

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

**CITY OF ALBANY, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2021**

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CITY OF ALBANY
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ALBANY, KENTUCKY
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CITY OFFICIALS AND OFFICERS

MAYOR

Lyle G. Pierce

MEMBERS OF COUNCIL

Tony Delk
Gene Ferrill
Steve Lawson
Reed Sloan
Tonya Thrasher
Renee York

OFFICERS

Melissa P. Smith
City Clerk/Treasurer

Norbert H. Sohmn
City Attorney

Chris Neal
Chief of Police

Robert Roeper
Fire Chief

SK LEE CPAS, P.S.C.
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

Report on the Audit of the Financial Statements

Opinion

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 Albany (hereinafter called 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.

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, each 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison general fund, pension schedules and OPEB schedules on pages 34-40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary 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 accompanying supplemental information such as the combining schedule of water and sewer revenues, expenses, and change in net position as shown on page 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information such as the financial data schedules and the schedule of certification of actual modernization costs is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

SK LEE CPAs, P.S.C.

Berea, Kentucky
August 10, 2023

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents-unrestricted	\$ 46,362	\$ 282,025	\$ 328,387
Cash and cash equivalents-restricted	31,776	-	31,776
Accounts receivables, net	263,904	405,871	669,775
Inventory, net	-	38,988	38,988
Total Current Assets	<u>342,042</u>	<u>726,884</u>	<u>1,068,926</u>
Non-Current Assets			
Restricted cash	15,444	468,764	484,208
Certificates of deposit	147,146	120,749	267,895
Capital assets:			
Non-depreciable	83,086	830,221	913,307
Depreciable, net	927,558	23,073,840	24,001,398
Total Non-Current Assets	<u>1,173,234</u>	<u>24,493,574</u>	<u>25,666,808</u>
Total Assets	<u>1,515,276</u>	<u>25,220,458</u>	<u>26,735,734</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	228,425	342,636	571,061
Deferred amount related to OPEB	190,612	285,917	476,529
Total Deferred Outflows of Resources	<u>419,037</u>	<u>628,553</u>	<u>1,047,590</u>
Liabilities			
Current Liabilities			
Accounts payable	8,472	65,624	74,096
Accrued expenses	66,916	122,245	189,161
Revenue bonds payable	-	230,833	230,833
Notes payable	-	10,989	10,989
Accrued interest	-	14,012	14,012
Fire membership payable	-	253,706	253,706
Customer deposits payable	-	144,445	144,445
Total Current Liabilities	<u>75,388</u>	<u>841,854</u>	<u>917,242</u>
Non-Current Liabilities			
Revenue bonds payable	-	3,221,250	3,221,250
Notes payable	-	306,951	306,951
Net pension liability	1,273,145	1,909,717	3,182,862
Net OPEB liability	400,704	601,057	1,001,761
Total Non-Current Liabilities	<u>1,673,849</u>	<u>6,038,975</u>	<u>7,712,824</u>
Total Liabilities	<u>1,749,237</u>	<u>6,880,829</u>	<u>8,630,066</u>
Deferred Inflows of Resources			
Deferred amounts related to pensions	84,634	126,951	211,585
Deferred amounts related to OPEB	113,264	169,896	283,160
Total Deferred Inflows of Resources	<u>197,898</u>	<u>296,847</u>	<u>494,745</u>
Net Position			
Net investment in capital assets	1,010,644	20,134,038	21,144,682
Restricted	47,220	589,513	636,733
Unrestricted	(1,070,686)	(2,052,216)	(3,122,902)
Total Net Position	<u>\$ (12,822)</u>	<u>\$ 18,671,335</u>	<u>\$ 18,658,513</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ALBANY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	
Government Activities					
General government	\$ 293,251	\$ -	\$ 237,083	\$ -	\$ (56,168)
Police	602,354	-	-	-	(602,354)
Fire	181,367	174,204	-	-	(7,163)
Street	379,139	-	-	-	(379,139)
Total Governmental Activities	1,456,111	174,204	237,083	-	(1,044,824)
Business-Type Activities					
Water	3,344,503	2,933,399	-	-	(411,104)
Sewer	633,252	280,055	-	-	(353,197)
Total Business-Type Activities	3,977,755	3,213,454	-	-	(764,301)
Total Activities	\$ 5,433,866	\$ 3,387,658	\$ 237,083	\$ -	\$ (1,809,125)

	Governmental Activities	Business-Type Activities	Total
Change in Net Position			
Net (expense) revenue	\$ (1,044,824)	\$ (764,301)	\$ (1,809,125)
General Revenues			
Taxes	145,378	-	145,378
Licenses and other taxes	763,729	-	763,729
Intergovernmental	80,735	-	80,735
Fines, arrest fees, and permits	5,493	-	5,493
Interest income	1,243	1,080	2,323
Miscellaneous	44,069	1,098	45,167
Total General Revenues	1,040,647	2,178	1,042,825
Change in Net Position	(4,177)	(762,123)	(766,300)
Total Net Position, Beginning	(8,645)	19,433,458	19,424,813
Net Position, Ending	\$ (12,822)	\$ 18,671,335	\$ 18,658,513

The accompanying notes are an integral part of these financial statements.

