reported as deferred outflows of resources related to OPEB, \$71,546 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2021	\$ (1,473)
2022	(1,473)
2023	10,142
2024	(12,120)
2025	(12,753)
Thereafter	(2,078)
	\$ (19,755)

At June 30, 2020, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 12 Other Post-Employment Benefit Plans (Continued)

CERS Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 29,508	\$ 803,276
Changes in actuarial assumptions	1,304,860	8,176
Difference between projected and actual investment earnings	-	277,760
Changes in proportion and differences between employer contributions and proportionate share of contributions	323,328	361
Contributions paid to CERS subsequent to the measurement date	366,974	-
	\$ 2,024,670	\$ 1,089,573

Of the total amount reported as deferred outflows of resources related to OPEB, \$366,974 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2021	\$ 373,704
2022	144,028
2023	(3,956)
2024	54,346
	\$ 568,122

Actuarial assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.55% to 19.05%, varies by service, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Municipal Bond Index Rate	3.13%
Discount Rate – Non-Hazardous	5.68%
Discount Rate – Hazardous	5.0%

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 12 Other Post-Employment Benefit Plans (Continued)

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 — June 30, 2018 and adopted by the Board on April 18, 2019.

The long-term expected return on plan assets 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 rates of return for each major asset class, as provided by the investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit / High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunities	3.00%	2.97%
Real Return	15.00%	4.10%
	<u>100.0%</u>	

The projection of cash flows used to determine the discount rate of 5.68% for non-hazardous and 5.69% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 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 3.13%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 12 Other Post-Employment Benefit Plans (Continued)

Sensitivity Of The City's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68% for non-hazardous and 5.69% for hazardous, as well as what the City's proportionate share of the collective 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 rate:

	1% Decrease 4.68%	Current Discount Rate 5.68%	1% Increase 6.68%
City's proportionate share of the net OPEB liability - Non-Hazardous	\$ 1,101,870	\$ 822,543	\$ 592,397
	1% Decrease 4.69%	Current Discount Rate 5.69%	1% Increase 6.69%
City's proportionate share of the net OPEB liability - Hazardous	\$ 6,024,386	\$ 4,317,934	\$ 2,932,788

Sensitivity Of The City's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates – The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 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 proportionate share of the net OPEB liability - Non-Hazardous	\$ 611,730	\$ 822,543	\$ 1,078,180
City's proportionate share of the net OPEB liability - Hazardous	\$ 3,004,483	\$ 4,317,934	\$ 5,920,270

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

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2020

Note 13 Contingencies

Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City.

Litigation

The City is a party to various other legal proceedings. The City management is of the opinion that ultimate disposition of those subsequent pending claims and legal proceedings will likely not have a material adverse effect, if any, on the financial condition of the City.

Other

The Federal Emergency Management Administration (FEMA) has proposed changes in the flood plain elevation for certain areas of the City of Shepherdsville. FEMA finalized the redrawn floodplain map that went into effect April 5, 2016. The City continues to evaluate the impact on businesses and residents in the affected areas, as well as the impact this may have on City operations.

In September 2019, the City entered into a settlement agreement. The agreement was reached after litigation with a sewer service customer, Jim Beam Brands, Co. related to damages to the City wastewater and treatment system and lines. The settlement obligated the customer to pay the City \$500,000 in five, annual payments of \$100,000.

Note 14 Related Parties Transactions

In a governmental entity, related parties include members of the governing body (city commissioners, etc.), board members, administrative officials (mayor, city clerk, etc.) immediate family members of the preceding individuals and affiliated governmental units that are not included in the financial statements as part of the reporting entity such as sewer systems. There are no related party transactions to be disclosed.

Note 15 Concentrations

During the year, one customer accounted for approximately 36 percent of the Sewer Fund revenues.

Note 16 Subsequent Event

In August 2020, the City adopted an ordinance to lower rates for sewer customers. The lower rates became effective October 2021.

