

CITY OF ELKTON, KENTUCKY
BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2022
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ELKTON, KENTUCKY
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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Elkton, Kentucky

Report on the Audit of the Financial Statements

Opinions

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 Elkton, Kentucky as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky'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 of Elkton, Kentucky as of and for the year ended June 30, 2022, 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 Opinions

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 of Elkton, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Elkton, Kentucky'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 of Elkton, Kentucky'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 of Elkton, Kentucky'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB schedules on pages 3-14 and 50-55 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2022, on our consideration of the City of Elkton, Kentucky'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 of Elkton, Kentucky'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 City of Elkton, Kentucky's internal control over financial reporting and compliance.

Thurman Campbell Group, PLC

Hopkinsville, Kentucky
December 31, 2022

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2022

As management of the *City of Elkton, Kentucky*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- As of June 30, 2022, the City's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources for a total net position of \$8,978,717.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$875,642 to a June 30, 2022, balance of \$3,735,333. Of this amount, \$2,983,974 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2022, totaled \$4,723,248, an increase of \$87,687 from the prior year.
- The City's general fund balance as of June 30, 2022, was \$3,347,062, an increase of \$875,642 over the prior year. Of the total fund balance, \$2,983,974 is unassigned. The unassigned general fund balance represents 127.4% of total general fund revenues.
- Total capital assets of the City, net of depreciation, (land, buildings and improvements, park and land improvements, equipment, vehicles, plants and lines, construction in progress) totaled \$10,113,910 as of June 30, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information and reporting in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

The government-wide financial statements outline functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government, public safety, public works, community development and culture and recreation. The *business-type activities* of the city include water, sewer and solid waste.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual funds in addition to the general fund to make up the governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other governmental funds.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds - The City maintains three proprietary funds. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses proprietary funds to account for water, sewer and solid waste management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on the individual enterprise funds.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities had a net position of \$4,255,469, while business-type activities had a net position of \$4,723,248, for total city wide net position of \$8,978,717 as of June 30, 2022.

**Statement of Net Position of Governmental and Business-Type Activities
June 30, 2022**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<u>ASSETS</u>						
Current and other assets	\$ 3,926,966	\$ 3,081,084	\$ 1,833,720	\$ 1,718,724	\$ 5,760,686	\$ 4,799,808
Capital assets	2,014,410	2,110,091	8,099,500	6,961,983	10,113,910	9,072,074
Total assets	5,941,376	5,191,175	9,933,220	8,680,707	15,874,596	13,871,882
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred outflows related to pensions/OPEB	599,522	398,738	329,592	322,790	929,114	721,528
Total deferred outflows of resources	599,522	398,738	329,592	322,790	929,114	721,528
<u>LIABILITIES</u>						
Current liabilities	188,737	159,605	420,522	325,701	609,259	485,306
Net pension liability	1,557,913	1,590,520	1,020,015	1,115,562	2,577,928	2,706,082
Long-term liabilities	-	-	3,851,016	2,832,872	3,851,016	2,832,872
Total liabilities	1,746,650	1,750,125	5,291,553	4,274,135	7,038,203	6,024,260
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Deferred inflows related to pensions/OPEB	538,779	291,195	248,011	93,801	786,790	384,996
Total deferred inflows of resources	538,779	291,195	248,011	93,801	786,790	384,996
<u>NET POSITION</u>						
Net investment in capital assets	2,014,410	2,110,091	4,181,098	4,039,127	6,195,508	6,149,218
Restricted	816,828	276,147	754,696	747,002	1,571,524	1,023,149
Unrestricted	1,424,231	1,162,355	(212,546)	(150,568)	1,211,685	1,011,787
Total net position	\$ 4,255,469	\$ 3,548,593	\$ 4,723,248	\$ 4,635,561	\$ 8,978,717	\$ 8,184,154

In the City as a whole, the largest portion of net position, \$6,195,508 or 69.0%, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens and these assets are not available for future spending.

The net position of governmental activity funds was \$4,255,469 with \$2,014,410 or 47.3% being invested in capital assets and \$1,424,231 or 33.5% unrestricted. The unrestricted net position of governmental funds includes fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities was \$4,723,248. Of the net position, \$4,181,098 or 88.5% were invested in capital assets.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

