

Financial Statements and Required  
Supplementary Information

2021

**City of Shepherdsville, Kentucky**

June 30, 2021



Financial Statements and Required  
Supplementary Information

**City of Shepherdsville, Kentucky**

June 30, 2021

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## The City of Shepherdsville, Kentucky

As of and for the Year Ended June 30, 2021

### Transmittal Letter

City Council and Citizens of Shepherdsville  
Shepherdsville, Kentucky

#### The Annual Comprehensive Financial Report

The Annual Comprehensive Financial Report ("ACFR") of the City of Shepherdsville, Kentucky (the "City"), for the fiscal year ended June 30, 2021, 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 ACFR 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 independent auditors' report, management's discussion and analysis, the basic government-wide financial statements, the fund financial statements, the notes to the 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.

Strothman and Company audited the financial statements and the related notes of the City of Shepherdsville, Kentucky. As stated in the independent auditors' 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:

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Mayor

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City Clerk

**The City of Shepherdsville, Kentucky**  
**Governmental Directory**  
**City Clerk's Office**  
Post Office Box 400  
634 Conestoga Parkway  
Shepherdsville, Kentucky 40165  
Telephone: 502/543-2923 ~ 502/543-6201 (facsimile)  
City Council meetings held 2nd and 4th Monday of each month at 6:30PM (EST)

**City of Shepherdsville Officials**

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Jose Cubero	December 31, 2026
Council Member	Jennifer Mendez	December 31, 2024
Council Member	Bonnie Enlow	December 31, 2024
Council Member	Mike Hibbard, Sr.	December 31, 2024
Council Member	Paula A Mangus	December 31, 2024
Council Member	Brad Whitaker	December 31, 2024
Council Member	Faith Portman	December 31, 2024
Deputy City Clerk	Tammy Richmond	
City Clerk/		
Flood Plain Coordinator	Brenda Weidekamp	
Finance Officer	Tonya Taylor	
City Treasurer	Gayla Bright	
Fire Chief	Layne Troutman	
Fire Marshall	Ted Calvert	
Police Chief	Rick McCubbins	
Public Utility Director	Scott Fleming	
Public Works Foreman	Thomas LaFollette	
Wastewater Treatment	Scott Fleming	
Alcoholic Beverage Control		
(ABC) Officer	Jerry Pile	
Civil Service Commission		
Chair	Debbie Hawkins	



## **Independent Auditors' Report**

To the Mayor and City Council  
City of Shepherdsville, Kentucky  
Shepherdsville, Kentucky

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 auditors' 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 auditors consider internal control relevant to the City'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 City'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, major fund and the aggregate remaining fund information of the City, as of June 30, 2021, 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.

## **Restatement**

As disclosed in Note C to the financial statements, the City discovered that they had improperly calculated the accounts receivable for the sewer fund for the year ended June 30, 2020. An adjustment to beginning fund balance has been posted. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

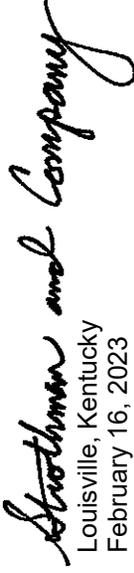
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, OPEB schedules, and budgetary comparison information on pages 59 and 66 be presented to supplement the basic financial statements. Such information, although 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'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 February 16, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

  
Louisville, Kentucky  
February 16, 2023

## Management's Discussion and Analysis

### City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2021

As management of the City of Shepherdsville, Kentucky (the "City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City as of June 30, 2021 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 \$5.8 million and \$8.2 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 \$(2.2) million and \$30.4 million, respectively.
- Overall net position of the City increased approximately \$1 million from \$29.2 million at June 30, 2020 to \$28.2 million at June 30, 2021.
- General fund revenues before other financing sources and uses, of \$15.1 million exceeded expenditures of \$14.1 million for the year ended June 30, 2021. This represents an excess of revenue over expenses of approximately \$946 thousand.
- Long-term debt (bonds, leases, and notes) for the sewer fund was reduced by approximately \$1.2 million during 2021. The total balance of bonds, capital lease and notes payable at June 30, 2021 totaled approximately \$17.3 million for the sewer fund.
- 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, 2021 of \$22.8 million. This is an increase from the prior year of approximately \$3.3 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, 2021 of \$7.0 million. This represents an increase of \$1.9 million from the prior year.

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements as of June 30, 2021 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.

**City of Shepherdsville, Kentucky**

As of and For the Year Ended June 30, 2021

**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, and 3) the proprietary 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.

## Management Discussion and Analysis--Continued

### City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2021

#### 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 proprietary funds.

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

Proprietary Funds--The City 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.

Management Discussion and Analysis--Continued

**City of Shepherdsville, Kentucky**

As of and For the Year Ended June 30, 2021

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**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Current and other assets	\$ 7,488,841	\$ 5,738,489	\$ 10,020,882	\$ 9,435,672	\$ 17,509,723	\$ 15,174,161
Capital assets	18,263,896	18,168,825	39,754,639	39,888,649	58,018,535	58,057,474
<b>Total Assets</b>	<b>\$ 25,752,737</b>	<b>\$ 23,907,314</b>	<b>\$ 49,775,521</b>	<b>\$ 49,324,321</b>	<b>\$ 75,528,258</b>	<b>\$ 73,231,635</b>
Deferred Outflows of Resources	\$ 7,401,582	\$ 14,822,274	\$ 430,392	\$ 889,980	\$ 7,831,974	\$ 15,712,254
Current liabilities	\$ 3,059,297	\$ 2,329,404	\$ 1,888,659	\$ 1,536,526	\$ 4,947,956	\$ 3,865,930
Long-term liabilities	31,024,351	27,614,666	17,843,799	18,824,913	48,868,150	46,439,579
<b>Total Liabilities</b>	<b>\$ 34,083,648</b>	<b>\$ 29,944,070</b>	<b>\$ 19,732,458</b>	<b>\$ 20,361,439</b>	<b>\$ 53,816,106</b>	<b>\$ 50,305,509</b>
Deferred Inflows of Resources	\$ 1,253,699	\$ 1,839,638	\$ 119,937	\$ 155,204	\$ 1,373,636	\$ 1,994,842
Net Position						
Net investment in capital assets	\$ 13,967,368	\$ 12,533,211	\$ 22,502,112	\$ 21,379,782	\$ 36,469,480	\$ 33,912,993
Restricted	76,674	19,737	525,163	524,861	601,837	544,598
Unrestricted	(16,227,070)	(13,018,205)	7,326,243	7,348,025	(8,900,827)	(5,670,180)
	<b>\$ (2,183,028)</b>	<b>\$ (465,257)</b>	<b>\$ 30,353,518</b>	<b>\$ 29,252,668</b>	<b>\$ 28,170,490</b>	<b>\$ 28,787,411</b>

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 \$28.2 million as of June 30, 2021. The City's net position decreased by approximately \$617 thousand for the fiscal year ended June 30, 2021. Capital assets of the City decreased by approximately \$40 thousand due to depreciation of \$2.6 million, which exceeded capital additions for the year. 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's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay the debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. Long-term debt liabilities (excluding compensated absences and the net pension / OPEB liabilities) decreased by approximately \$2.6 million during fiscal year ended June 30, 2021.

Management Discussion and Analysis--Continued

**City of Shepherdsville, Kentucky**

As of and For the Year Ended June 30, 2021

**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
<b>Program Revenue</b>						
Charges for services	\$ 1,905	\$ 2,446	\$ 6,298,055	\$ 6,605,077	\$ 6,299,960	\$ 6,607,523
Operating grants and contributions	1,494,696	749,020			1,494,696	749,020
Capital grants and contributions	233,485	233,638			233,485	233,638
<b>General Revenues</b>						
Property taxes	2,613,835	2,236,609			2,613,835	2,236,609
Occupational taxes	8,607,965	7,287,050			8,607,965	7,287,050
Fees, licenses and permits	414,387	448,418			414,387	448,418
Insurance premium tax	1,264,585	1,176,561			1,264,585	1,176,561
Motor vehicle taxes	138,483	117,866			138,483	117,866
Telecommunications tax	76,836	76,905			76,836	76,905
Franchise taxes	84,277	94,352			84,277	94,352
Rent income	26,329	25,161			26,329	25,161
Other income	325,971	105,170	545,344	131,299	871,315	236,469
Interest income	8,307	59,022	3,627	12,278	11,934	71,300
Gain (loss) on sale or disposal of capital	(8,772)	90,881			(8,772)	90,881
<b>Total Revenues</b>	<b>15,282,289</b>	<b>12,703,099</b>	<b>6,847,026</b>	<b>6,748,654</b>	<b>22,129,315</b>	<b>19,451,753</b>
<b>Expenses</b>						
General government	2,298,368	2,081,804			2,298,368	2,081,804
Fire department	5,794,938	5,571,049			5,794,938	5,571,049
Police department	6,616,366	6,384,824			6,616,366	6,384,824
Public works department	1,599,135	1,027,820			1,599,135	1,027,820
Municipal aid - streets	535,319	638,772			535,319	638,772
Interest on long-term debt	155,934	117,098			155,934	117,098
Sewer services			5,746,176	5,037,784	5,746,176	5,037,784
<b>Total Expenses</b>	<b>17,000,060</b>	<b>15,821,367</b>	<b>5,746,176</b>	<b>5,037,784</b>	<b>22,746,236</b>	<b>20,859,151</b>
<b>Change in Net Position</b>	<b>\$ (1,717,771)</b>	<b>\$ (3,118,268)</b>	<b>\$ 1,100,850</b>	<b>\$ 1,710,870</b>	<b>\$ (616,921)</b>	<b>\$ (1,407,398)</b>

**Governmental Activities**

Total revenue increased approximately \$2.6 million or 20.3% for governmental activities, primarily driven by increases in grants and occupational taxes. City departments experienced a slight increase in operating expenses of approximately \$300 thousand or 1.9%.