CITY OF ALBANY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents-unrestricted	\$ 46,362	\$ -	\$ 46,362
Certificates of deposit	147,146	-	147,146
Accounts receivable, net	263,904	-	263,904
Restricted cash	26,211	21,009	47,220
Total Assets	\$ 483,623	\$ 21,009	\$ 504,632
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 8,472	\$ -	\$ 8,472
Accrued expenses	66,916	-	66,916
Total Liabilities	75,388	-	75,388
Fund Balances			
Non-spendable	-	-	-
Restricted	26,211	21,009	47,220
Unassigned	382,024	-	382,024
Total Fund Balances	408,235	21,009	429,244
Total Liabilities and Fund Balances	\$ 483,623	\$ 21,009	\$ 504,632

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Fund balances reported above	\$ 429,244
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,010,644
Net deferred inflows/outflows related to the long-term net pension liability and OPEB are not reported in the funds.	221,139
All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long-term liabilities are not due and payable in the current period and, therefore, are not reported.	
Net pension liability	(1,273,145)
Net OPEB liability	(400,704)
Net Position of Governmental Activities	\$ (12,822)

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 145,378	\$ -	\$ 145,378
Licenses and other taxes	763,729	-	763,729
Intergovernmental	270,920	46,898	317,818
Service charges	174,204	-	174,204
Fines, arrest fees, and permits	5,493	-	5,493
Other	45,312	-	45,312
Total Revenues	1,405,036	46,898	1,451,934
Expenditures			
Current:			
General and administration department	278,862	-	278,862
Police department	513,486	-	513,486
Fire department	134,466	-	134,466
Street department	291,431	38,458	329,889
Capital outlay	81,144	-	81,144
Total Expenditures	1,299,389	38,458	1,337,847
Net Change in Fund Balance	105,647	8,440	114,087
Fund Balance, Beginning (restated)	302,588	12,569	315,157
Fund Balance, Ending	\$ 408,235	\$ 21,009	\$ 429,244
Net changes in fund balances - total governmental funds			\$ 114,087
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$122,610 exceeds capital outlay of \$81,144 in the current period.			
			(41,466)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.			
Change in pension and OPEB expense of governmental activities.			
			(76,798)
Change in net position of governmental activities			\$ (4,177)

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

Assets

Current Assets

Cash and cash equivalents-unrestricted	\$ 282,025
Accounts receivables, net	405,871
Inventory, net	38,988
Total Current Assets	<u>726,884</u>

Non-Current Assets

Restricted cash	468,764
Certificate of deposit	120,749
Capital assets:	
Non-depreciable	830,221
Depreciable, net	23,073,840
Total Non-Current Assets	<u>24,493,574</u>

Total Assets	<u>25,220,458</u>
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Deferred Outflows of Resources

Deferred amounts related to pensions	342,636
Deferred amounts related to OPEB	285,917
Total Deferred Outflows of Resources	<u>628,553</u>

Liabilities

Current Liabilities

Accounts payable	65,624
Accrued expenses	122,245
Revenue bonds payable	230,833
Notes payable	10,989
Accrued interest	14,012
Fire membership payable	253,706
Customer deposits payable	144,445
Total Current Liabilities	<u>841,854</u>

Non-Current Liabilities

Revenue bonds payable	3,221,250
Notes payable	306,951
Net pension liability	1,909,717
Net OPEB liability	601,057
Total Non-Current Liabilities	<u>6,038,975</u>

Total Liabilities	<u>6,880,829</u>
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Deferred Inflows of Resources

Deferred amounts related to pensions	126,951
Deferred amounts related to OPEB	169,896
Total Deferred Inflows of Resources	<u>296,847</u>

Net Position

Net investment in capital assets	20,134,038
Restricted	589,513
Unrestricted	(2,052,216)
Total Net Position	<u>\$ 18,671,335</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

Operating Revenues	
Charges for services	\$ 3,213,454
Miscellaneous	1,098
Total Operating Revenues	<u>3,214,552</u>
Operating Expenses	
Salaries	801,187
Employee benefits	546,588
Administration	16,412
Contractual services	35,351
Repairs, parts, and supplies	226,931
Vehicle expense	84,613
Travel and training	2,781
Utilities and telephone	562,421
Labs and supplies	269,010
Insurance	149,182
Depreciation	1,051,414
Bad debt provision	32,135
Miscellaneous	129,160
Total Operating Expenses	<u>3,907,185</u>
Operating Loss	<u>(692,633)</u>
Non-Operating Revenues (Expenses)	
Interest income	1,080
Interest expense	(70,570)
Total Non-Operating Revenue (Expenses)	<u>(69,490)</u>
Change in Net Position	(762,123)
Total Net Position, Beginning	<u>19,433,458</u>
Total Net Position, Ending	<u>\$ 18,671,335</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALBANY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

