

**CITY OF SHEPHERDSVILLE,
KENTUCKY**

FINANCIAL STATEMENTS, REPORTS
OF INDEPENDENT AUDITORS, AND
SUPPLEMENTARY INFORMATION

**FOR THE YEAR ENDED
JUNE 30, 2019**

The City of Shepherdsville, Kentucky

As of June 30, 2019 and
For the Year Then Ended

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The City of Shepherdsville, Kentucky

As of June 30, 2019 and
For the Year Then Ended

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The City of Shepherdsville, Kentucky

As of and for the Year Ended June 30, 2019

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, 2019, 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.

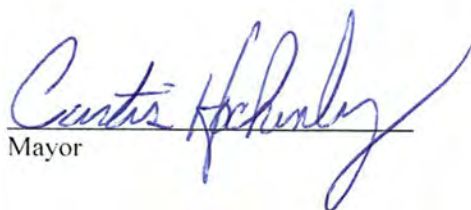
For financial reporting purposes, the City includes in this report all funds, agencies, boards and other commissions that are controlled by the City or dependent on the City's legislative branch. "Controlled by" or "dependent on" is determined on the basis of the budget adoption, taxing authority, outstanding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

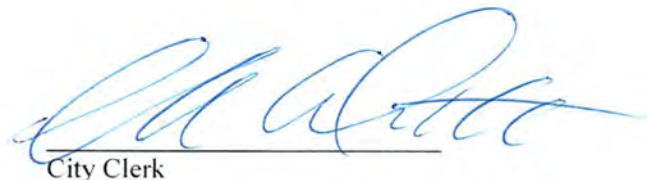
The City provides a full range of municipal services. These services include fire and police protection, park and recreation programs, streets, sidewalks and roads maintenance and a sewer system.

Stiles, Carter & Associates, CPAs, P.S.C. 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, 2020
Council Member	Lisa Carter	December 31, 2020
Council Member	Bonnie Enlow	December 31, 2020
Council Member	Larry Hatfield	December 31, 2020
Council Member	Stacey Cline	December 31, 2020
Council Member	Kenny Newton	December 31, 2020
City Clerk	CR Wirthlin, MMC	
Deputy City Clerk/ Flood Plain Coordinator	Brenda Weidekamp	
City Controller	Stephanie Kellerman, CPA	
City Treasurer	Gayla Bright	
Fire Chief	Layne Troutman	
Fire Marshall	Ted Calvert	
Police Chief	Rick McCubbin	
Public Utility Director	Scott Fleming	
Public Works Foreman	Thomas LaFollette	
Wastewater Treatment Plant Superintendent	Charles Keith	
Alcoholic Beverage Control (ABC) Officer	Jerry Pile	
Civil Service Commission Chair	Thomas Rosselli	

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, 2019, 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, 2019, 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, 2019, the City adopted Governmental Accounting Standards Board Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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 52 - 58 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 December 30, 2019, 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.

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.

Bardstown, Kentucky

December 30, 2019

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2019

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, 2019 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 \$5.47 million and \$6.04 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 \$2.65 million and \$27.54 million, respectively.
- Overall net position of the City increased approximately \$499 thousand from \$29.70 million at June 30, 2018 to \$30.19 million at June 30, 2019.
- General fund revenues before other financing sources and uses, of \$11.82 million were less than expenditures of \$13.70 million for the year ending June 30, 2019. This represents an excess of expenses over revenues of approximately \$1.88 million.
- Long-term debt (bonds, leases, and notes) for the sewer fund was reduced by approximately \$2.39 million during 2019. The total balance bonds, capital lease and notes payable at June 30, 2019 totaled approximately \$19.72 million for the sewer fund. The City issued \$5.88 million in notes during the fiscal year ending June 30, 2019 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, 2019 of \$15.77 million. This is an increase from the prior year of approximately \$1.75 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, 2019 of \$4.64 million. This represents a decrease of \$471 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, 2019 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, 2019

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, 2019

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 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.

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, 2019

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	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 8,206,375	\$ 3,377,858	\$ 7,541,282	\$ 8,461,483	\$ 15,747,657	\$ 11,839,341
Capital Assets	15,681,850	13,411,569	41,079,848	40,482,342	56,761,698	53,893,911
Total Assets	<u>\$ 23,888,225</u>	<u>\$ 16,789,427</u>	<u>\$ 48,621,130</u>	<u>\$ 48,943,825</u>	<u>\$ 72,509,355</u>	<u>\$ 65,733,252</u>
Deferred outflows of resources	<u>\$ 6,621,673</u>	<u>\$ 7,356,071</u>	<u>\$ 374,177</u>	<u>\$ 429,960</u>	<u>\$ 6,995,850</u>	<u>\$ 7,786,031</u>
Current Liabilities	\$ 2,379,180	\$ 763,704	\$ 1,525,901	\$ 2,693,866	\$ 3,905,081	\$ 3,457,570
Long-term Liabilities	23,812,008	18,176,263	19,800,639	20,966,725	43,612,647	39,142,988
Total Liabilities	<u>26,191,188</u>	<u>18,939,967</u>	<u>21,326,540</u>	<u>23,660,591</u>	<u>47,517,728</u>	<u>42,600,558</u>
Deferred inflows of resources	<u>\$ 1,665,699</u>	<u>\$ 1,119,006</u>	<u>\$ 126,969</u>	<u>\$ 104,307</u>	<u>\$ 1,792,668</u>	<u>\$ 1,223,313</u>
Net Position:						
Net Investment in Capital Assets	\$ 10,309,912	\$ 13,220,997	\$ 21,364,052	\$ 18,371,811	\$ 31,673,964	\$ 31,592,808
Restricted	684,570	633,832	524,335	829,076	1,208,905	1,462,908
Unrestricted	<u>(8,341,471)</u>	<u>(9,768,304)</u>	<u>5,653,411</u>	<u>6,408,000</u>	<u>(2,688,060)</u>	<u>(3,360,304)</u>
	<u>\$ 2,653,011</u>	<u>\$ 4,086,525</u>	<u>\$ 27,541,798</u>	<u>\$ 25,608,887</u>	<u>\$ 30,194,809</u>	<u>\$ 29,695,412</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 \$30.19 million as of June 30, 2019. The City's net position increased by approximately \$499 thousand for the fiscal year ended June 30, 2019. Capital assets of the City increased by approximately \$2.87 million, primarily due to capital additions of \$5.3 million offset by depreciation of \$2.44 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) increased by approximately \$2.75 million during fiscal year ended June 30, 2019, primarily as a result of \$5.88 million in notes issued for governmental activities related to ongoing construction projects and equipment.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2019

Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Program Revenue						
Charges for Services	\$ 39,143	\$ 80,779	\$ 6,649,483	\$ 5,995,425	\$ 6,688,626	\$ 6,076,204
Operating Grants and Contributions	371,457	348,205	-	-	371,457	348,205
Capital Grants and Contributions	244,260	242,889	-	-	244,260	242,889
General Revenues						
Property Taxes	2,126,592	1,914,985	-	-	2,126,592	1,914,985
Occupational Taxes	7,332,838	6,845,695	-	-	7,332,838	6,845,695
Fees, Licenses and Permits	198,394	160,186	-	-	198,394	160,186
Insurance Premium Tax	1,143,769	1,051,208	-	-	1,143,769	1,051,208
Motor Vehicle Taxes	121,588	118,168	-	-	121,588	118,168
Telecommunications Tax	76,564	73,991	-	-	76,564	73,991
Franchise Taxes	89,747	75,724	-	-	89,747	75,724
Rent Income	58,501	40,157	-	-	58,501	40,157
Other Income	244,657	101,358	1,123	6,848	245,780	108,206
Interest Income	16,048	4,382	10,444	7,606	26,492	11,988
Gain (loss) on Sale or Disposal of Capi	-	156,850	-	(30,090)	-	126,760
Total Revenues	<u>12,063,558</u>	<u>11,214,577</u>	<u>6,661,050</u>	<u>5,979,789</u>	<u>18,724,608</u>	<u>17,194,366</u>
Expenses						
General Government	(1,720,793)	(1,448,799)	-	-	(1,720,793)	(1,448,799)
Fire Department	(4,472,909)	(3,521,486)	-	-	(4,472,909)	(3,521,486)
Police Department	(5,654,820)	(5,167,890)	-	-	(5,654,820)	(5,167,890)
Public Works Department	(1,021,459)	(808,679)	-	-	(1,021,459)	(808,679)
Municipal Aid - Streets	(484,686)	(479,769)	-	-	(484,686)	(479,769)
Interest on Long-Term Debt	(142,405)	(10,085)	-	-	(142,405)	(10,085)
Sewer Services	-	-	(4,728,139)	(4,633,428)	(4,728,139)	(4,633,428)
Total Expenses	<u>(13,497,072)</u>	<u>(11,436,708)</u>	<u>(4,728,139)</u>	<u>(4,633,428)</u>	<u>(18,225,211)</u>	<u>(16,070,136)</u>
Change in Net Position, Before Extraordinary						
Extraordinary Item	\$ (1,433,514)	\$ (222,131)	\$ 1,932,911	\$ 1,346,361	\$ 499,397	\$ 1,124,230
Extraordinary Item	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,610,000</u>	<u>-</u>	<u>1,610,000</u>
Change in Net Position	<u>\$ (1,433,514)</u>	<u>\$ (222,131)</u>	<u>\$ 1,932,911</u>	<u>\$ 2,956,361</u>	<u>\$ 499,397</u>	<u>\$ 2,734,230</u>

Governmental Activities

Total revenue increased approximately \$849 thousand or 7.57% for governmental activities. The majority of the increase was a result of increased property tax revenues (11.05% increase), occupational tax revenue (7.12% increase) and insurance premium tax revenues (8.81% increase), offset by an 52.54% decrease in charges for services from the prior year. City departments experienced increases in operating expenses of approximately \$2.06 million (18.02%). Approximately \$2.52 million in additional expenses is related to the net pension 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 \$681 thousand (11.39%) for fiscal year ended June 30, 2019. Primarily due to increases in service revenue (10.91%) Expenses for sewer services increased approximately \$95 thousand (2.04%). 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). The City recorded an extraordinary item related to a settlement for damaged sewer lines in the prior fiscal year for \$1.61 million.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2019

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, 2019 totals approximately \$56.76 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. Fire house - \$1.62 million
 - b. Keystone project - \$900 thousand
 - c. Jim Beam line rehab - \$1.47 million
 - d. 44 West sewer rehab - \$102 thousand
 - e. POE project - \$336 thousand
2. Jim Beam sewer line rehab project for approximately \$1.47 million
3. Two trucks for the sewer department for approximately \$81 thousand
4. Five police vehicles for approximately \$227 thousand
5. Police radio system upgrade for approximately \$139 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, 2019 the City of Shepherdsville, Kentucky had a total debt outstanding of \$5,371,938 reported for governmental activities. During fiscal year 2019, the City issued a general obligation note for \$2.62 million, a note for \$913 thousand, and note for \$2.35 million. During the fiscal year, \$701,974 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's 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 \$15,767,875. The amount of the unfunded OPEB liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$4,639,067. The City of Shepherdsville has paid all amounts required to be paid to the Kentucky Retirement System as of June 30, 2019.

The net pension and OPEB liabilities are presented as non-current liabilities as of June 30, 2019 and represents an allocation of the unfunded pension and OPEB liabilities, respectively, of the Kentucky Retirement System measured as of June 30, 2018.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2019

Business-type Activities

As of June 30, 2019 the City of Shepherdsville, Kentucky had \$19,715,796 long-term debt for the Sewer Fund. The City paid \$2,394,735 to retire long-term debt during the fiscal year. Because of the structure of the bond agreements, 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, 2019.

The sewer fund did not acquire any new debt during fiscal year end June 30, 2019.

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 2019 was 4.9%. The unemployment rate for Bullitt County June 2019 (Shepherdsville is the county seat for Bullitt County) was 4.7%. The unemployment rate for Shepherdsville, Kentucky June 2019 was 4.4%.
3. 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.
4. The City is 17 miles from the Louisville International Airport which is a major transportation hub for United Parcel Service (UPS) and FedEx.
5. The cost of living in Shepherdsville, Kentucky is slightly more than the Kentucky and less than national average (90.8 vs. 100.0).
6. The real estate property tax for 2020 (due November 1, 2020) was \$0.139 per \$100 of assessed value.

Budget Highlights for the Fiscal Year Ending June 30, 2019

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, 2019. 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.