Statement of Activities

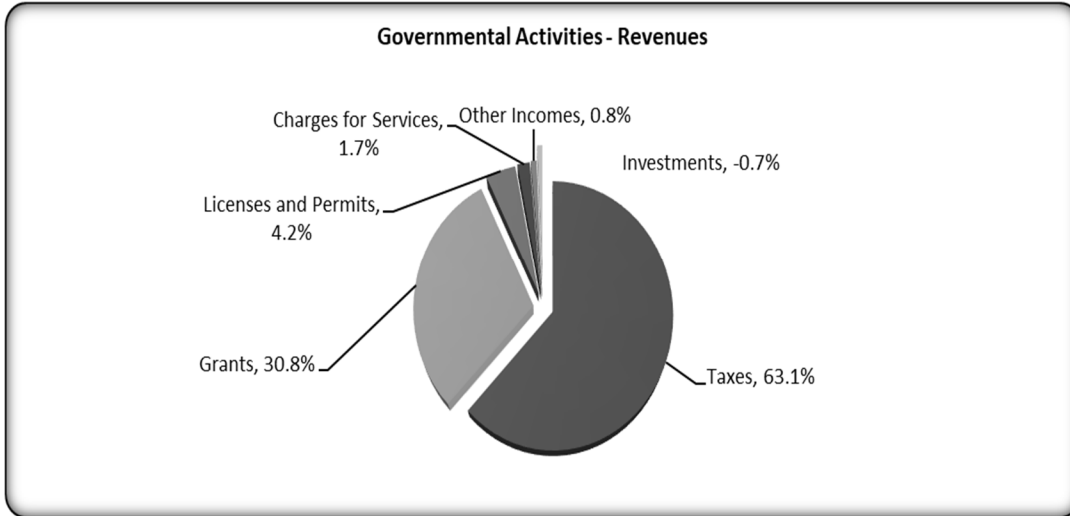
**Statement of Activities of Governmental and Business-Type Activities
For the Year Ended June 30, 2021**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program Revenues:						
Charges for Services	\$ 41,466	\$ 36,275	\$ 1,367,013	\$ 1,268,630	\$ 1,408,479	\$ 1,304,905
Operating Grants and Contributions	43,632	87,397	-	-	43,632	87,397
Capital Grants and Contributions	692,838	291,188	111,772	3,000	804,610	294,188
General Revenues:						
Taxes	1,509,516	1,277,187	-	-	1,509,516	1,277,187
Licenses and Permits	100,496	124,615	-	-	100,496	124,615
Investment gain (loss)	(27,977)	-	(40,583)	-	(68,560)	-
Investment income (loss)	10,765	10,873	7,505	2,830	18,270	13,703
Gain/(Loss) on Sale of Fixed Assets	2,615	(9,040)	3,438	-	6,053	(9,040)
Other Income	39,574	71,065	22,119	20,861	61,693	91,926
Transfers In/(Out)	(22,557)	(14,400)	22,557	14,400	-	-
Total Revenues	2,390,368	1,875,160	1,493,821	1,309,721	3,884,189	3,184,881
Expenditures:						
General Government	451,843	458,386	-	-	451,843	458,386
Public Safety	874,291	881,096	-	-	874,291	881,096
Public Works	276,329	211,203	-	-	276,329	211,203
Community Development	3,920	3,535	-	-	3,920	3,535
Culture and Recreation	77,109	49,440	-	-	77,109	49,440
Water	-	-	602,195	662,863	602,195	662,863
Sewer	-	-	710,355	643,256	710,355	643,256
Solid Waste	-	-	93,584	89,098	93,584	89,098
Total Expenditures	1,683,492	1,603,660	1,406,134	1,395,217	3,089,626	2,998,877
Change in Net Position	706,876	271,500	87,687	(85,496)	794,563	186,004
Net Position, Beginning (Restated)	3,548,593	3,277,093	4,635,561	4,721,057	8,184,154	7,998,150
Net Position, Ending	\$ 4,255,469	\$ 3,548,593	\$ 4,723,248	\$ 4,635,561	\$ 8,978,717	\$ 8,184,154

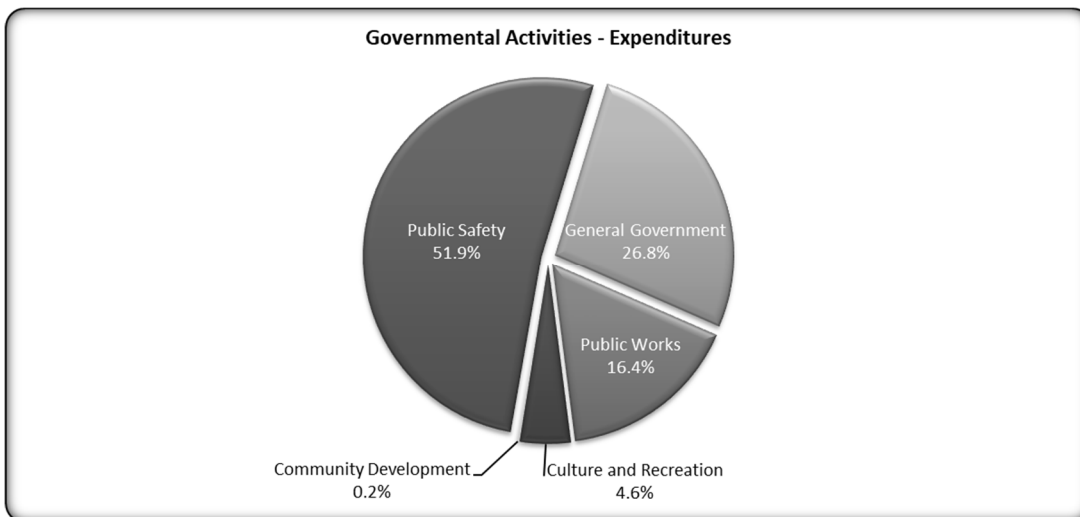
CITY OF ELKTON, KENTUCKY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
 FOR THE YEAR ENDED JUNE 30, 2022

Governmental Activities

Revenues for the City's governmental activities totaled \$2,390,368. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,509,516 which is 63.1% of total revenue. Capital and Operating Grants and Contributions totaled \$736,470 and accounted for about 30.8% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$100,496 or 4.2% of the total. Charges for services totaled \$41,466, or 1.7% of revenues. Investments gain (loss) and Investment Income combined for a total loss of \$17,212. Finally, all other incomes totaled \$19,632, or about 0.8% of revenues.