Cash Flows from Operating Activities	
Cash received from customers	\$ 3,303,804
Cash received from other sources	1,098
Cash payments to suppliers for goods and services	(1,272,014)
Cash payments to employees	(1,313,725)
Net Cash Provided by Operating Activities	719,163
Cash Flows from Capital and Related Financing Activities	
Principal and interest paid on long-term debt	(345,111)
Acquisition and construction of capital assets	(61,928)
Net Cash Used in Capital and Related Financing Activities	(407,039)
Cash Flows from Investing Activities	
Investment in certificate of deposit	(828)
Cash received from interest income	1,080
Net Cash Provided by Investing Activities	252
Net Increase in Cash and Cash Equivalents	312,376
Cash and Cash Equivalents at July 1, 2020	438,413
Cash and Cash Equivalents at June 30, 2021 ⁽¹⁾	\$ 750,789
(1) Cash and cash equivalents are reflected in the Statement of Net Position as follows:	
Cash and cash equivalents	282,025
Restricted cash and cash equivalents	468,764
Subtotal	\$ 750,789
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (692,633)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,051,414
Bad debt provision	32,135
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	83,252
(Increase) decrease in inventory	59,999
(Increase) decrease in outflows of resources	(67,141)
Increase (decrease) in accounts payable	(12,407)
Increase (decrease) in accrued expenses	6,028
Increase (decrease) in fire membership payable	69,080
Increase (decrease) in customer deposits	7,098
Increase (decrease) in net pension liability	140,048
Increase (decrease) in net OPEB liability	177,951
Increase (decrease) in inflows of resources	(135,661)
Total adjustments	1,411,796
Net Cash Provided by Operating Activities	\$ 719,163
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	\$ 102,052

The accompanying notes are an integral part of these financial statements.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albany, Kentucky (hereinafter the “City”) operates under a Mayor-Council form of government. The City's major operations include police and fire protection, streets and roadways, and general administrative services. The City also operates a water and sewer system for its citizens. The citizens of Albany elect a mayor-at-large and six city council members. The accompanying financial statements present the City's primary government unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from a legal relationship).

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- *Statement of Net Position* presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.
- *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the general fund. Charges are allocated as reimbursement for services provided by the general fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- *General Fund* is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- *Special Revenue Funds* are special revenue accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

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. 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 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.

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.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements and the proprietary funds financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined and revenues are considered available when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and interest income.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2021, the original budget was approved in July 2020. The budget for the General Fund is presented in the Required Supplemental Budgetary Comparison General Fund schedule. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposit

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

The City has restricted cash and/or certificates of deposit to satisfy bond issue requirements, including cash restricted for bond payments.

Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local, fire membership fees, and federal governments. Interest revenue receivable in all funds consist of revenue due on each deposit. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Property Tax Calendar

Property taxes for fiscal year 2021 were levied in November 2020, respectively, on the assessed property located in the City of Albany as of the preceding January 1. The rate for real estate was 18 cents per one hundred dollars of assessed value. The rate for auto and boats was 20 cents and other tangible property was 20 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|---|------------------------------|
| 1. Due date for payment of taxes, 2% discount | November 30 |
| 2. Face value payment period | December 1 to December 31 |
| 3. Past due date, 10% penalty | January 1 |
| 4. Interest charge | 12% per annum from January 1 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Clinton County and are due and collected in the birth month of the licensee.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventory

Inventories of materials and supplies in all funds are stated at cost on a first-in, first-out basis and charged to expenses as used.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and deposits on the government-wide Statement of Net Position and the proprietary fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the Fund Financial Statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination but will be paid only upon illness while in the employment of the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The City has two items that meets this criterion, as related to pensions and other postemployment benefits (OPEB) reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension and OPEB liabilities and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category as related to pensions and OPEB reported in the Statement of Net Position.

Pensions and Other Postemployment Benefits

The City participates in a cost-sharing multiple-employer plan to provide pension and OPEB benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension and OPEB liability. For the purposes of measuring the net pension and OPEB liability, deferred outflows or inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either; a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed – Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.

Assigned – Portion of fund balance that has been budgeted by the City Council.

Unassigned – Portion of fund balance that has not been restricted, committed or assigned for specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the Proprietary Funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2021 consisted of the following:

Account	Interest Bearing	Governmental	Water and Sewer	Total
Operating	Yes	\$ 8,886	\$ 282,025	\$ 290,911
LGEAF	Yes	13,387	-	13,387
Municipal Road Aid	Yes	7,622	-	7,622
Drug Ratification	No	1,248	-	1,248
Fire Membership Fees	No	33,333	-	33,333
Fire Hydrant Replacement	No	4,671	-	4,671
Volunteer Fire State Aid	No	9,520	-	9,520
Depreciation Fund	Yes	-	10,047	10,047
Improvement and Refunding	Yes	-	34,094	34,094
Raw Water Intake Exec Order	No	-	176	176
Sinking Fund - KY Bond Corporation	Yes	-	149,553	149,553
KLC-Cash	Yes	14,915	23,023	37,938
DSRF - KY Bond Corporation	Yes	-	251,871	251,871
Total		\$ 93,582	\$ 750,789	\$ 844,371

Certificates of deposit at June 30, 2021 consisted of the following:

Description	Interest Rate	Maturity Date	Total
Certificate of deposit	0.60%	5/21/22	\$ 112,094
Certificate of deposit	0.60%	5/22/22	35,052
Certificate of deposit	0.60%	5/23/22	120,749
Total			\$ 267,895

Credit Risk

Under Kentucky Revised statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. As of June 30, 2021, none of the City's deposits were subject to credit risk.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the deposits that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits and certificates of deposit totaled \$1,112,236 and the bank balances totaled \$1,201,141. At June 30, 2021, \$459,996 of collateral was pledged to the City by the custodial bank and \$741,145 by FDIC insurance.