City of Shepherdsville, Kentucky
Management Discussion & Analysis

As of and For the Year Ended June 30, 2019

Revenues were more than the budgeted amounts primarily because the City was very conservative in estimating revenues when the original budget was prepared. Expenditures were less than anticipated when the original budget was prepared.

Property tax revenue is projected to remain in line with the previous year's revenue. Revenues from fees, business licenses, permits and occupational tax are expected to lead the increase in budgeted revenue, all benefiting from anticipated economic growth. The budgeted revenue increase will be used to finance City programs currently in place.

Business-type Activities

The sewer rates in the City increased by 2.1% during fiscal year ended June 30, 2019. A City ordinance passed in a prior year requires an annual increase in sewer rates based upon the consumer price index (CPI) as of June 30. The anticipated surplus in the sewer budget for fiscal year ended June 30, 2019 is designated for a contribution to the sewer emergency reserve. The sewer emergency reserve is to be used to finance extraordinary repairs and maintenance in the sewer system and future growth of the system.

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) 215-1525 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, 2019

	Governmental Activities	Business- Type Activities	Totals
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 4,802,320	\$ 5,519,869	\$ 10,322,189
Receivables, net	2,278,159	870,053	3,148,212
Unbilled Receivables, net	-	500,746	500,746
Internal balances	(35,238)	35,238	-
Prepaid Expenses	497,817	91,041	588,858
Restricted Cash and Cash Equivalents	663,317	524,335	1,187,652
Total Current Assets	<u>8,206,375</u>	<u>7,541,282</u>	<u>15,747,657</u>
Non - current Assets			
Non-Depreciable Capital Assets	3,276,634	592,054	3,868,688
Depreciable Capital Assets, Net	12,405,216	40,487,794	52,893,010
Total Non - current Assets	<u>15,681,850</u>	<u>41,079,848</u>	<u>56,761,698</u>
Total Assets	<u><u>\$ 23,888,225</u></u>	<u><u>\$ 48,621,130</u></u>	<u><u>\$ 72,509,355</u></u>
Deferred Outflow of Resources			
CERS - Pension - Non-Hazardous	\$ 560,948	\$ 286,635	\$ 847,583
CERS - Pension - Hazardous	4,254,212	-	4,254,212
CERS - OPEB - Non-Hazardous	171,321	87,542	258,863
CERS - OPEB - Hazardous	1,635,192	-	1,635,192
Total Deferred Outflows	<u><u>\$ 6,621,673</u></u>	<u><u>\$ 374,177</u></u>	<u><u>\$ 6,995,850</u></u>
Liabilities			
Current Liabilities			
Accounts Payable	\$ 968,180	\$ 218,965	\$ 1,187,145
Accrued Expenses	413,244	32,788	446,032
Accrued Interest	-	59,446	59,446
Deposits	12,150	-	12,150
Accrued Compensated Absences	43,079	7,772	50,851
Bonds Payable - Due in One Year	-	205,000	205,000
Capital Leases Payable - Due in One Year	-	556,420	556,420
Notes Payable - Due in One Year	942,527	445,510	1,388,037
Total Current Liabilities	<u>2,379,180</u>	<u>1,525,901</u>	<u>3,905,081</u>
Long - term Liabilities			
Accrued Compensated Absences	244,113	23,315	267,428
Bonds Payable - Non-current	-	3,280,000	3,280,000
Capital Leases Payable - Non-current	-	13,245,092	13,245,092
Notes Payable - Non-current	4,429,411	1,983,774	6,413,185
Net pension liability - CERS Non-Hazardous	1,922,076	982,148	2,904,224
Net pension liability - CERS Hazardous	12,863,651	-	12,863,651
Net OPEB liability - CERS Non-Hazardous	560,311	286,310	846,621
Net OPEB liability - CERS Hazardous	3,792,446	-	3,792,446
Total Long - term Liabilities	<u>23,812,008</u>	<u>19,800,639</u>	<u>43,612,647</u>
Total Liabilities	<u><u>\$ 26,191,188</u></u>	<u><u>\$ 21,326,540</u></u>	<u><u>\$ 47,517,728</u></u>
Deferred Inflows of Resources			
CERS - Pension - Non-Hazardous	\$ 142,129	\$ 72,625	\$ 214,754
CERS - Pension - Hazardous	621,891	-	621,891
CERS - OPEB - Non-Hazardous	106,353	54,344	160,697
CERS - OPEB - Hazardous	795,326	-	795,326
Total Deferred Inflows	<u><u>\$ 1,665,699</u></u>	<u><u>\$ 126,969</u></u>	<u><u>\$ 1,792,668</u></u>
Net Position			
Net Investment in Capital Assets	\$ 10,309,912	\$ 21,364,052	\$ 31,673,964
Restricted for:			
Municipal Street Fund	684,570	-	684,570
Debt Service	-	222,421	222,421
Construction	-	301,914	301,914
Unrestricted	(8,341,471)	5,653,411	(2,688,060)
Total Net Position	<u><u>\$ 2,653,011</u></u>	<u><u>\$ 27,541,798</u></u>	<u><u>\$ 30,194,809</u></u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Statement of Activities

For the Year Ended June 30, 2019

Functions/Programs					Net Revenue (Expense) and Changes in Net Position		
		Program Revenues	Operating	Capital	Primary	Government	
Governmental Activities:	Expenses	Charges for	Grants and	Grants and	Governmental	Business-type	Totals
		Services	Contributions	Contributions	Activities	Activities	
General Government							
General Government	(1,720,793)	87	106,699	-	\$ (1,614,007)	\$ -	\$ (1,614,007)
Fire Department	(4,472,909)	-	105,547	-	(4,367,362)	-	(4,367,362)
Police Department	(5,654,820)	39,056	159,211	-	(5,456,553)	-	(5,456,553)
Public Works Department	(1,021,459)	-	-	-	(1,021,459)	-	(1,021,459)
Municipal Aid - Streets	(484,686)	-	-	244,260	(240,426)	-	(240,426)
Interest on Long-Term Debt	(142,405)	-	-	-	(142,405)	-	(142,405)
Total Governmental Activities	(13,497,072)	39,143	371,457	244,260	(12,842,212)	-	(12,842,212)
Business-type Activities:							
Sewer Services	\$ (4,728,139)	\$ 6,649,483	\$ -	\$ -	-	1,921,344	1,921,344
General Revenues							
Property Taxes					2,126,592	-	2,126,592
Occupational Taxes					7,332,838	-	7,332,838
Fees, Licenses and Permits					198,394	-	198,394
Insurance Premium Tax					1,143,769	-	1,143,769
Motor Vehicle Taxes					121,588	-	121,588
Telecommunications Tax					76,564	-	76,564
Franchise Taxes					89,747	-	89,747
Rent Income					58,501	-	58,501
Other Income					244,657	1,123	245,780
Interest Income					16,048	10,444	26,492
Total General Revenues					11,408,698	11,567	11,420,265
Change in Net Position					(1,433,514)	1,932,911	499,397
Net Position, Beginning					4,086,525	25,608,887	29,695,412
Net Position, Ending					\$ 2,653,011	\$ 27,541,798	\$ 30,194,809