**Business-type Activities**

Operating revenue related to sewer charges for services offered by the City decreased approximately \$307 thousand or 4.6% for fiscal year ended June 30, 2021. Primarily due to a decrease in service revenue of 8.8%. Expenses for sewer services increased approximately \$659 thousand or 13.1%. 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").

## Management Discussion and Analysis--Continued

### City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2021

#### Capital Asset and Debt Administration

##### Capital Assets

The City's total investment in capital assets for its governmental and business-type activities as of June 30, 2021 totals approximately \$58.0 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. Sewer projects - \$1.4 million
2. Buildings - \$922 thousand
3. City Parks- \$372 thousand
4. 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, 2021, the City had a total debt outstanding of \$4,296,528 reported for governmental activities. During the fiscal year, \$1,339,086 of debt was retired.

The City of Shepherdsville is required by Government Accounting Standards Board Statement No. 68 and No. 75 to begin reporting in its financial statements the City's proportionate share of the unfunded pension and OPEB liabilities of the City related to the City participation in CERS. See notes of these financial statements. The amount of the unfunded pension liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$21,427,201. The amount of the unfunded OPEB liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$6,585,074.

The net pension and OPEB liabilities are presented as non-current liabilities as of June 30, 2021 and represent an allocation of the unfunded pension and OPEB liabilities, respectively, of the Kentucky Retirement System measured as of June 30, 2020.

## Management Discussion and Analysis--Continued

### City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2021

#### Business-type Activities

As of June 30, 2021, the City had \$17,262,527 long-term debt for the Sewer Fund. The City is prohibited from making early payments to retire the debts.

The reserve and replacement sinking funds required by three (3) of the bonds are fully funded as of June 30, 2021.

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

#### Economic Factors, Next Year's Budget and Tax Rates

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

1. Future job growth over the next ten years is expected to be 38.9%.
2. Unemployment rate: The unemployment rate for the Commonwealth of Kentucky at June 2021 was 4.8% compared to 5.7% at the end of June 2020. The unemployment rate for Bullitt County July 2021 was at 4.3%
3. The median household income is \$55,454.
4. Interstate 65 is a major highway that runs north and south through the City. There are two (2) exits off the interstate into the City. Large industrial parks have been developed around these exits. The City partnered with the Kentucky Department of Transportation to construct major improvements at Exit 116 on I-65 in Shepherdsville. The improvements to the exit ramps and the addition of another road will improve traffic flow on and off the ramps at Exit 116. A much-needed improvement to Highway 61 (Preston Highway) is nearing completion. This new four lane highway will give the City residences and businesses easier access to the City and lessen traffic on Interstate 65.
5. The City is 17 miles from the Louisville International Airport which is a major transportation hub for United Parcel Service (UPS) and FedEx.
6. The cost of living in Shepherdsville, Kentucky is slightly more than Kentucky and less than the national average (90 vs. 100.0).
7. The real estate property tax for 2021 (due November 1, 2021) stayed the same as previous years of \$0.133 per \$100 of assessed value.

## Management Discussion and Analysis--Continued

### **City of Shepherdsville, Kentucky**

As of and For the Year Ended June 30, 2021

#### **Budget Highlights for the Fiscal Year Ended June 30, 2021**

##### **Governmental Activities**

The City did not amend its original annual budgets (General Fund, Sewer Fund and Municipal Aid Fund), for fiscal year ended June 30, 2021. Generally, if required, budget amendments fall into one of three (3) categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available, 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants, and 3) increases in appropriations that become necessary to maintain services.

The city previously predicted a reduction of revenue due to Covid 19; however, the reduction has been less than expected. Occupation tax revenue slowed slightly early in the year but recovered quickly. Business license revenue was reduced by approximately 15%, and property tax revenue was not impacted by Covid 19.

##### **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, Kentucky 40165 or at City Hall, located at 634 Conestoga Parkway, Shepherdsville, Kentucky. One can also call (502) 215-1529 and request to speak with the Controller.

Please visit our website at [www.Shepherdsville.net](http://www.Shepherdsville.net).

**Government-Wide Financial Statements**

Statement of Net Position

City of Shepherdsville, Kentucky

June 30, 2021

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,766,467	\$ 7,694,507	\$ 13,460,974
Restricted cash and cash equivalents	49,938	525,169	575,107
Receivables, net	2,309,310	397,128	2,706,438
Unbilled receivables, net		377,467	377,467
Internal balances	(643,523)	643,523	
Due from Louisville Water Company		377,546	377,546
Prepaid expenses	6,649	5,542	12,191
Non-depreciable capital assets	823,776	1,992,352	2,816,128
Depreciable capital assets, net	17,440,120	37,762,287	55,202,407
<b>Total Assets</b>	<b>25,752,737</b>	<b>49,775,521</b>	<b>75,528,258</b>
<b>Deferred Outflow of Resources</b>			
CERS - Pension- Non-Hazardous	377,784	231,545	609,329
CERS - Pension- Hazardous	4,298,375		4,298,375
CERS - OPEB- Non-Hazardous	324,434	198,847	523,281
CERS - OPEB - Hazardous	2,400,989		2,400,989
<b>Total Deferred Outflows</b>	<b>7,401,582</b>	<b>430,392</b>	<b>7,831,974</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 33,154,319</b>	<b>\$ 50,205,913</b>	<b>\$ 83,360,232</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 290,305	\$ 454,956	\$ 745,261
Accrued expenses	1,241,259	93,771	1,335,030
Accrued interest	17,254	42,275	59,529
Deposits	12,150		12,150
Accrued compensated absences	32,082	8,612	40,694
Bonds payable - due in one year		220,000	220,000
Capital leases payable - due in one year		612,763	612,763
Notes payable - due in one year	1,466,247	456,282	1,922,529
<b>Total Current Liabilities</b>	<b>3,059,297</b>	<b>1,888,659</b>	<b>4,947,956</b>
<b>Long-Term Liabilities</b>			
Accrued compensated absences	181,795	25,836	207,631
Bonds payable - non-current		2,840,000	2,840,000
Capital leases payable - non-current		12,046,844	12,046,844
Notes payable - non-current	2,830,281	1,076,638	3,906,919
Net pension liability - CERS Non-Hazardous	2,301,398	1,410,535	3,711,933
Net pension liability - CERS Hazardous	19,125,803		19,125,803
Net OPEB liability - CERS Non-Hazardous	724,332	443,946	1,168,278
Net OPEB liability - CERS Hazardous	5,860,742		5,860,742
<b>Total Long-Term Liabilities</b>	<b>31,024,351</b>	<b>17,843,799</b>	<b>48,868,150</b>
<b>Total Liabilities</b>	<b>34,083,648</b>	<b>19,732,458</b>	<b>53,816,106</b>
<b>Deferred Inflows of Resources</b>			
CERS - Pension- Non-Hazardous	52,128	31,949	84,077
CERS - Pension - Hazardous	293,412		293,412
CERS - OPEB - Non-Hazardous	143,560	87,988	231,548
CERS - OPEB- Hazardous	764,599		764,599
<b>Total Deferred Inflows</b>	<b>1,253,699</b>	<b>119,937</b>	<b>1,373,636</b>
<b>Net Position</b>			
Net investment in capital assets	13,967,368	22,502,112	36,469,480
Restricted for:			
Municipal Street Fund	76,674		76,674
Debt service		221,482	221,482
Construction		303,681	303,681
Unrestricted	(16,227,070)	7,326,243	(8,900,827)
<b>Total Net Position</b>	<b>(2,183,028)</b>	<b>30,353,518</b>	<b>28,170,490</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Pension</b>	<b>\$ 33,154,319</b>	<b>\$ 50,205,913</b>	<b>\$ 83,360,232</b>