City of Shepherdsville, Kentucky
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget-to-Actual – General Fund

For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes, Occupational, Franchise, Property, Auto & Insurance Premium	\$ 10,089,000	\$ 10,089,000	\$ 10,989,343	\$ 900,343
Licenses and Permits	320,500	114,000	448,418	334,418
KLEFPF - Police	128,000	131,000	168,148	37,148
KBTCF - Fire	84,000	112,000	139,342	27,342
Rental Revenue	40,000	42,000	25,161	(16,839)
Tow lot	-	-	2,446	2,446
Sewer Administration Fees	75,000	90,000	90,000	-
Other Revenues	217,380	70,000	456,699	386,699
Penalty/Interest	3,524	4,550	59,022	54,472
Total Revenues	<u>10,957,404</u>	<u>10,652,550</u>	<u>12,378,579</u>	<u>1,726,029</u>
Expenditures				
Administration	5,569,173	5,569,173	5,005,513	563,660
Fire Department	4,183,430	4,183,430	3,812,417	371,013
Police Department	4,630,768	4,630,768	4,509,784	120,984
Public Works	1,923,297	1,923,297	1,466,715	456,582
Total Expenditures	<u>16,306,668</u>	<u>16,306,668</u>	<u>14,794,429</u>	<u>1,512,239</u>
Excess of Revenues Over Expenditures	<u>(5,349,264)</u>	<u>(5,654,118)</u>	<u>(2,415,850)</u>	<u>3,238,268</u>
Other Financing Sources				
Transfers from other funds	-	-	-	-
Proceeds from sale of capital assets	350,000	-	90,881	(90,881)
Loan proceeds	3,000,000	3,000,000	1,349,311	(1,650,689)
Total Other Financing Sources	<u>3,350,000</u>	<u>3,000,000</u>	<u>1,440,192</u>	<u>(1,741,570)</u>
Net Change in Fund Balance	<u>\$ (1,999,264)</u>	<u>\$ (2,654,118)</u>	<u>(975,658)</u>	<u>\$ 1,496,698</u>
Fund Balance, Beginning			<u>6,128,231</u>	
Fund Balance, Ending			<u>\$ 5,152,573</u>	

City of Shepherdsville, Kentucky
Schedule of City's Proportionate Share of Net Pension Liability - CERS

As of and for the Fiscal Year Ended June 30, 2020

CERS - Non Hazardous	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.048917%	0.047686%	0.046629%	0.043559%	0.044080%	0.043835%
City's proportionate share of the net pension liability	\$ 3,440,354	\$ 2,904,224	\$ 2,729,340	\$ 2,144,674	\$ 1,895,173	\$ 1,422,172
City's covered-employee payroll	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188	\$ 781,502
City's proportionate share of the net pension liability as a percentage of its covered payroll	231.45%	223.45%	220.31%	185.17%	183.61%	181.98%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%
						*
CERS - Hazardous	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.583574%	0.531895%	0.504763%	0.495995%	0.434030%	0.397485%
City's proportionate share of the net pension liability	\$ 16,120,037	\$ 12,863,651	\$ 11,292,955	\$ 8,510,985	\$ 6,662,849	\$ 4,777,070
City's covered-employee payroll	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716	\$ 1,649,414
City's proportionate share of the net pension liability as a percentage of its covered payroll	461.99%	425.93%	429.87%	302.34%	294.46%	289.62%
Plan fiduciary net position as a percentage of the total pension liability	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30.

**City of Shepherdsville, Kentucky
Schedule of Pension Contributions - CERS**

For the Fiscal Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CERS - Non Hazardous						*
Contractually required contribution	\$ 290,092	\$ 241,101	\$ 188,200	\$ 172,822	\$ 143,852	\$ 131,604
Contributions in relation to the contractually required contribution	<u>290,092</u>	<u>241,101</u>	<u>188,200</u>	<u>172,822</u>	<u>143,852</u>	<u>131,604</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,493,011	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188
Contributions as a percentage of covered employee payroll	19.43%	16.22%	14.48%	13.95%	12.42%	12.75%
CERS - Hazardous						
Contractually required contribution	\$ 1,158,743	\$ 867,425	\$ 670,466	\$ 570,336	\$ 570,336	\$ 469,061
Contributions in relation to the contractually required contribution	<u>\$ 1,158,743</u>	<u>\$ 867,425</u>	<u>\$ 670,466</u>	<u>\$ 570,336</u>	<u>\$ 570,336</u>	<u>469,061</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,854,767	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716
Contributions as a percentage of covered employee payroll	30.06%	24.86%	22.20%	21.71%	20.26%	20.73%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