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Balance Sheet

June 30, 2019

	General Government <u>Fund</u>	Municipal Aid <u>Fund</u>	<u>Totals</u>
Assets			
Cash and Cash Equivalents			
Cash	\$ 4,802,320	\$ -	\$ 4,802,320
Cash, Restricted	-	663,317	663,317
Receivables, Net	2,256,906	21,253	2,278,159
Prepaid Expenses	497,817	-	497,817
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 7,557,043</u>	<u>\$ 684,570</u>	<u>\$ 8,241,613</u>
Liabilities			
Accounts Payable	\$ 968,180	\$ -	\$ 968,180
Accrued Expenses	413,244	-	413,244
Deposits	12,150	-	12,150
Due to Sewer Fund	35,238	-	35,238
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>1,428,812</u>	<u>-</u>	<u>1,428,812</u>
Fund Balance			
Non-spendable:			
Prepaid Expenses	497,817	-	497,817
Spendable:			
Restricted For:			
Municipal Aid Fund	-	684,570	684,570
Committed - Future Construction	2,971,222	-	2,971,222
Unassigned Fund Balance	2,659,192	-	2,659,192
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>6,128,231</u>	<u>684,570</u>	<u>6,812,801</u>
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 7,557,043</u>	<u>\$ 684,570</u>	<u>\$ 8,241,613</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, 2019

Fund Balances - Total Governmental Funds	\$ 6,812,801
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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	\$ 24,578,720	
Less: accumulated depreciation	(8,896,870)	15,681,850

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

Deferred outflows of resources - CERS	6,621,673	
Deferred inflows of resources - CERS	(1,665,699)	4,955,974

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	(5,371,938)	
Net pension liability	(14,785,727)	
Net OPEB liability	(4,352,757)	
Compensated Absences	(287,192)	(24,797,614)

Net Position of Government Activities	\$ <u>2,653,011</u>
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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, 2019

	General Government <u>Fund</u>	Municipal Aid <u>Fund</u>	<u>Totals</u>
Revenues			
Property Taxes	\$ 2,126,592	\$ -	\$ 2,126,592
Occupational Taxes	7,332,838	-	7,332,838
Fees, Licenses and Permits	198,394	-	198,394
Insurance Premium Tax	1,143,769	-	1,143,769
Motor Vehicle Taxes	121,588	-	121,588
Telecommunications Tax	76,564	-	76,564
Franchise Taxes	89,747	-	89,747
Charges for Services	39,143	-	39,143
Rent Income	58,501	-	58,501
Other Income	244,657	-	244,657
Intergovernmental Revenues	371,457	244,260	615,717
Interest Income	16,048	-	16,048
Total Revenues	<u>11,819,298</u>	<u>244,260</u>	<u>12,063,558</u>
Expenditures			
General Government	(1,552,695)	-	(1,552,695)
Public Safety, Fire Department	(3,172,572)	-	(3,172,572)
Public Safety, Police Department	(4,110,496)	-	(4,110,496)
Public Works	(866,069)	-	(866,069)
Municipal Road Aid Expense	-	(58,998)	(58,998)
Capital Outlay	(3,154,654)	(86,147)	(3,240,801)
Debt Service:			
Principal	(701,974)	-	(701,974)
Interest	(142,405)	-	(142,405)
Total Expenditures	<u>(13,700,865)</u>	<u>(145,145)</u>	<u>(13,846,010)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,881,567)</u>	<u>99,115</u>	<u>(1,782,452)</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	48,377	-	48,377
Transfers to Other Funds	-	(48,377)	(48,377)
Note Payable Proceeds	5,883,340	-	5,883,340
Total Other Financing Sources (Uses)	<u>5,931,717</u>	<u>(48,377)</u>	<u>5,883,340</u>
Net Change in Fund Balances	4,050,150	50,738	4,100,888
Fund Balances, Beginning	<u>2,078,081</u>	<u>633,832</u>	<u>2,711,913</u>
Fund Balances, Ending	<u><u>\$ 6,128,231</u></u>	<u><u>\$ 684,570</u></u>	<u><u>\$ 6,812,801</u></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, 2019

Net change in fund balance- total governmental funds \$ 4,100,888

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	\$ 3,240,801	
Current year's depreciation	<u>(970,520)</u>	2,270,281

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. (5,883,340)

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. 701,974

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	(2,525,254)	
Changes in compensated absences	<u>(98,063)</u>	<u>(2,623,317)</u>

Total change in net position of governmental activities \$ (1,433,514)

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky

Statement of Net Position – Proprietary Fund

June 30, 2019

	Sewer Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 5,519,869
Accounts Receivable, net	870,053
Unbilled Receivables, net	500,746
Due from General Fund	35,238
Prepaid Expenses	91,041
Restricted Cash and Cash Equivalents	524,335
Total Current Assets	<u>7,541,282</u>
Non-current Assets	
Non-Depreciable Capital Assets	592,054
Depreciable Capital Assets, Net	40,487,794
Total Non-current Assets	<u>41,079,848</u>
Total Assets	<u><u>\$ 48,621,130</u></u>
Deferred Outflow of Resources	
CERS - Pension - Non-Hazardous	\$ 286,635
CERS - OPEB - Non-Hazardous	87,542
Total Deferred Outflows of Resources	<u><u>\$ 374,177</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 218,965
Accrued Expenses	32,788
Accrued Interest	59,446
Accrued Compensated Absences	7,772
Bonds Payable - Due in One Year	205,000
Capital Leases Payable - Due in One Year	556,420
Notes Payable - Due in One Year	445,510
Total Current Liabilities	<u>1,525,901</u>
Non-current Liabilities	
Accrued Compensated Absences	\$ 23,315
Net pension liability - CERS	982,148
Net OPEB liability - CERS	286,310
Bonds Payable - Non-current	3,280,000
Capital Leases Payable - Non-current	13,245,092
Notes Payable - Non-current	1,983,774
Total Non-current Liabilities	<u>19,800,639</u>
Total Liabilities	<u>21,326,540</u>
Deferred Inflow of Resources	
CERS - Pension - Non-Hazardous	\$ 72,625
CERS - OPEB - Non-Hazardous	54,344
Total Deferred Inflows of Resources	<u><u>\$ 126,969</u></u>
Net Position	
Net Investment in Capital Assets	21,364,052
Restricted for Debt Service	222,421
Restricted for Construction	301,914
Unrestricted	5,653,411
Total Net Position	<u><u>\$ 27,541,798</u></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, 2019