See Notes to Financial Statements

Statement of Activities

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Primary Governmental Activities	Net Revenue (Expense) and Changes in Net Position Government Business-Type Activities	Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
<b>Governmental Activities</b>							
General Government							
General government	\$ 2,298,368	\$ 1,550	\$ 1,170,541		\$ (1,126,277)		\$ (1,126,277)
Fire department	5,794,938		145,572		(5,649,366)		(5,649,366)
Police department	6,616,366	355	178,583		(6,437,428)		(6,437,428)
Public works department	1,599,135				(1,599,135)		(1,599,135)
Municipal aid - streets	535,319			\$ 233,485	(301,834)		(301,834)
Interest on long-term debt	155,934				(155,934)		(155,934)
<b>Total Governmental Activities</b>	<b>\$ 17,000,060</b>	<b>\$ 1,905</b>	<b>\$ 1,494,696</b>	<b>\$ 233,485</b>	<b>(15,269,974)</b>		<b>(15,269,974)</b>
<b>Business-Type Activities</b>							
Sewer services	\$ 5,746,176	\$ 6,298,055				\$ 551,879	551,879
<b>General Revenues</b>							
Property taxes					2,613,835		2,613,835
Occupational taxes					8,607,965		8,607,965
Fees, license and permits					414,387		414,387
Insurance premium tax					1,264,585		1,264,585
Motor vehicle taxes					138,483		138,483
Telecommunications tax					76,836		76,836
Franchise taxes					84,277		84,277
Rent income					26,329		26,329
Other income					325,971	545,344	871,315
Interest income					8,307	3,627	11,934
Loss on sale or disposal of capital assets					(8,772)		(8,772)
<b>Total General Revenues</b>					<b>13,552,203</b>	<b>548,971</b>	<b>14,101,174</b>
<b>Change in Net Position</b>					<b>(1,717,771)</b>	<b>1,100,850</b>	<b>(616,921)</b>
<b>Net Position, June 30, 2020, as previously reported</b>					<b>(465,257)</b>	<b>29,648,908</b>	<b>29,183,651</b>
Correction of an error (Note C)						(396,240)	(396,240)
<b>Net Position, June 30, 2020, as restated</b>					<b>(465,257)</b>	<b>29,252,668</b>	<b>28,787,411</b>
<b>Net Position, Ending</b>					<b>\$ (2,183,028)</b>	<b>\$ 30,353,518</b>	<b>\$ 28,170,490</b>

See Notes to the Financial Statements

## **Fund Financial Statements**

Balance Sheet - Governmental Funds

**City of Shepherdsville, Kentucky**

June 30, 2021

	<u>General Government Fund</u>	<u>Municipal Aid Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents			
Cash	\$ 5,766,467		\$ 5,766,467
Cash, restricted		\$ 49,938	49,938
Receivables, net	2,309,310		2,309,310
Prepaid expenses	6,649		6,649
Due from other governmental fund		29,736	29,736
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<u>\$ 8,082,426</u>	<u>\$ 79,674</u>	<u>\$ 8,162,100</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 290,305		\$ 290,305
Accrued expenses	1,241,259		1,241,259
Accrued interest	17,254		17,254
Deposits	12,150		12,150
Due to other governmental fund	29,736		29,736
Due to sewer fund	643,523		643,523
	<u>                    </u>		<u>                    </u>
<b>Total Liabilities</b>	2,234,227		2,234,227
<b>Fund Balances</b>			
Nonspendable	6,649		6,649
Restricted for municipal aid fund		\$ 79,674	79,674
Unassigned	5,841,550		5,841,550
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Fund Balances</b>	<u>5,848,199</u>	<u>79,674</u>	<u>5,927,873</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,082,426</u>	<u>\$ 79,674</u>	<u>\$ 8,162,100</u>

See Notes to the Financial Statements

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

**City of Shepherdsville, Kentucky**

June 30, 2021

**Fund Balance - Total Governmental Funds** **\$ 5,927,873**

Amounts reported for Governmental Activities in the  
statement of net position are different because of the following:

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

Governmental capital assets	\$ 28,384,678	
Less: accumulated depreciation	<u>(10,120,782)</u>	18,263,896

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

Deferred outflows of resources - CERS	7,401,582	
Deferred inflows of resources - CERS	<u>(1,253,699)</u>	6,147,883

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	(4,296,528)	
Net pension liability	(21,427,201)	
Net OPEB liability	(6,585,074)	
Compensated Absences	<u>(213,877)</u>	<u>(32,522,680)</u>

<b>Net Position of Governmental Activities</b>		<b><u>\$ (2,183,028)</u></b>
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See Notes to the Financial Statements

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

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2021

	<b>General Government Fund</b>	<b>Municipal Aid Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 2,613,836		\$ 2,613,836
Occupational taxes	8,607,965		8,607,965
Fees, license and permits	414,387		414,387
Insurance premium tax	1,264,585		1,264,585
Motor vehicle taxes	138,483		138,483
Telecommunications tax	76,836		76,836
Franchise taxes	84,277		84,277
Charges for services	1,905		1,905
Rent income	26,329		26,329
Other income	325,971		325,971
Intergovernmental revenues	1,494,696	\$ 233,485	1,728,181
Interest income	8,307		8,307
<b>Total Revenues</b>	<b>15,057,577</b>	<b>233,485</b>	<b>15,291,062</b>
<b>Expenditures</b>			
General government	2,039,959		2,039,959
Public safety, fire department	3,654,838		3,654,838
Public safety, police department	4,263,439		4,263,439
Public works	1,397,472		1,397,472
Municipal road aid expense		79,189	79,189
Capital outlay	1,268,194		1,268,194
Debt service			
Principal	1,339,086		1,339,086
Interest	155,934		155,934
<b>Total Expenditures</b>	<b>14,118,922</b>	<b>79,189</b>	<b>14,198,111</b>
<b>Revenues in Excess of Expenditures</b>	<b>938,655</b>	<b>154,296</b>	<b>1,092,951</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	94,359		94,359
Transfers out		(94,359)	(94,359)
Proceeds from sale of capital assets	24,796		24,796
<b>Total Other Financing Sources (Uses)</b>	<b>119,155</b>	<b>(94,359)</b>	<b>24,796</b>
<b>Net Change in Fund Balances</b>	<b>1,057,810</b>	<b>59,937</b>	<b>1,117,747</b>
<b>Fund Balances, Beginning</b>	<b>4,790,389</b>	<b>19,737</b>	<b>4,810,126</b>
<b>Fund Balances, Ending</b>	<b>\$ 5,848,199</b>	<b>\$ 79,674</b>	<b>\$ 5,927,873</b>

See Notes to the Financial Statements

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

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,117,747

Amounts reported for changes in net position in the  
statement of activities are different because of the following:

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	\$ 1,268,194	
Depreciation expense	<u>(1,139,555)</u>	128,639

In the statement of activities, the net gain (loss) on the  
sale/disposal of capital assets is reported, whereas in the  
governmental funds, only the proceeds from the sale of  
capital assets is recorded as a financial resource.  
Therefore, the change in net position differs from the  
change in fund balance by the cost of the assets  
sold/disposed less the related accumulated depreciation. (33,568)

Repayment of long-term debt principal is considered  
an expenditure in the governmental funds, but their  
repayment reduces long-term liabilities in the  
statement of net position. 1,339,086

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	(4,276,717)	
Changes in compensated absences	<u>7,042</u>	<u>(4,269,675)</u>

**Change in Net Position of Governmental Activities** **\$ (1,717,771)**

See Accompanying Notes to the Financial Statements

Statement of Net Position - Proprietary Funds

City of Shepherdsville, Kentucky

June 30, 2021

	<b>Sewer Fund</b>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 7,694,507
Restricted cash and cash equivalents	525,169
Accounts receivable, net	397,128
Unbilled receivables, net	377,467
Due from General Fund	643,523
Due from Louisville Water Company	377,546
Prepaid expenses	<u>5,542</u>
<b>Total Current Assets</b>	10,020,882
<b>Non-current Assets</b>	
Non-depreciable capital assets	1,992,352
Depreciable capital assets, net	<u>37,762,287</u>
<b>Total Non-current Assets</b>	<u>39,754,639</u>
<b>Total Assets</b>	49,775,521
<b>Deferred Outflow of Resources</b>	
CERS - Pension- Non-Hazardous	231,545
CERS - OPEB - Non-Hazardous	<u>198,847</u>
<b>Total Deferred Outflows of Resources</b>	<u>430,392</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 50,205,913</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 454,956
Accrued expenses	93,771
Accrued interest	42,275
Accrued compensated absences	8,612
Bonds payable - due in one year	220,000
Capital leases payable - due in one year	612,763
Notes payable - due in one year	<u>456,282</u>
<b>Total Current Liabilities</b>	1,888,659
<b>Non-current Liabilities</b>	
Accrued compensated absences	25,836
Net pension liability - CERS	1,410,535
Net OPEB liability - CERS	443,946
Bonds payable - non-current	2,840,000
Capital leases payable - non-current	12,046,844
Notes payable - non-current	<u>1,076,638</u>
<b>Total Non-current Liabilities</b>	<u>17,843,799</u>
<b>Total Liabilities</b>	19,732,458
<b>Deferred Inflow of Resources</b>	
CERS - Pension - Non-Hazardous	31,949
CERS - OPEB - Non-Hazardous	<u>87,988</u>
<b>Total Deferred Inflows of Resources</b>	119,937
<b>Net Position</b>	
Net investment in capital assets	22,502,112
Restricted for debt service	221,482
Restricted for construction	303,681
Unrestricted	<u>7,326,243</u>
<b>Total Net Position</b>	<u>30,353,518</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 50,205,913</u>