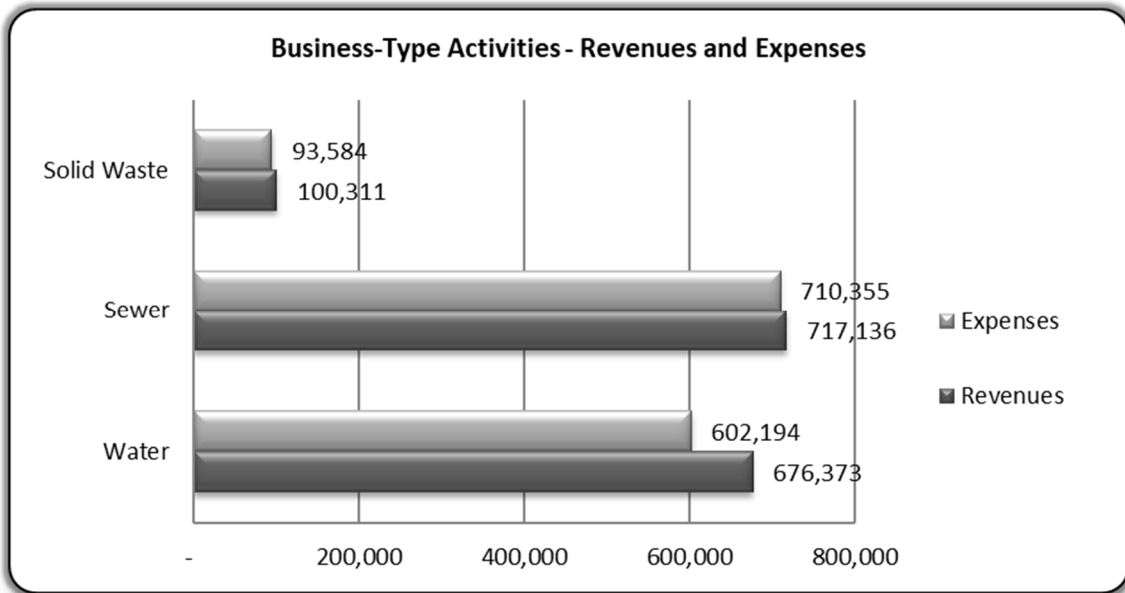
Total expenses of the City's governmental activities were \$1,683,492. The largest expenditure at 51.9% of total expenses, or \$874,291, was for Public Safety, which includes police and fire protection. The second largest category of expense is General Government, which totaled \$451,843 or 26.8% of expenses. Public Works was third and totaled \$276,329, or 16.4%. Culture and Recreation expenses totaled \$77,109, or 4.6% of the total. Finally, Community Development totaled \$3,920, or 0.2% of total expenditures.



CITY OF ELKTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

Business-type Activities

Revenues for business-type activities totaled \$1,493,820 for the fiscal year ended June 30, 2022. Of this total, revenue from Charges for Services totaled \$1,367,013, or 91.5% of revenues. Expenses for business-type activities totaled \$1,406,133. Water department expenses accounted for \$602,194 of total expenditures, or 42.8%. Sewer department expenses accounted for 50.5% of total expenses, or \$710,355. Finally, the solid waste department accounted for 6.7% of total business-type activities expenditures with \$93,584 in expenses.



FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The general government functions are contained in the General, Special Revenue and Permanent Funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The City’s governmental funds for the year ended June 30, 2022 reflect a combined ending fund balance of \$3,735,333, an increase of \$875,642 from the prior year. Of the total fund balance, \$2,983,974 is unassigned and is available for spending at the City’s discretion. The remainder \$751,359 is restricted or committed for prepaid expenses, mortgage receivables, and cemetery maintenance.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

General Fund Highlights

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was \$3,347,062 which is an increase of \$842,038 from the prior year. Of the total General Fund balance, 89.2% (\$2,983,974) is *unassigned fund balance*. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represented about 127.4% of total general fund revenues.