NOTE 3 – RECEIVABLES

Receivables as of fiscal year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. Funds transferred for the year ending June 30, 2021 totaled \$253,706.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 253,706	\$ -
Proprietary	-	253,706
Total	<u>\$ 253,706</u>	<u>\$ 253,706</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

The following table summarizes the changes in capital assets:

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 83,086	\$ -	\$ -	\$ 83,086
Construction in process	-	-	-	-
Total capital assets, not being depreciated:	83,086	-	-	83,086
Capital assets, being depreciated:				
Buildings	976,465	-	-	976,465
Trucks and equipment	1,249,150	25,000	-	1,274,150
Furniture and fixtures	53,511	-	-	53,511
Street repair	500,738	56,144	-	556,882
Landscaping	12,643	-	-	12,643
Total capital assets, being depreciated:	2,792,507	81,144	-	2,873,651
Less accumulated depreciation for:				
Buildings	361,908	21,204	-	383,112
Trucks and equipment	973,733	73,580	-	1,047,313
Furniture and fixtures	53,511	-	-	53,511
Street repair	421,688	27,826	-	449,514
Landscaping	12,643	-	-	12,643
Total accumulated depreciation	1,823,483	122,610	-	1,946,093
Capital assets, being depreciated, net	969,024			927,558
Governmental activities capital assets, net	\$ 1,052,110			\$ 1,010,644

Depreciation expense for governmental activities is charged to functions as follows:

	2021
General	\$ 2,869
Police	35,110
Fire	46,901
Street	37,730
Total	\$ 122,610

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 440,883	\$ -	\$ -	\$ 440,883
Construction in process	389,338	-	-	389,338
Total capital assets, not being depreciated:	830,221	-	-	830,221
Capital assets, being depreciated:				
Buildings	106,670	-	-	106,670
Office equipment	96,268	-	-	96,268
Sewer trucks and equipment	107,655	13,389	-	121,044
Sewer utility plant	14,086,942	26,025	-	14,112,967
Water house and building	87,907	-	-	87,907
Water trucks and equipment	497,921	13,000	-	510,921
Water utility plant and transmission lines	27,641,078	9,514	-	27,650,592
Total capital assets, being depreciated:	42,624,441	61,928	-	42,686,369
Less accumulated depreciation for:				
Buildings	44,001	2,667	-	46,668
Office equipment	89,646	3,492	-	93,138
Sewer trucks and equipment	93,624	3,808	-	97,432
Sewer utility plant	3,966,276	329,655	-	4,295,931
Water house and building	70,174	2,660	-	72,834
Water trucks and equipment	439,414	16,579	-	455,993
Water utility plant and transmission lines	13,857,980	692,553	-	14,550,533
Total accumulated depreciation	18,561,115	1,051,414	-	19,612,529
Capital assets, being depreciated, net	24,063,326			23,073,840
Business-type activities capital assets, net	\$ 24,893,547			\$ 23,904,061

Depreciation expense for business-type activities is charged to functions as follows:

	2021
Water	\$ 841,131
Sewer	210,283
Total	\$ 1,051,414

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2021:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Governmental-type					
Net pension liability	1,179,779	93,366	-	1,273,145	-
Net OPEB liability	282,070	118,634	-	400,704	-
Business-type					
Revenue bonds	3,684,166	-	232,083	3,452,083	230,833
Notes payable	328,916	-	10,976	317,940	10,989
Net pension liability	1,769,669	140,048	-	1,909,717	-
Net OPEB liability	423,106	177,951	-	601,057	-
Total	<u><u>\$ 7,667,706</u></u>	<u><u>\$ 529,999</u></u>	<u><u>\$ 243,059</u></u>	<u><u>\$ 7,954,646</u></u>	<u><u>\$ 241,822</u></u>

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was \$5,595,000. No general obligation bonds were issued during the current year. Revenue bonds are pledged by revenues and by the full faith and credit of the government. This bond was issued as a 25-year serial bond with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 2% to 3.25%. The debt reserve requirement was in compliance for the fiscal year.