	<u>Sewer Fund</u>
Operating Revenues	
Sewer Service	\$ 3,687,586
Jim Beam Service	2,637,767
Sewer Connection	323,525
Other Fees	605
Total Operating Revenues	6,649,483
Operating Expenses	
Personnel Expenses	\$ 540,363
Personnel Benefits	339,905
Sewer Plant Operating Expenses	578,341
Repairs and Maintenance	581,217
Training and Travel	7,701
General Administrative and Supplies	143,585
Professional Fees	160,626
Insurance	51,505
Other	20,050
Depreciation and Amortization	1,465,911
Total Operating and Maintenance Expenses	3,889,204
Operating Income	2,760,279
Non-operating Revenues (Expenses)	
Interest Expense	\$ (838,935)
Interest Income	10,444
Other Income	1,123
Total Non-operating Income (Expenses)	(827,368)
Change in Net Position	1,932,911
Net Position, Beginning	25,608,887
Net Position, Ending	\$ 27,541,798

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, 2019

	<u>Sewer Fund</u>
Cash Flow from Operating Activities:	
Cash Received from Customers	\$ 7,763,414
Cash Payments made to Suppliers for Goods and Services	(1,557,315)
Cash Payments made to Employees and Professional Contractors for Services	(769,273)
Net Cash Provided by Operating Activities	<u>5,436,826</u>
Cash Flows from Non-Capital Financing Activities:	
Other Miscellaneous Income	1,123
Receipt from settlement	1,610,000
Net Cash Provided by Non-Capital Financing Activities	<u>1,611,123</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(2,034,543)
Principal Paid on Long-term Debt	(2,394,735)
Interest Paid on Long-term Debt	(849,427)
Net Cash Used By Capital and Related Financing Activities	<u>(5,278,705)</u>
Cash Flows from Investing Activities	
Interest Income	10,444
Net Increase in Cash and Cash Equivalents	1,779,688
Cash and Cash Equivalents, Beginning	<u>4,264,516</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 6,044,204</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 2,760,279
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and Amortization	1,465,911
Increases (Decreases) In:	
Receivables (net) Billed	1,209,318
Receivables (net) Unbilled	(95,387)
Prepaid Expenses	2,427
Accounts Payable	(16,717)
Accrued Expenses	13,606
Accrued Compensated Absences	15,065
Net Change in Pension / OPEB Related Items	108,793
Due To / From General Fund, Net	(26,469)
Net Cash Provided by Operating Activities	<u>\$ 5,436,826</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	\$ 5,519,869
Cash and Cash Equivalents - Restricted	524,335
Total Cash and Cash Equivalents	<u><u>\$ 6,044,204</u></u>
Noncash Transactions:	
CERS Pension / OPEB	<u>\$ 108,793</u>
Capital asset purchases included in accounts payable	<u><u>\$ 28,874</u></u>

The accompanying notes are an integral part of the statements.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

Note 1 Summary of Significant Accounting Policies (continued)

Inter-fund receivables and payables as of June 30, 2019, are as follows:

	<u>Inter-fund Receivables</u>	<u>Inter-fund Payables</u>
General Fund	\$ -	\$ 35,238
Sewer Fund	<u>35,238</u>	<u>-</u>
Total	<u><u>\$ 35,238</u></u>	<u><u>\$ 35,238</u></u>

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, 2019

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, 2019

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 presented in Note 5 to the financial statements.

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, 2019

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 \$0.136 per \$100 valuation of real property and \$0.148 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, 2019

Note 1 Summary of Significant Accounting Policies (continued)

IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City'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. Management is currently evaluating the impact of the adoption of this statement on the City'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. Management is currently evaluating the impact of the adoption of this statement on the City'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. Management is currently evaluating the impact of the adoption of this statement on the City'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, 2019, \$10,791,669 of the government's bank balance of \$11,541,669 was exposed to custodial credit risk. Of the amount exposed to custodial credit risk, \$7,458,681 was collateralized by securities held by the pledging financial institution and \$3,332,988 was uncollateralized.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 3 Receivables

As of June 30, 2019, the receivables due the City consist of the following:

	Governmental Activities	Business-type Activities
Occupational Tax Receivable	\$ 1,917,296	\$ -
Property Tax Receivable	1,041	-
Vehicle Tax Receivable	13,383	-
Insurance Tax Receivable	287,533	-
Telecommunications Tax	6,350	-
KLEFP Receivable	14,418	-
Municipal Aid Receivable	21,253	-
Other	16,885	
Customers Receivable	-	875,336
Less Provision for Uncollectible Accounts	-	(5,283)
Total Net Receivables	<u>\$ 2,278,159</u>	<u>\$ 870,053</u>

Note 4 Capital Assets

Capital asset activities for the governmental activities for the year ended June 30, 2019 are as follows:

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Non-depreciable capital assets:				
Land	\$ 617,346	\$ 99,850	\$ -	\$ 717,196
Construction in process	42,536	2,516,902	-	2,559,438
Total capital assets not being depreciated	659,882	2,616,752	-	3,276,634
Depreciable capital assets:				
Building and improvements	2,435,274	65,960	-	2,501,234
City Park	84,090	-	-	84,090
Furniture and fixtures	101,859	-	-	101,859
Equipment	2,154,453	166,296	-	2,320,749
Vehicles	4,969,904	305,646	-	5,275,550
Infrastructure	10,932,457	86,147	-	11,018,604
Total capital assets being depreciated	20,678,037	624,049	-	21,302,086
Less: accumulated depreciation	7,926,350	970,520	-	8,896,870
Total other capital assets, net	12,751,687	(346,471)	-	12,405,216
Governmental capital assets, net	<u>\$ 13,411,569</u>	<u>\$ 2,270,281</u>	<u>\$ -</u>	<u>\$ 15,681,850</u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 4 Capital Assets (continued)