City of Shepherdsville, Kentucky
Schedule of City's Proportionate Share of Net OPEB Liability - CERS

As of and for the Fiscal Year Ended June 30, 2020

CERS - Non Hazardous	2020	2019	* 2018
City's proportion of the net OPEB liability	0.048904%	0.047684%	0.046629%
City's proportionate share of the net OPEB liability	\$ 822,543	\$ 846,621	\$ 937,403
City's covered-employee payroll	\$ 1,486,445	\$ 1,341,745	\$ 1,238,867
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	55.34%	63.10%	75.67%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%
CERS - Hazardous	2020	2019	* 2018
City's proportion of the net OPEB liability	0.583615%	0.531930%	0.504763%
City's proportionate share of the net OPEB liability	\$ 4,317,934	\$ 3,792,446	\$ 4,172,733
City's covered-employee payroll	\$ 3,489,237	\$ 3,067,765	\$ 2,627,066
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	123.75%	123.62%	158.84%
Plan fiduciary net position as a percentage of the total OPEB liability	64.44%	64.24%	58.99%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

**City of Shepherdsville, Kentucky
Schedule of OPEB Contributions - CERS**

For the Fiscal Year Ended June 30, 2020

CERS - Non Hazardous

	<u>2020</u>	<u>2019</u>	[*] <u>2018</u>
Contractually required contribution	\$ 71,546	\$ 78,187	\$ 63,062
Contributions in relation to the contractually required contribution	<u>71,546</u>	<u>78,187</u>	<u>63,062</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,503,067	\$ 1,486,445	\$ 1,341,745
Contributions as a percentage of covered employee payroll	4.76%	5.26%	4.70%

CERS - Hazardous

	<u>2020</u>	<u>2019</u>	[*] <u>2018</u>
Contractually required contribution	\$ 366,974	\$ 365,672	\$ 286,836
Contributions in relation to the contractually required contribution	<u>\$ 366,974</u>	<u>\$ 365,672</u>	<u>\$ 286,836</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,854,769	\$ 3,489,237	\$ 3,067,765
Contributions as a percentage of covered employee payroll	9.52%	10.48%	9.35%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

City of Shepherdsville, Kentucky
Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2020

Notes to Budgetary Schedules:

Budget Policy - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, fiduciary - cemetery, sewer and water funds.

Legal Compliance - All agencies of the City submit requests for appropriation to the City Mayor so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

On or before June 30th of each year, the Mayor must present the proposed budget to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than July 1st of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the governing council. Certain supplemental budgetary appropriations were made during the year, which were not considered material. Budgeted amounts as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

Notes to Pension Schedules:

FOR THE YEAR ENDED JUNE 30, 2020

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2020.

Changes of assumptions (as of June 30 of the year of measurement date):

FOR THE YEAR ENDED JUNE 30, 2014

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

City of Shepherdsville, Kentucky
Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2020

Notes to Pension Schedules (Continued):

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2015 and 2016 - No changes.

2017 - The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2018 - No changes.

2019 – Salary rates were increased from 3.05% average to 3.30% to 10.30%, varies by service. Annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and from 0% to 50% for hazardous members.

Notes to OPEB Schedules

Changes of benefit terms. There were no changes in benefit terms for 2018 to 2019.

Changes of assumptions(as of June 30 of the year of measurement date):

2017

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

2018 - No changes.



HCA

Heartland CPAs and Advisors PLLC

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

To the Mayor and City Council
City of Shepherdsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Shepherdsville, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Shepherdsville, Kentucky's basic financial statements and have issued our report thereon dated October 7, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shepherdsville, Kentucky'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 of Shepherdsville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shepherdsville, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2020-01 and 2020-02 to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings as items 2020-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shepherdsville'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2020-04.