The following provides an explanation of revenues by source with change from the prior year:

General Fund - Revenues by Source						
	FY 2022		FY 2021		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
	Revenues by Source					
Taxes	\$1,447,163	61.8%	\$1,213,963	67.2%	\$ 233,200	19.21%
Licenses and Permits	100,496	4.3%	124,615	6.9%	(24,119)	-19.35%
Intergovernmental Revenues	3,000	0.1%	90,397	5.0%	(87,397)	-96.68%
Charges for Services	41,466	1.8%	36,645	2.0%	4,821	13.16%
Investment Income	10,001	0.4%	9,564	0.5%	437	4.57%
Investment gain (loss)	(27,977)	n/a	-	0.0%	(27,977)	n/a
Grant Income	654,966	28.0%	212,610	11.8%	442,356	208.06%
Other Income	39,574	1.7%	70,695	3.9%	(31,121)	-44.02%
Total Revenues	\$2,268,689	98.0%	\$1,758,489	97.4%	\$ 510,200	29.01%
Total Other Financing (uses)	73,682	3.1%	46,848	2.6%	26,834	57.28%
Total Revenues and Other Financing (uses)	\$2,342,371	101.2%	\$1,805,337	100.0%	\$ 537,034	29.75%

- The General Fund saw about a 208% increase in Grant Income over last year. This increase is due to receipt of \$560,958 in American Rescue Plan Act (ARPA) funding in FY 2022.
- The largest total percentage decrease in revenue came from Intergovernmental Revenues, which decreased by almost 97%, or \$87,397, over last year.

The following provides an explanation of expenditures by function with change from the prior year:

General Fund - Expenditures by Function						
	FY 2022		FY 2021		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
	Expenditures by Function					
General Government	\$ 373,766	24.9%	\$ 396,322	30.0%	\$ (22,556)	-5.69%
Public Works	191,507	12.8%	127,483	9.6%	64,024	50.22%
Public Safety	728,056	48.5%	670,804	50.7%	57,252	8.53%
Culture and Recreation	76,904	5.1%	49,599	3.8%	27,305	55.05%
Capital Outlay	130,100	8.7%	77,860	5.9%	52,240	67.09%
Debt Service	-	0.0%	-	0.0%	-	0.00%
Total Expenditures	\$ 1,500,333	100.0%	\$ 1,322,068	100.0%	\$ 178,265	13.48%

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

- Overall, General Fund expenditures increased by about 13%, a total increase of \$178,265 over last year.
- The only decrease in expenditures was in the area of General Government with a decrease in expenditures of \$22,556, or about 6% less than last year.
- The largest percentage increase in expenditures was in Capital Outlay, with a \$52,240 increase in expenditures, or about 67% over last year. This increase was mainly due to the purchase of two properties, one for the expansion of the cemeteries and one property eventually declared surplus and sold for economic development purposes.

Proprietary funds - The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. As noted earlier, the City maintains three proprietary funds. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses proprietary funds to account for water, sewer and solid waste management.

The following table shows actual revenues, expenses and change in net position from operations for the fiscal year as well as comparison from prior year:

Proprietary Funds								
Statement of Revenues, Expenses and Changes in Fund Net Position								
	Water		Sewer		Solid Waste		Total	
	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021
Operating Revenues	\$ 634,050	\$ 618,611	\$ 654,826	\$ 575,418	\$ 100,256	\$ 95,462	\$ 1,389,132	\$ 1,289,491
Operating Expenses	596,500	656,442	685,826	618,293	93,584	89,098	1,375,910	1,363,833
Operating Income (loss)	37,550	(37,831)	(31,000)	(42,875)	6,672	6,364	13,222	(74,342)
Non-operating revenues (expenses)	25,254	(3,618)	26,599	2,838	55	50	51,908	(730)
Income (loss) before transfers	62,804	(41,449)	(4,401)	(40,037)	6,727	6,414	65,130	(75,072)
Transfer in (out)	11,375	7,200	11,182	7,200	-	-	22,557	14,400
Net income (loss)	\$ 74,179	\$ (34,249)	\$ 6,781	\$ (32,837)	\$ 6,727	\$ 6,414	\$ 87,687	\$ (60,672)
Net Position, beginning of year	767,370	801,619	3,814,551	3,847,388	53,640	47,226	4,635,561	4,696,233
Net Position, end of year	\$ 841,549	\$ 767,370	\$3,821,332	\$3,814,551	\$ 60,367	\$ 53,640	\$ 4,723,248	\$ 4,635,561

- The **water** fund accounts for the operation and maintenance of the water distribution system for City customers and a few County customers. The funds operating revenue increased by \$15,439 over last year. The water fund saw a decrease in operating expenditures by \$59,942. Operating revenues mainly increased due to an increase in new customers and therefore an increase in charges for services. The decrease in expenditures can be attributed to the maintenance staff working diligently to find water loss in the city and therefore repairing water leaks and decreasing the purchase of water from Logan-Todd Regional Water. The net position of the water fund as of June 30, 2022 increased by \$74,179 to a total of \$841,549.
- The **sewer** fund accounts for the operation and maintenance of the sanitary sewer system and wastewater treatment facilities in the City. The funds operating revenue saw an increase of \$79,408 over the previous year, while operating expenses also increased by \$67,533. Operating revenues increased mainly due to an increase in Charges for Services due to a rate increase in 2021 to meet new debt obligations from the Wastewater System Rehabilitation & Improvements Project that will be completed in FY 2023. Operating

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

expenses increased mainly due to increase in sewer plant maintenance and increase in cost of supplies. As of June 30, 2022, the sewer fund saw a net increase of \$6,781 for a net position of \$3,821,332.