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

Governmental Activities

General Government	\$ 74,195
Fire	218,421
Police	171,996
Public Works	80,220
Infrastructure	<u>425,688</u>
Total depreciation	<u><u>\$ 970,520</u></u>

Capital asset activity for the business-type activity for the year ended June 30, 2019:

<u>Business-type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Non-depreciable capital assets:				
Land	\$ 592,054	\$ -	\$ -	\$ 592,054
Construction in Process	<u>-</u>	<u>1,908,885</u>	<u>1,470,934</u>	<u>437,951</u>
Total capital assets not being depreciated	<u>592,054</u>	<u>1,908,885</u>	<u>1,470,934</u>	<u>1,030,005</u>
Depreciable capital assets:				
Equipment	926,637	15,775	-	942,412
Vehicles	609,203	80,700	-	689,903
Wastewater treatment plant and lines	30,605,366	1,500,934	-	32,106,300
Building Improvements	199,013	28,057	-	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 being depreciated	57,685,455	1,625,466	-	59,310,921
Less: accumulated depreciation	<u>17,795,167</u>	<u>1,465,911</u>	<u>-</u>	<u>19,261,078</u>
Total other capital assets, net	<u>39,890,288</u>	<u>159,555</u>	<u>-</u>	<u>40,049,843</u>
Business-type capital assets, net	<u><u>\$ 40,482,342</u></u>	<u><u>\$ 2,068,440</u></u>	<u><u>\$ 1,470,934</u></u>	<u><u>\$ 41,079,848</u></u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 5 Long-term Liabilities

As of June 30, 2019, the governmental activities debt of the City of Shepherdsville, Kentucky consisted of the following:

	<u>Original Principal</u>	<u>Outstanding Principal June 30, 2019</u>
Note payable with a local bank dated July 7, 2016, principal and interest payments due monthly bearing interest at 2.90%, maturing July 7, 2021	\$ 300,645	\$ -
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	2,270,515
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	2,187,943
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	913,480	913,480
	<u>\$ 6,564,125</u>	<u>\$ 5,371,938</u>

Long-term liability activity for the year ended June 30, 2019 is as follows:

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>	<u>Current Portion</u>
Notes payable	\$ 190,572	\$ 5,883,340	\$ 701,974	\$ 5,371,938	\$ 942,527
Net pension liability	13,100,708	1,685,019	-	14,785,727	-
Net OPEB liability	4,793,613	-	440,856	4,352,757	-
Compensated absences	189,129	126,432	28,369	287,192	43,079
Governmental activities, long-term liabilities	<u>\$ 18,274,022</u>	<u>\$ 7,694,791</u>	<u>\$ 1,171,199</u>	<u>\$ 24,797,614</u>	<u>\$ 985,606</u>
<u>Business-type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>	<u>Current Portion</u>
Bonds	\$ 4,907,646	\$ -	\$ 1,422,646	\$ 3,485,000	\$ 205,000
Notes payable	2,869,527	-	440,243	2,429,284	445,510
Capital lease	14,333,358	-	531,846	13,801,512	556,420
Net pension liability	921,587	60,561	-	982,148	-
Net OPEB liability	316,523	-	30,213	286,310	-
Compensated absences	16,022	31,087	16,022	31,087	7,772
Business-type activities, long-term liabilities	<u>\$ 23,364,663</u>	<u>\$ 91,648</u>	<u>\$ 2,440,970</u>	<u>\$ 21,015,341</u>	<u>\$ 1,214,702</u>

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

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 5 Long-term Liabilities (continued)

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

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>
2020	\$ 942,527	\$ 185,337	\$ 1,127,864
2021	1,025,462	168,411	1,193,873
2022	1,041,030	138,343	1,179,373
2023	927,683	104,078	1,031,761
2024	1,435,236	15,774	1,451,010
Totals	<u>\$ 5,371,938</u>	<u>\$ 611,943</u>	<u>\$ 5,983,881</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>
2020	\$ 205,000	\$ 156,305	\$ 361,305
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
2025-2029	1,385,000	343,843	1,728,843
2030-2034	995,000	33,120	1,028,120
Totals	<u>\$ 3,485,000</u>	<u>\$ 1,062,480</u>	<u>\$ 4,547,480</u>

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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>
2020	445,510	37,217	\$ 482,727
2021	450,856	32,066	482,922
2022	456,283	25,825	482,108
2023	461,791	19,495	481,286
2024	257,700	12,533	270,233
2025-2029	268,488	35,943	304,431
2030-2031	88,656	2,673	91,329
Totals	<u>\$ 2,429,284</u>	<u>\$ 165,752</u>	<u>\$ 2,595,036</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>
2020	556,420	596,659	\$ 1,153,079
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
2025-2029	3,889,496	1,962,501	5,851,997
2030-2034	4,924,750	1,008,166	5,932,916
2035-2037	1,917,571	81,641	1,999,212
Totals	<u>\$ 13,801,512</u>	<u>\$ 5,770,516</u>	<u>\$ 19,572,028</u>

Interest expense of \$142,405 is included in governmental activities in the statement of activities.

As of June 30, 2019, the business-type activities debt of the City of Shepherdsville, Kentucky consisted of the following:

Bonds payable

On May 14, 2016, the City issued \$2,826,000 General Obligation Bond Anticipation Note, Series 2016D issued May 14, 2019. The annual interest rate is 2.57%. Monthly payments of \$26,731 are due the 15th of each month. Additional payments on principal are permitted. Early payoff is permitted. The maturity date was May 15, 2019 and the note has been paid in full.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 5 Long-term Liabilities (continued)

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, 2019 the sinking fund was fully funded.

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, 2019, 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, 2019 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, 2019 total \$19,572,028. The lease is secured by property associated with the lease.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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, 2019 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.

Note 7 – Fund Balances

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2019, there was \$497,817 of nonspendable fund balance related to prepaid items.

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, 2019, the City had \$684,570 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. At June 30, 2019, the City had \$2,971,222 committed for future construction.