<u>Issue</u>	<u>Interest</u> <u>Rates</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Outstanding</u> <u>6/30/2021</u>
2012E	2% - 3.25%	11/28/12	02/01/38	\$ 3,452,083
			Totals	<u><u>\$ 3,452,083</u></u>

The following are principal and interest maturities for long-term debt outstanding as of June 30, 2021:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual</u> <u>Requirements</u>
2022	331,822	100,250	432,072
2023	240,169	92,776	332,945
2024	248,098	81,607	329,705
2025	253,110	82,010	335,120
2026-2030	1,128,667	318,839	1,447,506
2031-2035	994,421	168,093	1,162,514
2036-2040	552,657	30,916	583,573
2041-2043	21,079	-	21,079
Total	<u><u>\$ 3,770,023</u></u>	<u><u>\$ 874,491</u></u>	<u><u>\$ 4,644,514</u></u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bond is not called prior to maturity, the minimum obligations of the City's funds at June 30, 2021 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2022	230,833	97,410	328,243
2023	229,167	92,559	321,726
2024	237,083	81,403	318,486
2025	242,083	81,819	323,902
2026	230,419	75,644	306,063
2027	212,085	69,592	281,677
2028	219,162	63,912	283,074
2029	212,500	57,653	270,153
2030	199,165	51,277	250,442
2031	207,081	45,303	252,384
2032	193,335	39,087	232,422
2033	172,084	33,197	205,281
2034	179,166	27,851	207,017
2035	187,084	22,226	209,310
2036	181,666	16,277	197,943
2037	190,384	10,372	200,756
2038	128,786	4,171	132,957
Totals	<u><u>\$ 3,452,083</u></u>	<u><u>\$ 869,753</u></u>	<u><u>\$ 4,321,836</u></u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable

Notes payable consists of a loan in the original amount of \$749,947 from Kentucky Infrastructure Authority. The note is interest free. Principal payments are made bi-annually. The maturity date is December 1, 2042. Assuming the debt is not called prior to maturity, the minimum obligations of the City's funds at June 30, 2021 for the payment of the note principal is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2022	8,431	-	8,431
2023	8,431	-	8,431
2024	8,431	-	8,431
2025	8,431	-	8,431
2026	8,431	-	8,431
2027	8,431	-	8,431
2028	8,431	-	8,431
2029	8,432	-	8,432
2030	8,432	-	8,432
2031	8,432	-	8,432
2032	8,432	-	8,432
2033	8,432	-	8,432
2034	8,432	-	8,432
2035	8,432	-	8,432
2036	8,432	-	8,432
2037	8,432	-	8,432
2038	8,432	-	8,432
2039	8,432	-	8,432
2040	8,432	-	8,432
2041	8,432	-	8,432
2042	8,432	-	8,432
2043	4,215	-	4,215
Totals	<u>\$181,280</u>	<u>\$ -</u>	<u>\$ 181,280</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Notes payable consists of a loan in the original amount of \$53,000 from Kentucky Infrastructure Authority. The interest rate is .50%. Principal payments are made bi-annually. The maturity date is December 1, 2038. Assuming the debt is not called prior to maturity, the minimum obligations of the City's funds at June 30, 2021, for the payment of the note principal is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2022	2,558	230	2,788
2023	2,571	217	2,788
2024	2,584	204	2,788
2025	2,596	191	2,787
2026	2,609	179	2,788
2027	2,623	165	2,788
2028	2,636	152	2,788
2029	2,649	139	2,788
2030	2,662	126	2,788
2031	2,675	113	2,788
2032	2,689	99	2,788
2033	2,702	86	2,788
2034	2,716	72	2,788
2035	2,729	59	2,788
2036	2,743	45	2,788
2037	2,757	31	2,788
2038	2,771	17	2,788
2039	1,390	3	1,393
Totals	<u>\$ 46,660</u>	<u>\$ 2,128</u>	<u>\$ 48,788</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Notes payable consists of a loan in the amount of \$90,000, to the Monticello Banking Company for operating expenses. The interest rate is 2.9% over the term of the note. The loan is pledged by a certificate of deposit and will be retired in one principal payment plus interest on August 28, 2021.

Compliance with Reserve Requirements

The City of Albany is required to maintain the following funds and accounts related to the bond issuance and loan agreement with Kentucky Bond Corporation (KBC).

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the system which will either increase income and revenues or provide a higher degree of service. At June 30, 2021, the depreciation fund had a balance of \$10,047.

Sinking Fund – The sinking fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. As of June 30, 2021, the sinking fund had a balance of \$149,553.

Debt Service Reserve – The debt service reserve is set up to accumulate 1/48 of the maximum debt service requirements. As of June 30, 2021, the debt service reserve had a balance of \$251,871.