- The *solid waste* fund accounts for contractual payments to GFL Environmental, Inc. for residential solid waste collection and disposal. The fund had a net increase of \$6,727. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2022 for the solid waste fund is \$60,367.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revises the General Fund's budget in order to make adjustments in revenues and expenditures that were not anticipated when the budget was first adopted. In all, the original revenue and other financing sources budget decreased in the final budget by about 3.0%, or \$64,850. While the total expenditure budget decreased by \$353,500 or approximately 13.7%. These changes can be briefly summarized as follows:

- Although there were several minor changes throughout the budget, the main modifications to the general fund budget revenues were due to the city expecting to receive grant funding by the end of FY 2022 but were not received. This funding included about \$195,000 in American Rescue Plan Act (ARPA) funding and about \$355,000 in Transportation Alternative Project (TAP) funding. Also, the city was able to project a larger than expected revenue in Payroll Taxes due to growth in the city.
- As for the decrease in budgeted expenditures, the city expected to complete the Goebel Avenue Sidewalk and Bicycle Lane TAP project, however the project was still in the design phase at the end of FY 2022 and therefore the final budget was decreased by \$445,000 to remove this project.

For the year, general fund actual revenues and other financing sources compared to the final budget came in about \$265,326 or about 12.8% more than expected. Actual expenditures were \$238,367 less than expected, or about 13.9% below budgetary estimates. The main reason for these variances were due to the following:

- The city received the second tranche of American Rescue Plan Act (ARPA) funding in the amount of \$284,473 in late June and the payment was not expected until FY 2023.
- Lower than estimated expenditures can be attributed to several smaller projects not being completed. But, for the most part the city saw approximately \$85,000 in funds not being spent because the city budgeted for 8 full-time police officers and for most of the year only had 7 full-time police officers on staff.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

DEBT ADMINISTRATION

At the end of the fiscal year, the City had a total outstanding debt of \$3,918,402. The General Fund and other Governmental Activities had no outstanding debt as of June 30, 2022. Therefore, the total outstanding debt for Business Type Activities totaled \$3,918,402 as of June 30, 2022.

- The largest portion of long-term debt in the amount of \$2,827,508 is payable from the Sewer Fund for a 0.5% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2018 for the Wastewater System Rehabilitation & Improvements Project. The total project is estimated to cost \$4,582,000, with \$4,134,451 in loan from KIA. However, the city will also receive \$1,000,000 in debt forgiveness once the project is completed bringing the total estimated loan to about \$3,134,451.
- The sewer system also has a 0% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2006 to pay off the 1990 Series Sewer Revenue Bonds with outstanding debt as of June 30, 2022 of \$390,533.
- The sewer system also has an outstanding debt in the amount of \$305,834 from Revenue Bond Issue through the Kentucky League of Cities to pay off 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project.
- The sewer system also received a 1% interest loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$64,927.
- The Water Fund also has a low interest loan through KIA with a remaining balance of \$35,975 for the purchase of new radio read water meters that was completed in July 2010.
- In June 2014, the city received a low interest loan through KIA to separate the water distribution system from intersecting lines with the Todd County Water District and to replace an old water line on Goebel Avenue with a total balance of \$222,022 as of June 30, 2022.
- In 2018, the Water Fund received another 1% interest loan from KIA for the Water Rehabilitation & Upgrade Project. The outstanding debt for this project as of June 30, 2022 was \$78,394.

**City of Elkton Outstanding Debt
June 30, 2022**

	Governmental Activities	Business-Type Activities	Total
Revenue Bonds			
Revenue Bonds Issue \$325,000 - Refunding	\$ -	\$ 305,834	305,834
Less Unamortized Discount	-	(6,791)	(6,791)
Notes Payable			
KIA Loan \$80,233 - Water Meter Project	-	35,975	35,975
KIA Loan \$808,000 - Sewer Plant Debt Retirement	-	390,533	390,533
KIA Loan \$136,761 - Sewer Extension Projects	-	64,927	64,927
KIA Loan \$346,246 - Water Separation and Goebel Extension	-	222,022	222,022
KIA Loan \$3,934,451 - Sewer Improvements Project	-	2,827,508	2,827,508
KIA Loan \$85,000 - Water Rehabilitation Project	-	78,394	78,394
Total	<u>\$ -</u>	<u>\$ 3,918,402</u>	<u>\$ 3,918,402</u>

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

CAPITAL ASSETS

The City's capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2022 totaled \$2,014,410. For business-type activities, total capital assets amount to \$8,099,500. The City's total net capital assets as of June 30, 2022 totaled \$10,113,910.

**City of Elkton Capital Assets
6/30/20212**

	Governmental Activities	Business-Type Activities	Total
Land	\$ 205,580	\$ 138,500	\$ 344,080
Buildings and Improvements	600,281	-	600,281
Park and Land Improvements	836,338	-	836,338
Equipment	76,380	382,523	458,903
Vehicles	295,831	21,705	317,536
Plant and Lines	-	4,609,233	4,609,233
Construction in Progress	-	2,947,539	2,947,539
Total	\$ 2,014,410	\$ 8,099,500	\$ 10,113,910

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

When creating the budget, the primary objective was to maintain or improve upon current levels of city services and maintain adequate employee benefits while at the same time attempting to keep charges for services and tax rates low.