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes  
in Net Position - Proprietary Funds

**City of Shepherdsville, Kentucky**

June 30, 2021

	<b>Sewer Fund</b>
<b>Operating Revenues</b>	
Sewer service	\$ 3,686,502
Jim Beam service	2,393,730
Sewer connection	139,715
Other fees	78,108
	<hr/>
<b>Total Operating Revenues</b>	6,298,055
<b>Operating and Maintenance Expenses</b>	
Personnel expenses	662,718
Personnel benefits	594,800
Sewer plant operating expenses	805,155
Repairs and maintenance	1,014,773
Training and travel	10,559
General administrative and supplies	173,098
Professional fees	126,615
Insurance	65,823
Other	75,018
Depreciation and amortization	1,483,058
	<hr/>
<b>Total Operating and Maintenance Expenses</b>	5,011,617
<b>Operating Income</b>	1,286,438
<b>Non-operating Revenues (Expenses)</b>	
Interest expense	(734,559)
Interest income	3,627
Other income	545,344
	<hr/>
<b>Total Non-operating Revenues (Expenses)</b>	(185,588)
<b>Change in Net Position</b>	1,100,850
<b>Net Position, June 30, 2020, as previously reported</b>	29,648,908
Correction of an error (Note C)	(396,240)
	<hr/>
<b>Net Position, June 30, 2020, as restated</b>	29,252,668
	<hr/>
<b>Net Position, Ending</b>	<u><u>\$ 30,353,518</u></u>

See Notes to Financial Statements

Statement of Cash Flows - Proprietary Funds

**City of Shepherdsville, Kentucky**

Year Ended June 30, 2021

	<u>Sewer Fund</u>
<b>Cash Flow from Operating Activities</b>	
Cash received from customers	\$ 6,317,145
Cash payments made to suppliers for goods and services	(1,874,221)
Cash payments made to employees and professional contractors for services	<u>(1,863,807)</u>
<b>Net Cash Provided By Operating Activities</b>	2,579,117
<b>Cash Flows from Noncapital Financing Activity</b>	
Other miscellaneous income	545,344
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(1,400,298)
Proceeds on sale of capital assets	51,250
Principal paid on long-term debt	(1,256,340)
Interest paid on long-term debt	<u>(748,645)</u>
<b>Net Cash Used By Capital and Related Financing Activities</b>	(3,354,033)
<b>Cash Flows from Investing Activity</b>	
Interest income	<u>3,627</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(225,945)
<b>Cash and Cash Equivalents, Beginning</b>	<u>8,445,621</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 8,219,676</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating income	\$ 1,286,438
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,483,058
Increases (decreases) In:	
Receivables (net) billed	(15,932)
Receivables (net) unbilled	35,022
Due from Louisville Water Company	(210,732)
Prepaid expenses	(4,442)
Accounts payable	279,582
Accrued expenses	42,220
Accrued compensated absences	6,856
Net change in pension /OPEB related items	292,118
Due to/from General Fund, net	<u>(615,071)</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 2,579,117</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>	
Cash and cash equivalents - unrestricted	\$ 7,694,507
Cash and cash equivalents - restricted	<u>525,169</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 8,219,676</u>
<b>Noncash Transactions</b>	
CERS Pension/OPEB	<u>\$ 292,118</u>

See Notes to Financial Statements

## **Notes to the Financial Statements**

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies**

Reporting Entity--The City of Shepherdsville, Kentucky (the "City") was incorporated December 11, 1793, and is located in Bullitt County, Kentucky. 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 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. Based on the aforementioned oversight criteria, the reporting entity is confined solely to the operations of the City.

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.

Basis of Reporting--These financial statements of the 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.

Government-Wide Financial Statements--The 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, and 3) capital grants and contributions.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

Certain eliminations have been made in regard 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:

- Nonspendable--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 prepaid expenses as being nonspendable.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

- Restricted--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.
- Committed--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--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--All amounts not include in the other spendable classifications. 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 net position, and a statement of cash flows for each major proprietary fund and non-major funds aggregated.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

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 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.

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.

Budgetary Information, Compliance and Accountability--Annual budgets are adopted on a basis consistent with Section 91 A .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.

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.

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.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and 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, 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 funds.

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.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and 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 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 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.

Interfund Transactions--Interfund 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.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

Interfund receivables and payables as of June 30, 2021, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund		\$ 643,523
Sewer Fund	<u>\$ 643,523</u>	
	<u>\$ 643,523</u>	<u>\$ 643,523</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.

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.

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:

<u>Asset Class</u>	<u>Estimated Useful Lives (Years)</u>
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 in service for City use.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

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.

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

<u>Compensated Absences</u>	<u>July 1 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2021</u>	<u>Current Portion</u>
Governmental activities	\$ 220,919	\$ 197,678	\$ 204,720	\$ 213,877	\$ 32,082
Business-type activities	<u>27,592</u>	<u>69,724</u>	<u>62,868</u>	<u>34,448</u>	<u>8,612</u>
	<u>\$ 248,511</u>	<u>\$ 267,402</u>	<u>\$ 267,588</u>	<u>\$ 248,325</u>	<u>\$ 40,694</u>

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

Net Position--Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-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.

Property Tax Revenue--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, 2021 to finance the General Fund operations were \$0.139 per \$100 valuation of real property and \$0.136 per \$100 valuation for motor vehicles. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note A--Reporting Entity and Summary of Significant Accounting Policies--Continued**

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.

**Note B--Deposits and Investments**

Deposits are carried at cost, which approximates market value. The City maintains deposit balances at First Harrison Bank, Republic Bank & Trust Company, and WesBanco Bank. Each bank is insured by the Federal Deposit Insurance Corporation up to \$250,000.

GASB No. 40, *Deposits and Investment Risk Disclosures*, required the City to address the following risks related to its investments:

Credit Risk--The City's investment policy follows state statute Kentucky Revised Statute 66.480 that authorizes the City to invest in obligations of any agency of the U.S. Government; certificates of deposit or other interest-bearing accounts of any bank; bankers acceptances, commercial paper for banks rated in one of the three highest categories by a nationally recognized rating agency; securities issued by a state or local government; shares of mutual funds which meet certain characteristics.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note B--Deposits and Investments--Continued**

Custodial Credit Risk--Custodial credit risk for cash and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The City's policy dictates that all cash maintained in any financial institution be collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. At June 30, 2021, \$13,011,569 of the City's bank balances of \$13,761,569 were exposed to custodial credit risk. Of the amount exposed to custodial credit risk, \$12,359,141 was collateralized by securities held by the pledging financial institution and \$652,428 was uncollateralized.

Interest Rate Risk--The risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates.

Concentration of Credit Risk--The City places no limit on the amount it may invest in any one issuer. The City's financial advisor consults with the City Council and the Kentucky Department for Local Government to determine suitable investments.

**Note C--Receivables**

As of June 30, 2021, the receivables due the City consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Occupational tax	\$ 1,888,333	
Insurance tax	317,974	
Telecommunications tax	6,414	
KLEFPF	15,990	
Municipal aid fund	19,094	
Other	61,505	
Sewer customers		\$ 426,059
Less provision for uncollectible accounts		(28,931)
	<u>                    </u>	<u>                    </u>
<b>Total Net Receivables</b>	<u><u>\$ 2,309,310</u></u>	<u><u>\$ 397,128</u></u>

During the year, the City noted that the sewer customers receivable balance recorded at June 30, 2020 had been overstated. In the current year, a restatement of \$396,240 was booked to reduce fund balance.