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, 2019.

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.

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.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 8 Risk Management (Continued)

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.

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, 2019, the City abated occupational license fees totaling \$487,735 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 \$56,624.
- 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 \$413,210.

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, 2019

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, 2019 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, 2019

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, 2019, was 16.22 percent of annual creditable compensation for nonhazardous employees and 24.86 percent of annual creditable compensation for hazardous employees. Contributions to the pension plan from the City were \$1,108,526 (\$241,101 for nonhazardous and \$867,425 for hazardous).

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

At June 30, 2019, the City reported a liability of \$15,767,875 for its proportionate share of the net pension liability (\$2,904,224 for nonhazardous and \$12,863,651 for hazardous). The net pension liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.047686 percent for nonhazardous and 0.531895 percent for hazardous which was an increase of 0.001057 percent for nonhazardous and an increase of 0.027132 percent for hazardous from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$288,542 for nonhazardous and \$1,983,029 for hazardous. At June 30, 2019, 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	\$ 94,728	\$ 42,512
Changes in actuarial assumptions	283,827	-
Difference between projected and actual investment earnings	135,048	169,872
Changes in proportion and differences between employer contributions and proportionate share of contributions	92,879	2,370
Contributions paid to CERS subsequent to the measurement date	241,101	-
	<u>\$ 847,583</u>	<u>\$ 214,754</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$241,101 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, 2019

Note 11 Retirement Plans (Continued)

Year Ending <u>June 30</u>	Pension Expense <u>Amount</u>
2020	\$ 283,974
2021	150,197
2022	(26,856)
2023	(15,587)
	<u>\$ 391,728</u>

CERS Hazardous:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Differences between expected and actual economic experience	\$ 1,023,730	\$ -
Changes in actuarial assumptions	1,369,292	-
Difference between projected and actual investment earnings	476,795	621,891
Changes in proportion and differences between employer contributions and proportionate share of contributions	516,970	-
Contributions paid to CERS subsequent to the measurement date	867,425	-
	<u>\$ 4,254,212</u>	<u>\$ 621,891</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$867,425 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>
2020	\$ 1,916,888
2021	905,866
2022	230
2023	(58,088)
	<u>\$ 2,764,896</u>

The City also owed \$111,855 to the plan for June 2019.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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	3.05 percent, average, 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 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. 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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013 and adopted by the Board on December 4, 2014.

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>	Long-term
		<u>Expected Real Rate of Return</u>
U.S. Large Cap	5.0%	4.50%
U.S. Mid Cap	6.0%	4.50%
U.S. Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
	<u>100.0%</u>	

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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	\$ 3,656,116	\$ 2,904,224	\$ 2,274,268
City's proportionate share of the net pension liability - Hazardous	\$ 16,117,313	\$ 12,863,651	\$ 10,173,891

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, 2019

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 5.26 percent of annual creditable compensation for non-hazardous employees and 10.48 percent of annual creditable compensation for hazardous employees. Contributions to the OPEB plan from the City were \$443,859 (\$78,187 for nonhazardous and \$365,672 for hazardous).

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

At June 30, 2019, the City reported a liability of \$4,639,067 for its proportionate share of the net OPEB liability (\$846,621 for non-hazardous and \$3,792,446). The net OPEB liability was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.047684 percent for nonhazardous and 0.53193 percent for hazardous which was an increase of 0.001055 percent for nonhazardous and an increase of 0.027167 percent for hazardous from its proportion measured as of June 30, 2017.

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

Note 12 Other Post-Employment Benefit Plans (Continued)

For the year ended June 30, 2019, the City recognized OPEB expense of \$362,478 (\$29,007 for non-hazardous and \$333,471 for hazardous). At June 30, 2019, 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	\$ -	\$ 98,662
Changes in actuarial assumptions	169,083	1,956
Difference between projected and actual investment earnings	-	58,316
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,593	1,763
Contributions paid to TRS subsequent to the measurement date	78,187	-
	<u>\$ 258,863</u>	<u>\$ 160,697</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$78,187 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
2020	\$ 4,788
2021	4,788
2022	4,788
2023	16,114
2024	(5,582)
Thereafter	(4,917)
	<u>\$ 19,979</u>

At June 30, 2019, 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, 2019

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	\$ -	\$ 423,817
Changes in actuarial assumptions	1,163,797	10,374
Difference between projected and actual investment earnings	-	360,540
Changes in proportion and differences between employer contributions and proportionate share of contributions	105,723	595
Contributions paid to CERS subsequent to the measurement date	365,672	-
	<u>\$ 1,635,192</u>	<u>\$ 795,326</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$365,672 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
2020	\$ 257,225
2021	257,225
2022	47,899
2023	(88,155)
	<u>\$ 474,194</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2018 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	3.05%, average
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	3.62%
Discount Rate – Non-Hazardous	5.85%
Discount Rate – Hazardous	5.97%

City of Shepherdsville, Kentucky
Notes to Financial Statements
June 30, 2019

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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 — June 30, 2013.

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. Large Cap	5.0%	4.50%
U.S. Mid Cap	6.0%	4.50%
U.S. Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
	<u>100.0%</u>	

The projection of cash flows used to determine the discount rate of 5.85% for non-hazardous and 5.97% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of 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 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The 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, 2019

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 5.85% for non-hazardous and 5.97% 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 4.85%	Current Discount Rate 5.85%	1% Increase 6.85%
City's proportionate share of the net OPEB liability - Non-Hazardous	\$ 1,099,624	\$ 846,621	\$ 631,107
	1% Decrease 4.97%	Current Discount Rate 5.97%	1% Increase 6.97%
City's proportionate share of the net OPEB liability - Hazardous	\$ 5,271,685	\$ 3,792,446	\$ 2,608,274

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	\$ 630,317	\$ 846,621	\$ 1,101,579
City's proportionate share of the net OPEB liability - Hazardous	\$ 5,290,594	\$ 3,792,446	\$ 2,582,838

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, 2019

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 May 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 \$1,610,000 in twelve equal monthly payments of \$134,167. A claim receivable for the full amount of \$1,610,000 was included in the financial statements at June 30, 2018. The full amount of the claim was paid to the City in the year ending June 30, 2019.

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 Subsequent Events

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 beginning in fiscal year 2020.