An ongoing issue the city has been dealing with for many years is water loss, or the difference of the water being purchased by the city and not being billed to customer possibly due to water leaks in the system or billing errors. For the year ended June 30, 2021, the water loss averaged about 38%. By the end of FY 2022, water loss for the year averaged 13%. This decrease in water loss saved the water department approximately \$60,000 for the year. The city continues to work on finding water leaks in the system to reduce water loss. Also, maintenance issues on water tanks and aging water lines will be a large expense that needs to be addressed in the near future.

Ongoing maintenance of the sewer system continues to increase at a fast rate due to an aging system and new regulations and requirements. In 2018, the City was awarded a KIA Planning Loan, which led to additional loans to complete a Wastewater System Rehabilitation & Improvements Project. Once this project is complete, the total new debt will be about \$3,134,451 at 0.5% interest with an annual debt service of about \$118,913. As part of the loan agreement, KIA has required that sewer rates be increased to meet new debt service requirements, which the city has already completed. The first principal payment is expected to be in December 2023.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2022

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of its citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Elkton, PO Box 578, 71 Public Square, Elkton, KY 42220.

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2022

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 3,034,646	\$ 467,756	\$ 3,502,402
Investments	-	363,120	363,120
Receivables:			
Taxes, net	16,227	-	16,227
Accounts	-	190,812	190,812
Other	64,775	48,436	113,211
Internal balances, net	(7,930)	7,930	-
Prepaid expenses	2,420	970	3,390
Total current assets	<u>3,110,138</u>	<u>1,079,024</u>	<u>4,189,162</u>
Restricted assets:			
Restricted cash and cash equivalents	552,704	754,696	1,307,400
Restricted investments	250,328	-	250,328
Total restricted assets	<u>803,032</u>	<u>754,696</u>	<u>1,557,728</u>
Noncurrent assets:			
Mortgages receivable	13,796	-	13,796
Capital assets (not being depreciated)	205,580	3,086,039	3,291,619
Capital assets, net	1,808,830	5,013,461	6,822,291
Total noncurrent assets	<u>2,028,206</u>	<u>8,099,500</u>	<u>10,127,706</u>
Total assets	<u>5,941,376</u>	<u>9,933,220</u>	<u>15,874,596</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows related to OPEB	251,349	152,415	403,764
Deferred outflows related to pensions	348,173	177,177	525,350
Total deferred outflows of resources	<u>599,522</u>	<u>329,592</u>	<u>929,114</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	135,841	188,532	324,373
Accrued liabilities	52,896	22,029	74,925
Withholdings and other payables	-	17,850	17,850
Customer deposits	-	124,725	124,725
Current maturities of long-term debt	-	67,386	67,386
Total current liabilities	<u>188,737</u>	<u>420,522</u>	<u>609,259</u>
Noncurrent liabilities:			
Net OPEB liability	352,823	243,634	596,457
Net pension liability	1,205,090	776,381	1,981,471
Long-term debt	-	3,851,016	3,851,016
Total noncurrent liabilities	<u>1,557,913</u>	<u>4,871,031</u>	<u>6,428,944</u>
Total liabilities	<u>1,746,650</u>	<u>5,291,553</u>	<u>7,038,203</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows related to OPEB	213,285	113,840	327,125
Deferred inflows related to pensions	325,494	134,171	459,665
Total deferred inflows of resources	<u>538,779</u>	<u>248,011</u>	<u>786,790</u>
<u>NET POSITION</u>			
Net investment in capital assets	2,014,410	4,181,098	6,195,508
Restricted for:			
Mortgages receivable	13,796	-	13,796
Cemetery perpetual care	1,737	-	1,737
Debt service	-	754,696	754,696
Special funds	801,295	-	801,295
Unrestricted	1,424,231	(212,546)	1,211,685
Total net position	<u>\$ 4,255,469</u>	<u>\$ 4,723,248</u>	<u>\$ 8,978,717</u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Government activities:							
General government	\$ 451,843	\$ 26,318	\$ -	\$ 53,376	\$ (372,149)	\$ -	\$ (372,149)
Public safety	874,291	15,148	43,632	-	(815,511)	-	(815,511)
Public works	276,329	-	-	639,462	363,133	-	363,133
Community development	3,920	-	-	-	(3,920)	-	(3,920)
Culture and recreation	77,109	-	-	-	(77,109)	-	(77,109)
Total government activities	<u>1,683,492</u>	<u>41,466</u>	<u>43,632</u>	<u>692,838</u>	<u>(905,556)</u>	<u>-</u>	<u>(905,556)</u>
Business-type activities:							
Water	602,194	616,217	-	44,659	-	58,682	58,682
Sewer	710,355	650,540	-	67,113	-	7,298	7,298
Solid waste	93,584	100,256	-	-	-	6,672	6,672
Total business activities	<u>1,406,133</u>	<u>1,367,013</u>	<u>-</u>	<u>111,772</u>	<u>-</u>	<u>72,652</u>	<u>72,652</u>
Total city	<u>\$ 3,089,625</u>	<u>\$ 1,408,479</u>	<u>\$ 43,632</u>	<u>\$ 804,610</u>	<u>(905,556)</u>	<u>72,652</u>	<u>(832,905)</u>
General revenues:							
Taxes					1,509,516	-	1,509,516
Licenses and permits					100,496	-	100,496
Investment gain (loss)					(27,977)	(40,583)	(68,560)
Investment income (loss)					10,765	7,505	18,270
Gain (loss) on disposition of fixed asset					2,615	3,438	6,053
Other income					39,574	22,119	61,693
Transfers					(22,557)	22,557	-
Total general revenues and transfers					<u>1,612,432</u>	<u>15,036</u>	<u>1,627,468</u>
Change in net position					<u>706,876</u>	<u>87,687</u>	<u>794,563</u>
Net position, beginning (previously reported)					3,584,430	4,621,209	8,205,639
Prior period adjustment (note 15)					(35,837)	14,352	(21,485)
Net position, beginning (restated)					<u>3,548,593</u>	<u>4,635,561</u>	<u>8,184,154</u>
Net position, ending					<u>\$ 4,255,469</u>	<u>\$ 4,723,248</u>	<u>\$ 8,978,717</u>