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note D--Capital Assets**

Capital asset activities for the governmental activities for the year ended June 30, 2021 are as follows:

<u>Governmental Activities</u>	<u>July 1 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2021</u>
Non-depreciable capital assets:				
Land	\$ 717,196			\$ 717,196
Construction in process	<u>1,778,557</u>		<u>\$ 1,671,977</u>	<u>106,580</u>
<b>Total Non-depreciable Assets</b>	2,495,753		1,671,977	823,776
Depreciable capital assets:				
Building and improvements	5,476,324	\$ 922,986		6,399,310
City Park	84,090	372,001	29,242	426,849
Furniture and fixtures	101,859			101,859
Equipment	2,360,872	498,546	293,192	2,566,226
Vehicles	5,588,638		619,944	4,968,694
Infrastructure	<u>11,951,326</u>	<u>1,146,638</u>		<u>13,097,964</u>
<b>Total Depreciable Assets</b>	<u>25,563,109</u>	<u>2,940,171</u>	<u>942,378</u>	<u>27,560,902</u>
<b>Total Capital Assets</b>	28,058,862	2,940,171	2,614,355	28,384,678
Accumulated depreciation	<u>9,890,037</u>	<u>1,139,555</u>	<u>908,810</u>	<u>10,120,782</u>
<b>Governmental Capital Assets, Net</b>	<u>\$ 18,168,825</u>	<u>\$ 1,800,616</u>	<u>\$ 1,705,545</u>	<u>\$ 18,263,896</u>

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

General Government	\$ 75,792
Fire	334,448
Police	197,177
Public Works	76,008
Infrastructure	<u>456,130</u>
<b>Total Depreciation Expense</b>	<u>\$ 1,139,555</u>

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note D--Capital Assets--Continued**

Capital asset activity for the business-type activity for the year ended June 30, 2021:

<u>Business-type Activities</u>	<u>July 1 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2021</u>
Non-depreciable capital assets:				
Land	\$ 592,054			\$ 592,054
Construction in process	746,387	\$ 1,400,298	\$ 746,387	1,400,298
<b>Total Non-depreciable Assets</b>	1,338,441	1,400,298	746,387	1,992,352
Depreciable capital assets:				
Equipment	942,412		537,393	405,019
Vehicles	689,903		19,999	669,904
Wastewater treatment plant and lines	32,106,300	465,017	166,956	32,404,361
Building improvements	227,070	22,232		249,302
Pump strikes	182,948	48,965		231,913
Salt River Regional Interceptor	11,173,712			11,173,712
South Bullitt Regional Interceptor	10,879,076	210,173		11,089,249
Solids processing building	3,109,500		19,175	3,090,325
<b>Total Depreciable Assets</b>	59,310,921	746,387	743,523	59,313,785
<b>Total Capital Assets</b>	60,649,362	2,146,685	1,489,910	61,306,137
Accumulated depreciation	20,761,713	1,483,058	693,273	21,551,498
<b>Business-type Capital Assets, Net</b>	<u>\$ 39,887,649</u>	<u>\$ 663,627</u>	<u>\$ 796,637</u>	<u>\$ 39,754,639</u>

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note E--Long-Term Liabilities**

As of June 30, 2021, the governmental activities debt of the City consisted of the following:

	<u>Original Principal</u>	<u>Outstanding Principal June 30, 2021</u>
Series 2017 General Obligation Development Revenue Note dated July 31, 2017, annual principal and quarterly interest payments at 2.59%, maturing July 30, 2022	\$ 3,000,000	\$ 1,070,515
Note payable with a local bank dated September 1, 2018, principal and interest payments due monthly bearing interest at 3.55%, maturing August 1, 2023	2,350,000	1,746,071
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	<u>2,262,791</u>	<u>1,479,655</u>
	<u>\$ 7,612,791</u>	<u>\$ 4,296,241</u>

Long-term liability activity for the year ended June 30, 2021 is as follows:

<u>Governmental Activities</u>	<u>July 1 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2021</u>	<u>Current Portion</u>
Notes payable	\$ 5,635,614		\$ 1,339,086	\$ 4,296,528	\$ 1,466,247
Net pension liability	18,316,173	\$ 3,111,028		21,427,201	
Net OPEB liability	4,843,001	1,742,073		6,585,074	
Compensated absences	<u>220,919</u>	<u>197,678</u>	<u>204,720</u>	<u>213,877</u>	<u>32,082</u>
<b>Governmental Activities, Long-Term Liabilities</b>	<u>\$ 29,015,707</u>	<u>\$ 5,050,779</u>	<u>\$ 1,543,806</u>	<u>\$ 32,522,680</u>	<u>\$ 1,498,329</u>
<u>Business-Type Activities</u>	<u>July 1 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2021</u>	<u>Current Portion</u>
Bonds	\$ 3,280,000		\$ 220,000	\$ 3,060,000	\$ 220,000
Notes payable	1,983,775		450,855	1,532,920	456,282
Capital lease	13,245,092		585,485	12,659,607	612,763
Net pension liability	1,244,218	\$ 166,317		1,410,535	
Net OPEB liability	297,476	146,470		443,946	
Compensated absences	<u>27,592</u>	<u>69,724</u>	<u>62,868</u>	<u>34,448</u>	<u>8,612</u>
<b>Business-Type Activities, Long-Term Liabilities</b>	<u>\$ 20,078,153</u>	<u>\$ 382,511</u>	<u>\$ 1,319,208</u>	<u>\$ 19,141,456</u>	<u>\$ 1,297,657</u>

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note E--Long-Term Liabilities--Continued**

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

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

Interest expense of \$155,934 is included in governmental activities in the statement of activities.

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

Governmental Activities - Notes Payable

<u>Amount to be Paid During Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 1,466,247	\$ 119,729	\$ 1,585,976
2023	1,367,797	70,566	1,438,363
2024	<u>1,462,484</u>	<u>15,774</u>	<u>1,478,258</u>
<b>Total</b>	<b><u>\$ 4,296,528</u></b>	<b><u>\$ 206,069</u></b>	<b><u>\$ 4,502,597</u></b>

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

Business-type Activities - Bonds Payable

<u>Amount to be Paid During Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 220,000	\$ 137,789	\$ 357,789
2023	230,000	127,720	357,720
2024	240,000	117,054	357,054
2025	255,000	99,604	354,604
2026-2030	1,445,000	268,959	1,713,959
2031-2032	<u>670,000</u>	<u>8,400</u>	<u>678,400</u>
<b>Total</b>	<b><u>\$ 3,060,000</u></b>	<b><u>\$ 759,526</u></b>	<b><u>\$ 3,819,526</u></b>

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note E--Long-Term Liabilities--Continued**

Business-type Activities - Notes Payable

<u>Amount to be Paid During Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 456,282	\$ 25,825	\$ 482,107
2023	461,791	19,495	481,286
2024	257,700	13,073	270,773
2025	50,548	10,338	60,886
2026-2030	276,603	27,828	304,431
2031-2035	29,996	450	30,446
<b>Total</b>	<u>\$ 1,532,920</u>	<u>\$ 97,009</u>	<u>\$ 1,629,929</u>

Business-type Activities - Capital Lease Payable

<u>Amount to be Paid During Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 612,763	\$ 544,727	\$ 1,157,490
2023	642,445	517,362	1,159,807
2024	672,581	489,579	1,162,160
2025	706,859	457,994	1,164,853
2026-2030	4,076,804	1,789,827	5,866,631
2031-2035	5,162,982	788,556	5,951,538
2036	785,173	15,931	801,104
<b>Total</b>	<u>\$ 12,659,607</u>	<u>\$ 4,603,976</u>	<u>\$ 17,263,583</u>

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note E--Long-Term Liabilities--Continued**

Bond Payable--On May 31, 2006, the City entered into an agreement with Kentucky Rural Water Finance Corporation to issue \$5,385,000 in public project revenue bonds. The bonds are to be used to finance the expansion of the City's sewer lines. The bonds are secured by a pledge of the additional revenues generated by this expansion. These bonds begin to mature annually starting August 1, 2007 through August 1, 2031. The bonds carry a variable interest rate from 3.60% to 4.80%, depending on the amount of time to maturity. Interest payments are due semi-annually in February and August of each year. Principal payments are due semi-annually in August. These bonds also require the City to make an annual payment of \$450 in August for trustee fees. There is no collateral assigned to the bonds. The City is required to establish a sinking fund for the segregation of funds to repay the bonds. 1/6 of the required amount to pay interest is to be deposited in the sinking fund by the due date of the interest payment. 1/12 of the required amount to pay principal is to be deposited in the sinking fund by the due date of the principal payment. The City is required to create a depreciation reserve account and segregate funds for the repair and replacement of property associated with the bonds. As of June 30, 2021, 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's 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 1 and December 1) over a period of twenty 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, 2021, the reserve account is fully funded.