NOTE 7 – RETIREMENT PLAN

The City is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, City, and school board, and any additional eligible local agencies electing to participate in the system. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% (non-hazardous) which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 7 – RETIREMENT PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous job classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution. For the year ended June 30, 2021, the City contributed \$229,439 or 100% of the required contribution for non-hazardous job classifications

Benefits – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 years old
	Reduced retirement	At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – 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 June 30, 2019 and rolled forward using generally accepted actuarial procedures. 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 entities, actuarially determined. The City's proportionate share at June 30, 2020, was .041498 percent for non-hazardous.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 7 – RETIREMENT PLAN – CONTINUED

For the year ended June 30, 2021, the City recognized pension expenses of \$388,384. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual results	\$ 79,371	\$ -
Changes of assumptions	124,285	-
Net difference between projected and actual earnings on plan investments	137,966	58,319
Changes in proportion and difference between City contributions and proportionate share of contributions	-	153,266
City contributions subsequent to the measurement date	229,439	-
Total	<u>\$ 571,061</u>	<u>\$ 211,585</u>

The \$229,439 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date 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 will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2021	\$ 20,617
2022	39,777
2023	37,654
2024	31,989
2025	-
Thereafter	-

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability – For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Non-Hazardous

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 11.55%, varies by service
Investment rate of return	6.25%

Mortality rates were based on the 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 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 MP-2014 Mortality Improvement Scale using a base year of 2010.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 7 – RETIREMENT PLAN – CONTINUED

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Discount Rate – The projection of cash flows used to determine the discount rate of 6.25% for Non-Hazardous and Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the new 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>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% Decrease	5.25%	\$ 3,925,162
Current discount rate	6.25%	\$ 3,182,862
1% Increase	7.25%	\$ 2,568,210

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$27,342 for the outstanding amount of contributions to the pension and OPEB plans required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description – Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statute Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided – The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions – Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2021 was 4.76% (non-hazardous) of covered payroll. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is 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). For the year ended June 30, 2021, the City contributed \$56,587, or 100% of the required contribution for non-hazardous job classifications.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – 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 June 30, 2019 and rolled forward using generally accepted actuarial procedures. 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 entities, actuarially determined. The City's proportionate share at June 30, 2020, was .041486 percent for non-hazardous.

For the year ended June 30, 2021, the City recognized OPEB expenses of \$112,601. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual results	\$ 167,373	\$ 167,504
Implicit subsidy	24,585	-
Changes of assumptions	174,247	1,060
Net difference between projected and actual earnings on plan investments	53,737	20,441
Changes in proportion and difference between City contributions and proportionate share of contributions	-	94,155
City contributions subsequent to the measurement date	56,587	-
Total	\$ 476,529	\$ 283,160

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The \$56,587 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2021	\$ 31,842
2022	41,695
2023	22,869
2024	22,955
2025	(7,164)
Thereafter	-

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

Non-Hazardous

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 11.55%, varies by service
Investment rate of return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for 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 MP-2014 Mortality Improvement Scale using a base year of 2010. The actuarial assumption used in the June 30, 2019, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

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

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Discount Rate – The projection of cash flows used to determine the discount rate of 5.34% for CERS non-hazardous, and 5.30% for CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 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.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) follows:

	Discount Rate	City's Proportionate Share of Net OPEB Liability
1% Decrease	4.34%	\$ 1,286,968
Current discount rate	5.34%	\$ 1,001,761
1% Increase	6.34%	\$ 767,510

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.34%) or one percentage point higher (6.34%) than current healthcare cost trend rates follows:

City's Net OPEB Liability (Asset)		
Healthcare Cost		
Trend Rate 1% Decrease	Current Discount Rate	Trend Rate 1% Increase
4.34%	5.34%	6.34%
\$ 775,613	\$ 1,001,761	\$ 1,276,196

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City receives funding from federal, state, and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of grants advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program. As of June 30, 2020, there were no pending litigation, unasserted claims nor assessments against the City.

Pandemic

In December of 2019, a novel strain of coronavirus (COVID-19) surfaced and has rapidly spread throughout the world. The World Health Organization (WHO) has classified COVID-19 as a global pandemic. Due to its uncertainty, international and U.S. financial markets have experienced significant volatility. In addition, travel restrictions, business shutdowns, high levels unemployment, and inventory shortages are several other areas impacted by the pandemic. These impacts have caused multiple jurisdictions within the United States to declare state of emergencies. It is predicted that COVID-19 implications will continue for a long time. Although there has been no immediate impact to the City's operations, certain operational functions such as intakes, recertifications, and maintenance are susceptible to future concerns. Potential economic events are unknown at this time but may include events such as disruptions or restrictions in the City's employee's abilities to work. In addition, revenues could be affected by customers' ability to pay their required monthly utility bills and the collection of various taxes imposed by the City.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2021, the City was sufficiently insured.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through August 10, 2023, which is the date the financial statements were available to be issued.

**CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Taxes	\$ 135,000	\$ 135,000	\$ 145,378	\$ 10,378
Licenses and other taxes	-	-	763,729	763,729
Intergovernmental	586,000	586,000	270,920	(315,080)
Service charges	170,000	170,000	174,204	4,204
Fines, arrest fees, and permits	9,754	9,754	5,493	(4,261)
Other	-	-	45,312	45,312
Total Revenues	900,754	900,754	1,405,036	504,282
Expenditures				
General and administration department	246,257	246,257	278,862	(32,605)
Police department	573,277	573,277	513,486	59,791
Fire department	114,300	114,300	134,466	(20,166)
Street department	218,012	218,012	291,431	(73,419)
Capital outlay	-	-	81,144	(81,144)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	1,151,846	1,151,846	1,299,389	(147,543)
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(251,092)	(251,092)	105,647	356,739
Other Financing Sources				
Issuance of debt	-	-	-	-
Total Other Financing Sources	-	-	-	-
Net Change in Fund Balance			105,647	356,739
Fund Balance, Beginning			302,588	474,754
Fund Balance, Ending			\$ 408,235	\$ 831,493