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNEMENTAL FUNDS
JUNE 30, 2022

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,802,439	\$ 232,207	\$ 3,034,646
Receivables:			
Taxes, net	16,227	-	16,227
Other	61,746	3,029	64,775
Prepaid expenses	2,420	-	2,420
Mortgages receivable	-	13,796	13,796
Due from other funds	62,745	9,721	72,466
Restricted cash and cash equivalents	360,668	192,036	552,704
Restricted investments	250,328	-	250,328
	<hr/>	<hr/>	<hr/>
Total assets	\$ 3,556,573	\$ 450,789	\$ 4,007,362
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
Accounts payable	\$ 135,841	\$ -	\$ 135,841
Accrued liabilities	52,896	-	52,896
Due to other funds	17,878	62,518	80,396
	<hr/>	<hr/>	<hr/>
Total liabilities	206,615	62,518	269,133
	<hr/>	<hr/>	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues - taxes	2,896	-	2,896
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	2,896	-	2,896
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u>			
Nonspendable:			
Prepaid expenses	2,420	-	2,420
Restricted	360,668	205,832	566,500
Committed	-	182,439	182,439
Unassigned	2,983,974	-	2,983,974
	<hr/>	<hr/>	<hr/>
Total fund balance	3,347,062	388,271	3,735,333
	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows of resources, and fund balance	\$ 3,556,573	\$ 450,789	\$ 4,007,362
	<hr/>	<hr/>	<hr/>

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

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2022

Total fund balance - total government funds	\$ 3,735,333
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the funds.	2,014,410
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds.	2,896
Certain long-term obligations are not due and payable in the current period and therefore are not reported in the funds.	
Net OPEB liability	(352,823)
Net pension liability	(1,205,090)
Deferred outflows related to OPEB	251,349
Deferred outflows related to pensions	348,173
Deferred inflows related to OPEB	(213,285)
Deferred inflows related to pension	<u>(325,494)</u>
Net position of governmental activities	<u>\$ 4,255,469</u>

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,447,163	\$ 59,458	\$ 1,506,621
Licenses and permits	100,496	-	100,496
Intergovernmental revenues	3,000	78,504	81,504
Charges for services	41,466	-	41,466
Investment income	10,001	764	10,765
Investment gain (loss)	(27,977)	-	(27,977)
Grant income	654,966	-	654,966
Other income	39,574	-	39,574
Total revenues	<u>2,268,689</u>	<u>138,726</u>	<u>2,407,415</u>
Expenditures:			
Current:			
General government	373,766	-	373,766
Public works	191,507	8,543	200,050
Public safety	728,056	36,340	764,396
Culture and recreation	76,904	-	76,904
Capital outlay	130,100	-	130,100
Total expenditures	<u>1,500,333</u>	<u>44,883</u>	<u>1,545,216</u>
Revenues over (under) expenditures	<u>768,356</u>	<u>93,843</u>	<u>862,199</u>
Other financing sources (uses):			
Sale of fixed assets	36,000	-	36,000
Operating transfers out	37,682	(60,239)	(22,557)
Total other financing sources (uses)	<u>73,682</u>	<u>(60,239)</u>	<u>13,443</u>
Net changes in fund balance	842,038	33,604	875,642
Fund balance, beginning (previously reported)	2,557,851	354,667	2,912,518
Prior period adjustment (note 15)	(52,827)	-	(52,827)
Fund balance, beginning (restated)	<u>2,505,024</u>	<u>354,667</u>	<u>2,859,691</u>
Fund balance, ending	<u>\$ 3,347,062</u>	<u>\$ 388,271</u>	<u>\$ 3,735,333</u>

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

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Net change in fund balance - total governmental funds \$ 875,642

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

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital assets purchased	130,100
Depreciation expense	(192,396)
Gain or (loss) on sale of fixed assets	(33,386)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	2,896
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Net pension/OPEB expense is an actuarial calculation and does not require the
use of current financial resources and is excluded as an expenditure in the
governmental funds.