September 1, 2009, the City entered into an agreement with the 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 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, 2021, the reserve account is fully funded.

Capital Lease Agreement--On October 28, 2008, the City entered into a 27-1/4 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 amounts, 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, 2021 total \$17,263,583. The lease is secured by property associated with the lease.

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note F--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, 2021, all required sinking funds were fully funded.

**Note G--Conduit Debt Obligation**

The City has issued Industrial Revenue Bonds to assist a private-sector entity in financing new industrial facilities deemed to be in the public interest. As the issuer, the City has no commitments related to debt service payments, as a result, the City did not recognize the conduit debt obligation as a liability.

**Note H--Fund Balances**

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2021, there was nonspendable fund balance of \$6,649 related to prepaid expenses.

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, 2021, the City had \$76,674 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Council. The Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. There were no committed fund balances at June 30, 2021.

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, 2021.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. At June 30, 2021, the City had \$5,841,550 unassigned fund balance.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note H--Fund Balances--Continued**

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 I--Risk Management**

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

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

**Note J--Economic Dependency**

The City is not economically dependent on one or more major taxpayers or suppliers. However, a single commercial sewer customer accounted for approximately 36% of the sewer fund revenues.

**Note K--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, 2021, the City abated occupational license fees totaling \$143,255 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 \$139,111.

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--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](http://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.

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2021

Note L--Retirement Plans--Continued

Benefits Provided: Nonhazardous

	<b>Tier 1 Nonhazardous Participation beginning prior to 9/1/2008</b>	<b>Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013</b>	<b>Tier 3 Nonhazardous Participation beginning on or after 1/1/2014</b>
<b>Covered Employees:</b>	Substantially all regular full-time members employed in hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the		
<b>Benefit Formula:</b>	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
<b>Final Compensation:</b>	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceding retirement; Each year must contain 12 months	No final compensation factor
<b>Benefit Factor:</b>	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
<b>Cost of Living Adjustment ("COLA"):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of service. Age 65 with 48 months of service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service
<b>Reduced Retirement Benefit:</b>	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years service, whichever is smaller	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 and is younger than age 57, whichever is smaller	No reduced retirement benefit

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--Retirement Plans--Continued**

Benefits Provided: Hazardous

	<b>Tier 1 Hazardous Participation beginning prior to 9/1/2008</b>	<b>Tier 2 Hazardous Participation beginning 9/1/2008 through 12/31/2013</b>	<b>Tier 3 Hazardous Participation beginning on or after 1/1/2014</b>
<b>Covered Employees:</b>	Substantially all regular full-time members employed in hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the		
<b>Benefit Formula:</b>	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
<b>Final Compensation:</b>	Average of the highest 3 fiscal years (must contain at least 24 months and a minimum of 3 fiscal years)	Average of the highest 3 fiscal years; Each year must contain 12 months. Lump-sum compensation payments are not to be included in creditable compensation.	No final compensation factor
<b>Benefit Factor:</b>	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. 25 years and greater 2.50%	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
<b>Cost of Living Adjustment ("COLA"):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 20 years of service. Age 55 with 60 months of service. Money Purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations
<b>Reduced Retirement Benefit:</b>	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 55 or has less than 20 years service, whichever is smaller	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 60 or has less than 25 years service, whichever is smaller	No reduced retirement benefit

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--Retirement Plans--Continued**

Contributions--Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent 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). Hazardous covered employees who began participation on or after September 1, 2008 are required to contribute 9% of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS Insurance Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation.

For the year ended June 30, 2021, employers contributed 30.06% of Hazardous employees' creditable compensation and 19.30% of each Nonhazardous employees' creditable compensation as set by KRS. For the year ended June 30, 2021, employer contributions for the City were \$957,580 (\$173,233 for nonhazardous and \$784,347 for hazardous). By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability--At June 30, 2021, the City reported a liability of \$22,837,736 for its proportionate share of the net pension liability (\$3,711,933 for nonhazardous and \$19,125,803 for hazardous). The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on 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, 2020, the City's proportion was 0.048396% for nonhazardous and 0.634349%.

Pension Expense--For the year ended June 30, 2021, the City recognized pension expense of \$618,216 for nonhazardous and \$3,865,374 for hazardous.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--Retirement Plans--Continued**

Deferred Outflows of Resources and Deferred Inflows of Resources--For the year ended June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CERS Non-Hazardous:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 92,564	
Changes in actuarial assumptions	144,945	
Net difference between projected and actual earnings on investments	160,900	\$ 68,013
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>37,687</u>	<u>16,064</u>
	436,096	84,077
Contributions paid to CERS subsequent to the measurement date	<u>173,233</u>	
	<u>\$ 609,329</u>	<u>\$ 84,077</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$173,233 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2021	\$ 171,040
2022	99,785
2023	43,888
2024	<u>37,306</u>
	<u>\$ 352,019</u>

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--Retirement Plans--Continued**

CERS Hazardous:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 593,166	
Changes in actuarial assumptions	725,358	
Net difference between projected and actual earnings on investments	724,271	\$ 293,412
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,471,233</u>	
	3,514,028	293,412
Contributions paid to CERS subsequent to the measurement date	<u>784,347</u>	
	<u>\$ 4,298,375</u>	<u>\$ 293,412</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$784,347 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ending June 30</u></b>	<b><u>Pension Expense Amount</u></b>
2021	\$ 1,445,190
2022	870,346
2023	581,305
2024	<u>323,775</u>
	<u>\$ 3,220,616</u>

The City owed \$617,351 to the plan as of June 30, 2021.

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note L--Retirement Plans--Continued**

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service, Nonhazardous; 3.55% to 19.05%, varies by service, Hazardous
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018 and adopted by the Board on April 18, 2019.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
	<u>100.00%</u>	

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

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

	<u>1% Decrease</u> <u>5.25%</u>	<u>Current</u> <u>Discount Rate</u> <u>6.25%</u>	<u>1% Increase</u> <u>7.25%</u>
Non-Hazardous	\$ 4,577,621	\$ 3,711,933	\$ 2,995,110
Hazardous	23,636,768	19,125,803	15,443,662
	<u>\$ 28,214,389</u>	<u>\$ 22,837,736</u>	<u>\$ 18,438,772</u>

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.

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")**

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 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, 2021, 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, 2021, was 4.76% of annual creditable compensation for non-hazardous employees and 9.52% of annual creditable compensation for hazardous employees. Contributions to the OPEB plan from the City were \$291,128 (\$42,725 for nonhazardous and \$248,403 for hazardous).

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")--Continued**

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

At June 30, 2021, the City reported a liability of \$7,029,020 for its proportionate share of the net OPEB liability (\$1,168,278 for non-hazardous and \$5,860,742). The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on 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, 2021, the City's proportion was 0.048382% for nonhazardous and 0.634207% for hazardous.

OPEB Expense--For the year ended June 30, 2021, the City recognized OPEB expense of \$1,303,500 (\$160,294 for nonhazardous and \$1,143,206 for hazardous).

For the year ended June 30, 2021, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 195,194	\$ 195,347
Changes in actuarial assumptions	203,211	1,236
Net difference between projected and actual earnings on investments	62,670	23,839
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>19,481</u>	<u>11,126</u>
	480,556	231,548
Contributions paid to CERS subsequent to the measurement date	<u>42,725</u>	
	<u>\$ 523,281</u>	<u>\$ 231,548</u>

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")--Continued**

Of the total amount reported as deferred outflows of resources related to OPEB, \$42,725 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, 2021. 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:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2021	\$ 66,109
2022	77,601
2023	55,579
2024	51,767
2025	(2,048)
	<u>\$ 249,008</u>

CERS Hazardous:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 201,118	\$ 585,259
Changes in actuarial assumptions	956,110	5,400
Net difference between projected and actual earnings on investments	433,971	173,813
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>505,174</u>	<u>127</u>
	2,096,373	764,599
Contributions paid to CERS subsequent to the measurement date	<u>304,616</u>	
	<u>\$ 2,400,989</u>	<u>\$ 764,599</u>

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")--Continued**

Of the total amount reported as deferred outflows of resources related to OPEB, \$248,403 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, 2021. 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:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2021	\$ 398,730
2022	239,070
2023	306,632
2024	250,846
2025	136,496
	<u>\$ 1,331,774</u>

Actuarial Assumptions--The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%
Salary Increase	3.30% to 10.30%, varies by service, Non-hazardous; 3.55% to 19.05%, varies by service, Hazardous
Inflation rate	2.30%
Payroll Growth Rate	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Municipal Bond Index Rate	2.45%
Discount Rate- Non-Hazardous	5.34%
Discount Rate --Hazardous	5.30%

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans (“OPEB”)--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, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018 and adopted by the Board on April 18, 2019.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by the investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
	<u>100.00%</u>	

Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")--Continued**

The projection of cash flows used to determine the discount rate of 5.34% for non-hazardous and 5.30% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of 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 ACFR.