City of Shepherdsville's Response to Findings

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

Purpose of this Report

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

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC

Elizabethtown, Kentucky

October 7, 2021

**City of Shepherdsville, Kentucky
Schedule of Finding and Response**

For the Year Ended June 30, 2020

REFERENCE NUMBER 2020-001 MATERIAL ADJUSTMENTS

Criteria: The City's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the City's internal control.

Cause: The City's transactions were not always recorded in accorded with generally accepted accounting principles or detected by management personnel.

Effect: The design of the internal controls over financial reporting limits the ability of the City to provide accurate financial information.

Recommendation: We recommend City management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Views of Responsible Officials: Hiring additional staff and giving them access and training on how to run and review the financial statements will assist with preventing this in the future. Work instructions will be created and put in the SOP for the Admin office.

REFERENCE NUMBER 2020-002 SEGREGATION OF DUTIES

Criteria: The City's management is responsible for establishing and maintaining proper segregation of duties.

Condition: As part of the audit we noted City did not maintain proper segregation of duties over payroll, disbursement and bank reconciliations.

Cause: The City did not main adequate segregation of duties

Effect: The segregation of duties policy was not always followed which could result in unapproved disbursements.

Recommendation: We recommend that the City's management review its segregation of duties and ensure it follows those policies.

Views of Responsible Officials: During July 2019 to June 2020 there were several things that affected the segregation of duties including additions to staff, along with COVID 19 and the need to work remotely. Duties such as payroll were moved to new staff members with much of the work being done from home during the last three months of the year.

The admin department was and is currently understaffed but have hired a new office clerk and are planning on hiring an Accounting Clerk January of 2022. The City of Shepherdsville's management team will work to develop strong work instructions along and a SOP to address segregation of duties issues.

City of Shepherdsville, Kentucky Schedule of Finding and Response

For the Year Ended June 30, 2020

REFERENCE NUMBER 2020-003 CREDIT CARDS

Criteria: The City's management is responsible for maintaining control over credit cards and ensuring proper documentation for purchases.

Condition: Procedures are not in place for adding credit cards.

Cause: The City opened a second credit card and did not always maintain proper support for purchases.

Effect: We noted that historically, the City has had a credit card for each department. We noted that a second credit was issued for each department but on the same account. Additionally, two tested credit card payments did not have proper support.

Recommendation: We recommend that the City only have one card per department and maintain proper support of purchases.

Views of Responsible Officials: The credit card process has recently changed. The changes and responsibilities have been communicated verbally and in writing that the card holder is responsible for making sure the charges are appropriate and that receipts are turned in timely. Work instruction along with and SOP will be developed for the processes.

Detail of changes

Have one account with a card for each department head

One due date

One account to pay

Ability to disable a card quickly

Account is not on autopay

Reporting capabilities

REFERENCE NUMBER 2020-004 INADEQUATE COLLATERAL OF DEPOSITS

Criteria: The City's management is responsible for ensuring deposits are adequately collateralized in the event financial institutions holding those deposits become insolvent. KRS 41.240 requires governments to have adequate collateral in for all deposits.

Condition: As part of the audit of the audit we noted deposits at a certain financial institution that exceeded the FDIC statutory amounts but the remaining amounts were not collateralized.

Cause: Deposits in excess of FDIC insurance limits were not collateralized.

Effect: The City was at risk of losing cash balances if the financial institution failed.

Recommendation: We recommend the City diversify deposits to more financial institutions in a manner that prevents deposits from exceeding FDIC insurance limits or obtain third-party collateral for the amount of deposits in excess of FDIC insurance limits.

Views of Responsible Officials: Going forward bank balances will be reviewed and if needed additional collateral will be requested from the banks.

Diversifying deposits at additional banks will be analyzed to determine feasibility.

Work instructions on how to monitor balances and collateral needed will be written and included in the SOP.

**City of Shepherdsville, Kentucky
Status of Prior Year Findings**

For the Year Ended June 30, 2019

No findings reported.

Certification of Compliance
Local Government Economic Assistance Program

City of Shepherdsville, Kentucky
For the Year Ended June 30, 2020

The City of Shepherdsville, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Mayor


City Clerk