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SIX FISCAL YEARS**

	2016	2017	2018	2019	2020	2021
City's proportion of the net pension liability	0.045581%	0.044132%	0.048893%	0.048035%	0.041937%	0.041498%
City's proportionate share of the net pension liability	\$ 1,479,000	\$ 1,897,484	\$ 2,861,588	\$ 2,925,478	\$ 2,949,448	3,182,862
City's covered-employee payroll	\$ 1,027,411	\$ 1,127,273	\$ 1,191,372	\$ 1,256,007	\$ 1,101,809	\$ 1,151,725
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	143.95%	168.33%	240.19%	232.92%	267.69%	276.36%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%

Note: The above schedules will present 10 years of historical data, once available.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST SIX FISCAL YEARS**

	2016	2017	2018	2019	2020	2021
Contractually required contribution	\$ 127,670	\$ 166,592	\$ 171,379	\$ 227,206	\$ 211,038	\$ 229,439
Contributions in relation to the contractually required contribution	<u>127,670</u>	<u>166,592</u>	<u>171,379</u>	<u>227,206</u>	<u>211,038</u>	<u>229,439</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,027,411	\$ 1,127,273	\$ 1,191,372	\$ 1,256,007	\$ 1,101,809	\$ 1,151,725
Contributions as a percentage of covered-employee payroll	12.43%	14.78%	14.39%	18.09%	19.15%	19.92%

Note: The above schedules will present 10 years of historical data, once available.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
City's proportion of the net OPEB liability	0.048893%	0.048039%	0.041926%	0.041486%
City's proportionate share of the net OPEB liability	\$ 982,917	\$ 852,923	\$ 705,176	\$ 1,001,761
City's covered-employee payroll	\$ 1,191,372	\$ 1,256,007	\$ 1,101,809	\$ 1,151,725
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.50%	67.91%	64.00%	86.98%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%

Note: The above schedules will present 10 years of historical data, once available.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	\$ 57,126	\$ 10,815	\$ 52,036	\$ 56,587
Contributions in relation to the contractually required contribution	<u>10,324</u>	<u>13,595</u>	<u>52,036</u>	<u>56,587</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,191,372	\$ 1,256,007	\$ 1,101,809	\$ 1,151,725
Contributions as a percentage of covered-employee payroll	4.79%	0.86%	4.72%	4.91%

Note: The above schedules will present 10 years of historical data, once available.

CITY OF ALBANY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021

NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City annually prepares a budget under the provisions of Kentucky Revised Statute (KRS) 91A.030. In accordance with the Statute, the following process is used to adopt the annual budget:

- The budget proposal is the responsibility of the Mayor and the City and shall be submitted to the legislative body not later than thirty days prior to the beginning of the fiscal year it covers.
- The legislative body shall adopt a budget ordinance making appropriations for the fiscal year in such sums as the legislative body finds sufficient and proper, whether greater or less than the sums recommended in the budget proposal. The budget ordinance may be in any form that the legislative body finds most efficient in enabling it to make the necessary fiscal policy decisions.
- No budget ordinance shall be adopted that provides for appropriations to exceed available resources in any one fiscal year, which would also violate section 157 of the Kentucky Constitution.
- The City legislative body may amend the budget ordinance after the ordinances' adoption if the amended ordinance continues to satisfy the requirements of KRS 91A.030.
- Immediately following the adoption of an annual budget, the clerk shall cause a summary of the budget or the text of the budget ordinance to be advertised by publication in a newspaper.

Budgetary Accounting

The annual operation budgets of governmental and proprietary funds are prepared and presented on the modified accrual basis of accounting. The City does not use an encumbrance accounting system; thus, the budgetary and GAAP presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance, Budgetary and Actual are the same.

NOTE 2 – CERS

General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

June 30, 2020 – Pension and OPEB Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