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 5.34% for non-hazardous and 5.30% 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:

	<u>1% Decrease</u> <b>4.34%</b>	<b>Current</b> <u>Discount Rate</u> <b>5.34%</b>	<u>1% Increase</u> <b>6.34%</b>
Non-Hazardous	\$ 1,500,894	\$ 1,168,278	\$ 895,089
	<u>1% Decrease</u> <b>4.30%</b>	<b>Current</b> <u>Discount Rate</u> <b>5.30%</b>	<u>1% Increase</u> <b>6.30%</b>
Hazardous	\$ 7,955,805	\$ 5,860,742	\$ 4,172,547

Sensitivity Of The City's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Health Care 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.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note M--Other Post-Employment Benefit Plans ("OPEB")--Continued**

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 904,539	\$ 1,168,278	\$ 1,488,331
Hazardous	\$ 4,188,259	\$ 5,860,742	\$ 7,916,917

OPEB Plan Fiduciary Net Position--Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

**Note N--Contingencies**

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 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.

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

**Note O--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.

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note P--Recent Events**

In March 2020, the World Health Organization declared the spread of the Coronavirus Disease ("COVID-19") as a worldwide pandemic. The COVID-19 pandemic had significant effects on global markets, supply chains, businesses, and communities. Specific to the City, COVID-19 may impact various parts of its operations and financial results. Management believes the City is taking appropriate actions to mitigate the negative impact. However, the extent to which the full impact of COVID-19 is unknown and cannot be reasonably estimated.

**Note Q--Recent GASB Pronouncements**

Statement No. 87, Leases--The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The effective date for adoption of this statement is fiscal year 2022.

Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period--Establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The effective date for adoption of this statement is fiscal year 2022.

Statement No. 92, Omnibus 2020--The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The effective date for adoption of this Statement is fiscal year 2022.

Statement No. 93, Replacement of Interbank Offered Rates--Establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for paragraphs 11b, are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021.

Continued

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note Q--Recent GASB Pronouncements--Continued**

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans--The Statement (a) clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and (b) modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans (for example, certain Section 457 plans). The requirements of this statement are effective as follows: (a) The requirement in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. (b) The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. (c) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 91, Conduit Debt Obligations--Provides single method of reporting conduit debt obligations. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required notes. The effective date for adoption of this Statement is fiscal year 2023.

Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements--Establishes standards of accounting and financial reporting for PPPs and APAs for governments. The effective date for adoption of this Statement is fiscal year 2023.

Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs)--Establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The effective date for adoption of this Statement is fiscal year 2023.

Statement No. 100, Accounting Changes and Error Corrections - an amendment of GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements--The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The effective date for adoption of this Statement is fiscal year 2024.

Statement No. 101, Compensated Absences--The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The effective date for adoption of this Statement is fiscal year 2025.

Notes to Financial Statements--Continued

**City of Shepherdsville, Kentucky**

June 30, 2021

**Note R--Subsequent Event**

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through February 16, 2023, the date the financial statements were available to be issued.

**Required Supplementary Information**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

	<b>Budget</b>		<b>Actual</b>	<b>Variance with Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes, occupational, franchise, property, auto and insurance premiums	\$ 11,895,674	\$ 11,895,674	\$ 12,785,982	\$ 890,308
Licenses and permits	287,600	287,600	414,387	126,787
LKEFPF - Police	170,000	170,000	178,583	8,583
KBTC - Fire	112,000	112,000	145,572	33,572
Rental income	15,000	15,000	26,329	11,329
Tow lot	50	50	1,905	1,855
Sewer administrative fees	90,000	90,000	91,079	1,079
Other revenues	448,490	448,490	1,405,433	956,943
Penalty/interest	65,800	65,800	8,307	(57,493)
<b>Total Revenues</b>	<b>13,084,614</b>	<b>13,084,614</b>	<b>15,057,577</b>	<b>1,972,963</b>
<b>Expenditures</b>				
Administration	2,234,064	2,234,064	2,180,610	53,454
Fire Department	5,223,859	5,223,859	4,275,489	948,370
Police Department	5,875,501	5,875,501	4,629,356	1,246,145
Public Works	3,340,733	3,340,733	1,538,447	1,802,286
Debt Service			1,495,020	(1,495,020)
<b>Total Expenditures</b>	<b>16,674,157</b>	<b>16,674,157</b>	<b>14,118,922</b>	<b>2,555,235</b>
<b>Revenues in Excess of Expenditures</b>	<b>(3,589,543)</b>	<b>(3,589,543)</b>	<b>938,655</b>	<b>4,528,198</b>
<b>Other Financing Sources</b>				
Transfers in			94,359	94,359
Proceeds from sale of capital assets			24,796	24,796
<b>Total Other Financing Sources</b>			<b>119,155</b>	<b>119,155</b>
<b>Net Change in Fund Balance</b>	<b>\$ (3,589,543)</b>	<b>\$ (3,589,543)</b>	<b>\$ 1,057,810</b>	<b>\$ 4,647,353</b>

See Independent Auditors' Report

Schedule of City's Proportionate Share of Net Pension Liability  
 \*\*County Employees Retirement System (CERS)

**City of Shepherdsville, Kentucky**

June 30, 2021

Last Ten Fiscal Years\*\*

<b>Non-Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
City's proportion of the net pension liability	0.048396%	0.048917%	0.047686%	0.046629%	0.043559%	0.044080%	0.043835%
City's proportionate share of the net pension liability	\$ 3,711,933	\$ 3,440,354	\$ 2,904,224	\$ 2,729,340	\$ 2,144,674	\$ 1,895,173	\$ 1,422,172
City's covered-employee payroll	\$ 1,490,325	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188	\$ 781,502
City's proportionate share of the net pension liability as a percentage of its covered payroll	249.07%	231.45%	223.45%	220.31%	185.17%	183.61%	181.98%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%
<b>Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
City's proportion of the net pension liability	0.634349%	0.583574%	0.531895%	0.504763%	0.495995%	0.434030%	0.397485%
City's proportionate share of the net pension liability	\$ 19,125,803	\$ 16,120,037	\$ 12,863,651	\$ 11,292,955	\$ 8,510,985	\$ 6,662,849	\$ 4,777,070
City's covered-employee payroll	\$ 4,188,565	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716	\$ 1,649,414
City's proportionate share of the net pension liability as a percentage of its covered payroll	456.62%	461.99%	425.93%	429.87%	302.34%	294.46%	289.62%
Plan fiduciary net position as a percentage of the total pension liability	44.11%	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%

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

See Independent Auditors' Report

Schedule of Pension Contributions

\*\*County Employees Retirement System (CERS)

**City of Shepherdsville, Kentucky**

June 30, 2021

Last Ten Fiscal Years\*\*

<b>Non-Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 287,633	\$ 290,092	\$ 241,101	\$ 188,200	\$ 172,822	\$ 143,852	\$ 131,604
Contributions in relation to the contractually required contribution	173,233	290,092	241,101	188,200	172,822	143,852	131,604
<b>Contribution Deficiency</b>	<b>\$ 114,400</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
City's covered-employee payroll	\$ 1,490,325	\$ 1,493,011	\$ 14,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188
Contributions as a percentage of covered employee payroll	19.30%	19.43%	16.22%	14.48%	13.95%	12.42%	12.75%
<b>Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 1,259,083	\$ 1,158,743	\$ 867,425	\$ 670,466	\$ 570,336	\$ 570,336	\$ 469,061
Contributions in relation to the contractually required contribution	784,347	1,158,743	867,425	670,466	570,336	570,336	469,061
<b>Contribution Deficiency</b>	<b>\$ 474,736</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
City's covered-employee payroll	\$ 4,188,565	\$ 3,854,767	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716
Contributions as a percentage of covered employee payroll	30.06%	30.06%	24.86%	22.20%	21.71%	20.26%	20.73%

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

See Independent Auditors' Report

**City of Shepherdsville, Kentucky**

Year Ended June 30, 2021

**Changes in Assumptions and Benefit Terms from 2020 to 2021**--There were no changes noted.

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

**Changes in Assumptions and Benefit Terms from 2018 to 2019**--Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 was determined using these updated benefit provisions.

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

**Changes in Assumptions and Benefit Terms from 2016 to 2017**--There were no changes noted.

Continued

**City of Shepherdsville, Kentucky**

Year Ended June 30, 2021

**Changes in Assumptions and Benefit Terms from 2015 to 2016**--Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.75% to 7.50%, (ii) the assumed rate of inflation was reduced from 3.50% to 3.25%, (iii) the assumed rate of wage inflation was reduced from 1.00% to 0.75%, (iv) payroll growth assumption was reduced from 4.50% to 4.00%, (v) the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. 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, and (vi) the assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.<sup>125</sup>

**Period Covered by the Required Supplementary Information**--GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The City has been provided this information for six fiscal years and will expand this supplementary information in future financial statements to cover additional periods as it becomes available.