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, 2019

	Budgeted Amounts		Actual
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>
Revenues			
Taxes, Occupational, Franchise, Property, Auto & Insurance Premium	\$ 10,089,000	\$ 10,089,000	\$ 10,891,098
Licenses and Permits	320,500	114,000	198,394
KLEFPF - Police	128,000	131,000	168,148
KBTCs - Fire	84,000	112,000	139,342
Rental Revenue	40,000	42,000	58,501
Tow lot	-	-	39,143
Sewer Administration Fees	75,000	90,000	90,000
Other Revenues	217,380	70,000	218,624
Penalty/Interest	3,524	4,550	16,048
Total Revenues	<u>10,957,404</u>	<u>10,652,550</u>	<u>11,819,298</u>
Expenditures			
Administration	5,569,173	5,569,173	2,973,585
Fire Department	4,183,430	4,183,430	4,961,889
Police Department	4,630,768	4,630,768	4,700,757
Public Works	1,923,297	1,923,297	1,064,634
Total Expenditures	<u>16,306,668</u>	<u>16,306,668</u>	<u>13,700,865</u>
Excess of Revenues Over Expenditures	<u>(5,349,264)</u>	<u>(5,654,118)</u>	<u>(1,881,567)</u>
Other Financing Sources			
Transfers from other funds	-	-	48,377
Proceeds from sale of capital assets	350,000	-	-
Loan proceeds	<u>3,000,000</u>	<u>3,000,000</u>	<u>5,883,340</u>
Total Other Financing Sources	<u>3,350,000</u>	<u>3,000,000</u>	<u>5,931,717</u>
Net Change in Fund Balance	<u>\$ (1,999,264)</u>	<u>\$ (2,654,118)</u>	4,050,150
Fund Balance, Beginning			<u>2,078,081</u>
Fund Balance, Ending			<u><u>\$ 6,128,231</u></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, 2019

					*
CERS - Non Hazardous	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.047686%	0.046629%	0.043559%	0.044080%	0.043835%
City's proportionate share of the net pension liability	\$ 2,904,224	\$ 2,729,340	\$ 2,144,674	\$ 1,895,173	\$ 1,422,172
City's covered-employee payroll	\$ 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	223.45%	220.31%	185.17%	183.61%	181.98%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%	66.80%
					*
CERS - Hazardous	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.531895%	0.504763%	0.495995%	0.434030%	0.397485%
City's proportionate share of the net pension liability	\$ 12,863,651	\$ 11,292,955	\$ 8,510,985	\$ 6,662,849	\$ 4,777,070
City's covered-employee payroll	\$ 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	425.93%	429.87%	302.34%	294.46%	289.62%
Plan fiduciary net position as a percentage of the total pension liability	49.26%	49.78%	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, 2019

CERS - Non Hazardous	2019	2018	2017	2016	2015
Contractually required contribution	\$ 241,101	\$ 188,200	\$ 172,822	\$ 143,852	\$ 131,604
Contributions in relation to the contractually required contribution	<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>
City's covered-employee payroll	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188
Contributions as a percentage of covered employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%
					*
CERS - Hazardous	2019	2018	2017	2016	2015
Contractually required contribution	\$ 867,425	\$ 670,466	\$ 570,336	\$ 570,336	\$ 469,061
Contributions in relation to the contractually required contribution	<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>
City's covered-employee payroll	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716
Contributions as a percentage of covered employee payroll	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, 2019

CERS - Non Hazardous	*	
	2019	2018
City's proportion of the net OPEB liability	0.047684%	0.046629%
City's proportionate share of the net OPEB liability	\$ 846,621	\$ 937,403
City's covered-employee payroll	\$ 1,341,745	\$ 1,238,867
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	63.10%	75.67%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.39%
CERS - Hazardous	*	
	2019	2018
City's proportion of the net OPEB liability	0.531930%	0.504763%
City's proportionate share of the net OPEB liability	\$ 3,792,446	\$ 4,172,733
City's covered-employee payroll	\$ 3,067,765	\$ 2,627,066
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	123.62%	158.84%
Plan fiduciary net position as a percentage of the total OPEB liability	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, 2019

CERS - Non Hazardous

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

CERS - Hazardous

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

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 part 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, 2019

Changes of benefit terms. There were no changes in benefit terms for 2014 through 2018.

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, 2018

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.

Notes to OPEB Schedules

Changes of benefit terms. There were no changes in benefit terms for 2018 or 2017.

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.

**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 Council Members
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, each major fund, and the aggregate remaining fund information of the City of Shepherdsville, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Shepherdsville, Kentucky's basic financial statements, and have issued our report thereon dated December 30, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shepherdsville, Kentucky'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. In addition, the results of our tests disclosed no instances of material noncompliance that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.

Bardstown, Kentucky

December 30, 2019

City of Shepherdsville, Kentucky
Schedule of Finding and Response

For the Year Ended June 30, 2019

Finding 2019-001

(Non-compliance)

Condition: The City's deposits were not adequately collateralized or insured as of June 30, 2019 in accordance with Kentucky Revised Statute (KRS) 41.240.

Criteria: KRS 41.240 requires public funds be adequately collateralized in order to protect deposits in excess of federally insured limits.

Cause: Deposit amount were not monitored to ensure amounts in excess of insured limits were collateralized by the Commission's financial institution.

Effect: Failure to comply with KRS 41.240 to adequately collateralize deposits in excess of federal insurance limits could result in loss of public funds should the financial institution fail.

Recommendation: We recommend the City monitor collateral and deposit amounts in order to identify the excess uninsured and uncollateralized bank balances throughout the year (i.e. at least monthly).

Views of Responsible Officials: Management will monitor deposits and will secure additional pledged collateral from the trustee bank when deposits exceed federal insurance limits.

Certification of Compliance
Local Government Economic Assistance Program

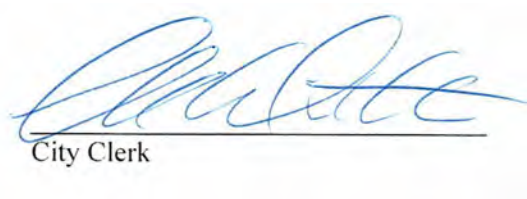
City of Shepherdsville, Kentucky
For the Year Ended June 30, 2019

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.



Handwritten signature of Curtis Hochenly in blue ink, written over a horizontal line.

Mayor



Handwritten signature in blue ink, written over a horizontal line.

City Clerk