CITY OF ALBANY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2021

NOTE 2 – CERS – CONTINUED

Changes of Assumptions- Continued

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

June 30, 2017 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

CITY OF ALBANY, KENTUCKY
SCHEDULE OF WATER AND SEWER REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Water Utilities	Sewer Utilities	Total Enterprise Funds
Operating Revenues			
Charges for services	\$ 2,632,992	\$ 254,940	\$ 2,887,932
Miscellaneous	61,420	-	61,420
Total Operating Revenues	<u>2,694,412</u>	<u>254,940</u>	<u>2,949,352</u>
Operating Expenses			
Salaries	675,691	111,194	786,885
Employee benefits	437,391	111,130	548,521
Administration	31,036	2,819	33,855
Contractual services	7,710	3,076	10,786
Repairs, parts, and supplies	146,051	37,600	183,651
Vehicle expense	45,672	2,414	48,086
Travel and training	1,980	99	2,079
Utilities and telephone	459,813	98,921	558,734
Labs and supplies	264,124	21,504	285,628
Insurance	94,758	53,241	147,999
Depreciation	848,727	212,182	1,060,909
Bad debt provision	28,822	3,060	31,882
Miscellaneous	55,047	4,709	59,756
Total Operating Expenses	<u>3,096,822</u>	<u>661,949</u>	<u>3,758,771</u>
Operating Loss	<u>(402,410)</u>	<u>(407,009)</u>	<u>(809,419)</u>
Non-Operating Revenues (Expenses)			
Interest income	5,527	1,382	6,909
Interest expense	(84,162)	(21,040)	(105,202)
Total Non-Operating Revenue (Expenses)	<u>(78,635)</u>	<u>(19,658)</u>	<u>(98,293)</u>
Change in Net Position			(907,712)
Total Net Position, Beginning, as Originally Stated			20,362,895
Prior Period Adjustment (See Note 12)			(21,725)
Total Net Position, Beginning as Restated			<u>20,341,170</u>
Total Net Position, Ending			<u>\$ 19,433,458</u>

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Member of Kentucky Society of CPA's

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

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany (hereinafter called 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 August 10, 2023

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, 2021-003, 2021-004, 2021-005, and 2021-006, that we consider to be material weaknesses.

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 questioned costs as item 2021-007.

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. 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 response.

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.

SK LEE CPAs, P.S.C.

Berea, Kentucky
August 10, 2023

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-001 Financial Statement Preparation

Condition:

A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria:

During our audit procedures, we noted some instances of this objective not being completely achieved.

Cause:

The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regards to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-002 Accounting System

Condition:

During our audit procedures, we noted the accounting system omitted a fire department bank account and its transactions for the year in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria:

Management should have controls in place to ensure all bank accounts are included in the accounting system and no employee can open and administer a bank account in the name of the City.

Cause

The City Clerk was not aware of the bank account and Fire Chief was not aware that he was obligated to turn in the financial activity of the account to the City Clerk.

Effect:

The accounting system did not identify a bank account maintained and controlled by the fire chief.

Recommendation:

Management should record all transactions and accounts in the name of the City.

Views of Responsible Officials:

Management concurs with the finding.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-003 Water and Sewer Fees Collection

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we noted a lack of controls that ensure timely collections and monitoring of water and sewer fees for customer and city employee delinquent accounts. Therefore, creating cash flow problems.

Criteria:

Management should have controls in place to monitor customer and employee delinquency and cutoff procedures for nonpayment.

Cause:

The City does not have controls in place to effectively monitor timely collections.

Effect:

The City's accounts receivable continuously increase each year due to inefficient collection efforts.

Recommendation:

Management should review past due accounts each month and perform necessary cutoff procedures.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-004 Water & Sewer Billing Reconciliation

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we noted a lack of controls that ensure monthly water & sewer billing is reconciled to payments received during the month. Due to the cash flow problems that the City is experiencing, this procedure will inform management of potential issues and possibly eliminate these issues. We noticed adjustments and credits being issued to customer account balance without proper support.

Criteria:

Management should have controls in place to reconcile the monthly reports.

Cause:

The City does not have controls in place to effectively monitor monthly billing reports, including fire memberships.

Effect:

The City's accounts receivable continuously increase each year due to inefficient collection efforts.

Recommendation:

Management should review monthly billing reports and investigate all undocumented adjustments.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

NON-COMPLIANCE

2021-005 Vendor Payments/Payroll Deposits

Criteria:

KRS 65.140 requires all vendor payments be paid within 30 days of receipt of the invoice.

Condition:

While conducting our audit procedures, we noted the City did not remit payments due to vendors and payroll related liabilities timely.

Cause:

The City did not follow guidelines and remit payments and tax deposits in a timely manner.

Effect:

The City incurred fines and interest for non-payment and late payments on not filing payroll tax deposits timely.

Recommendation:

Management should follow KRS 65.140 and pay all vendor payments within 30 days of receipt.

Views of Responsible Officials:

Management agrees with recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-006 Customer Deposit Accounts

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we noted a lack of controls that ensured customer deposits were being reconciled in the utility billing program.

Criteria:

Management should have controls in place to reconcile customer deposit liability monthly.

Cause:

The City does not have controls in place to effectively monitor customer deposit liability.

Effect:

The City's customer deposit liability account is not being reconciled to the related reports.

Recommendation:

Management should utilize the utility billing program feature that would support the customer deposit account liability.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

NON-COMPLIANCE

2021-007 Budget Overruns

Condition:

Actual expenditures in the administrative, fire department, and street department fund exceeded budgeted amounts. Budget was not amended to reflect the overruns.

Criteria:

Per KRS 91A.030, a city shall adopt an annual budget and no expenditures shall exceed appropriations in accordance with the budget ordinance or amendments.

Cause:

Fire and street department expenditures exceeded their budgeted line-item amounts.

Effect:

The City violated KRS 91A.030 by expending funds which exceeded the appropriate expenditures in accordance with budget ordinance.

Recommendation:

The City should implement policies and procedures to ensure all expected expenditures are never greater than their budgeted amounts.

Views of Responsible Officials:

Management concurs with the finding.