See Independent Auditors' Report

Schedule of City's Proportionate Share of Net OPEB Liability  
 \*\*County Employees Retirement System (CERS)

**City of Shepherdsville, Kentucky**

June 30, 2021

Last Ten Fiscal Years\*\*

<b>Non-Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
City's proportion of the net OPEB liability	0.048382%	0.048904%	0.047684%	0.046629%
City's proportionate share of the net OPEB liability	\$ 1,168,278	\$ 822,543	\$ 846,621	\$ 937,403
City's covered-employee payroll	\$ 1,490,326	\$ 1,486,445	\$ 1,341,745	\$ 1,238,867
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	78.39%	55.34%	63.10%	75.67%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.39%
<b>Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
City's proportion of the net OPEB liability	0.634207%	0.583615%	0.531930%	0.504763%
City's proportionate share of the net OPEB liability	\$ 5,860,742	\$ 4,317,924	\$ 3,792,446	\$ 4,172,733
City's covered-employee payroll	\$ 4,188,565	\$ 3,489,237	\$ 3,067,765	\$ 2,627,066
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	139.92%	123.75%	123.62%	158.84%
Plan fiduciary net position as a percentage of the total OPEB liability	58.84%	64.44%	64.24%	58.99%

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

See Independent Auditors' Report

Schedule of OPEB Contributions  
 \*\*County Employees Retirement System (CERS)

**City of Shepherdsville, Kentucky**

June 30, 2021

Last Ten Fiscal Years\*\*

<b>Non-Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 70,940	\$ 71,546	\$ 78,187	\$ 63,062
Contributions in relation to the contractually required contribution	<u>42,725</u>	<u>71,546</u>	<u>78,187</u>	<u>63,062</u>
<b>Contribution Deficiency</b>	<u>\$ 28,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,490,326	\$ 1,503,067	\$ 1,486,445	\$ 1,341,745
Contributions as a percentage of covered employee payroll	2.87%	4.76%	5.26%	4.70%
<b>Hazardous</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 398,751	\$ 366,974	\$ 365,672	\$ 286,836
Contributions in relation to the contractually required contribution	<u>248,403</u>	<u>366,974</u>	<u>365,672</u>	<u>286,836</u>
<b>Contribution Deficiency</b>	<u>\$ 150,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,188,565	\$ 3,854,769	\$ 3,489,237	\$ 3,067,765
Contributions as a percentage of covered employee payroll	9.52%	9.52%	10.48%	9.35%

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

See Independent Auditors' Report

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

**Changes in Assumptions and Benefit Terms from 2020 to 2021**-- Since the prior measurement dated, the discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34% for the Non-Hazardous Fund and from 5.69% to 5.30% for the Hazardous Fund. The assumed increase in future health care costs, or trend assumption was reviewed during the June 30, 2020 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 74 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

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

**Changes in Assumptions and Benefit Terms from 2018 to 2019**--Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The TPL as of June 30, 2018 was determined using these updated benefit provisions.

**Period Covered by the Required Supplementary Information**--GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and Financial Reporting for Pensions, an Amendment of GASB Statement No. 45* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The City has been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as it becomes available.

See Independent Auditors' Report

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit In Accordance with  
*Government Auditing Standards***



**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit In Accordance with  
Government Auditing Standards**

To the Mayor and City Council  
City of Shepherdsville, Kentucky  
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, and each major fund of the City of Shepherdsville, Kentucky (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 16, 2023.

**Report on Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, and 2020-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2021-004 and 2021-005 to be significant deficiencies.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2021-004 and 2021-005

### **City's Response to Findings**

*Government Auditing Standards* requires the auditors to perform limited procedures on the City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Louisville, Kentucky  
February 16, 2023

## **Schedule of Findings and Responses**

## Schedule of Findings and Responses

### City of Shepherdsville, Kentucky

For the Year Ended June 30, 2021

#### 2021-001 Material Adjustments

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

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

*Cause:* The City's transactions were not always recorded in accordance with generally accepted accounting principles. Significant account misstatements went on undented and/or uncorrected by management personnel. Subledgers were not properly reconciled at yearend.

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

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

*Management's Response:* In May 2021, the City hired a new Finance Officer, and during the second half of 2022 the City hired two accounting clerks. The additional staff along with training on balancing accounts and making corrections as needed will assist in resolving the material adjustment issue.

#### 2021-002 Segregation of Duties

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

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

*Cause:* The City did not maintain adequate segregation of duties.

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

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

*Management's Response:* The Administration Department has been short-staffed for several years. During 2021 and 2022, additional staff has been added. In April 2023, the City will be changing our payroll process and at that time will separate Payroll from HR functions. During fiscal year 2022, and continuing in fiscal year 2023, the accounting staff has worked hard to segregate duties for depositing of funds and, along with accounts payable and reconciling accounts.

Schedule of Findings and Responses--Continued

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

**2021-003 Missing Records**

*Criteria:* The City's management is responsible for ensuring that the internal control processes are followed and that adequate support for transactions is maintained in accordance with State law.

*Condition:* During our internal control testing, we discovered that several documents needed to support cash receipts and cash disbursements were not available for our testing.

*Cause:* The City is not in compliance with its own internal control policies.

*Effect:* Failure to adhere to controls over cash receipts and cash disbursement provides opportunities for fraudulent activities and increases the risk of misappropriation of cash and other government resources.

*Recommendation:* We recommend the City ensures that proper support is kept for accounting transactions in accordance with the States document retention requirements.

*Management's Response:* The City has made significant progress in managing its records. The Purchase Order process is still manual, but with additional staff and management support the Administration Department is receiving, processing, scanning, and filing most receipts. Some accounts have been closed to simplify the accounting processes.

**2021-004 Inadequate Collateral of Deposits**

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

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

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

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

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

*Management's Response:* It is impossible to diversify enough to prevent exceeding FDIC insurance limits, however, the collateral process is being monitored more closely. The issue is with one financial institution, and they have assured the Finance Officer that the deposits are protected. The Finance Officer will work with the bank to get the appropriate paperwork that will satisfy the auditors' request.

Schedule of Findings and Responses--Continued

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

**2021-005 Timely Issuance of Audited Financial Statements**

*Criteria:* The City's management is responsible for issuing audited financial statements within the timeframe established by regulatory and compliance requirements.

*Condition:* The 2021 audited financial statements are being issued 19 months after year end.

*Cause:* Turnover in the City's accounting department and the lack of reliable financial information, resulted in delays,

*Effect:* The City is not in compliance with State regulation and grant agreements.

*Recommendation:* The City should establish a process to ensure that the financial statement information is readily available and devote the resources necessary to complete the financial audit in a timely manner.

*Management's Response:* Management agrees with the auditors' findings, it is important that the audits are done in a timely manner. In the past few years, the City has experienced turnover in the Administration Department, along with having a new auditor for each of the last three audits. This turnover along with being understaffed has been the issue, but I believe the issue will be resolved in 2023. The City's Management has a plan to complete the fiscal year 2022 audit in 2023 and get started and hopefully complete the fiscal year 2023 audit prior to the end of 2023.

## **Status of Prior Year Findings**

Status of Prior Year Findings

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

**2020-001 Material adjustments**

Finding--The City's transactions were not always recorded in accorded with generally accepted accounting principles or detected by management personnel. The City's management and financial personnel should continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Current Status--Repeat comment in 2021 (finding 2021-001).

**2020-002 Segregation of Duties**

Finding--As part of the audit, the City did not maintain proper segregation of duties over payroll, disbursement and bank reconciliations. The City's management should review its segregation of duties and ensure it follows those policies.

Current Status--Repeat comment in 2021 (finding 2021-002).

**2020-003 Credit Cards**

Finding--Procedures are not in place for adding credit cards. The City should only have one card per department and maintain proper support of purchases.

Current Status--Resolved

**2020-004 Inadequate Collateral of Deposits**

Finding--The City maintained deposits at a certain financial institution that exceeded the FDIC statutory amounts but the remaining amounts were not collateralized. The City should diversify deposits to more financial institutions in a manner that prevents deposits from exceeding FDIC insurance limits or obtain third-party collateral for the amount of deposits in excess of FDIC insurance limits.

Current Status--Repeat comment in 2021 (finding 2021-004).

**Certification of Compliance -  
Local Government Economic Assistance Program**

Certification of Compliance -  
Local Government Economic Assistance Program

**City of Shepherdsville, Kentucky**

For the Year Ended June 30, 2021

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.

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Mayor

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City Clerk