Contributions for OPEB recorded as deferred outflows	33,860
Contributions for pensions recorded as deferred outflows	116,986
OPEB expense recorded in the governmental fund	(65,347)
Pension expense recorded in the governmental fund	<u>(161,479)</u>

Change in net position of governmental activities	<u><u>\$ 706,876</u></u>
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CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022

	Business-Type Activities			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 163,514	\$ 245,076	\$ 59,166	\$ 467,756
Investments	181,560	181,560	-	363,120
Accounts receivable, net	186,542	3,820	450	190,812
Other receivables	24,489	23,947	-	48,436
Due from other funds	5,401	68,066	8,642	82,109
Prepaid expenses	485	485	-	970
Total current assets	<u>561,991</u>	<u>522,954</u>	<u>68,258</u>	<u>1,153,203</u>
Restricted assets:				
Restricted cash and cash equivalents	321,022	433,674	-	754,696
Total restricted assets	<u>321,022</u>	<u>433,674</u>	<u>-</u>	<u>754,696</u>
Noncurrent assets:				
Capital assets (not being depreciated)	59,900	3,026,139	-	3,086,039
Capital assets, net	951,431	4,062,030	-	5,013,461
Total noncurrent assets	<u>1,011,331</u>	<u>7,088,169</u>	<u>-</u>	<u>8,099,500</u>
Total assets	<u>1,894,344</u>	<u>8,044,797</u>	<u>68,258</u>	<u>10,007,399</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows related to OPEB	76,224	76,191	-	152,415
Deferred outflows related to pensions	87,594	89,583	-	177,177
Total deferred outflows of resources	<u>163,818</u>	<u>165,774</u>	<u>-</u>	<u>329,592</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	30,319	150,317	7,891	188,527
Accrued liabilities	11,757	10,272	-	22,029
Payroll withholdings and other payables	8,676	9,174	-	17,850
Due to other funds	72,842	1,342	-	74,184
Customer deposits	124,725	-	-	124,725
Current portion of note	23,523	43,863	-	67,386
Total current liabilities	<u>271,842</u>	<u>214,968</u>	<u>7,891</u>	<u>494,701</u>
Noncurrent liabilities:				
Net OPEB liability	122,079	121,555	-	243,634
Net pension liability	391,997	384,384	-	776,381
Note payable	312,868	3,538,148	-	3,851,016
Total noncurrent liabilities	<u>826,944</u>	<u>4,044,087</u>	<u>-</u>	<u>4,871,031</u>
Total liabilities	<u>1,098,786</u>	<u>4,259,055</u>	<u>7,891</u>	<u>5,365,732</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows related to OPEB	55,310	58,530	-	113,840
Deferred inflows related to pensions	62,517	71,654	-	134,171
Total deferred inflows of resources	<u>117,827</u>	<u>130,184</u>	<u>-</u>	<u>248,011</u>
<u>NET POSITION</u>				
Net investment in capital assets	674,940	3,506,158	-	4,181,098
Restricted for:				
Debt service	321,022	433,674	-	754,696
Unrestricted	<u>(154,413)</u>	<u>(118,500)</u>	<u>60,367</u>	<u>(212,546)</u>
Total net position	<u>\$ 841,549</u>	<u>\$ 3,821,332</u>	<u>\$ 60,367</u>	<u>\$ 4,723,248</u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Business-Type Activities			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	
Operating revenues:				
Charges for services	\$ 616,217	\$ 650,540	\$ 100,256	1,367,013
Miscellaneous	17,833	4,286	-	22,119
Total operating revenues	<u>634,050</u>	<u>654,826</u>	<u>100,256</u>	<u>1,389,132</u>
Operating expenses:				
Personnel services	227,052	252,521	-	479,573
Purchased water	181,895	-	-	181,895
Materials and supplies	138,875	246,652	900	386,427
Depreciation	48,678	186,653	-	235,331
Contractual services	-	-	92,684	92,684
Total operating expenses	<u>596,500</u>	<u>685,826</u>	<u>93,584</u>	<u>1,375,910</u>
Operating income (loss)	<u>37,550</u>	<u>(31,000)</u>	<u>6,672</u>	<u>13,222</u>
Nonoperating revenues (expenses):				
Capital grant income	-	-	-	-
Contributed property	44,659	67,113	-	111,772
Gain (loss) on disposition of assets	3,438	-	-	3,438
Investment income	3,143	4,307	55	7,505
Investment gain (loss)	(20,292)	(20,292)	-	(40,583)
Interest expense	(5,694)	(24,529)	-	(30,223)
Total nonoperating revenues (expenses)	<u>25,254</u>	<u>26,599</u>	<u>55</u>	<u>51,908</u>
Income (loss) before transfers	62,804	(4,401)	6,727	65,130
Transfers:				
Transfer in	11,375	11,182	-	22,557
Total transfers	<u>11,375</u>	<u>11,182</u>	<u>-</u>	<u>22,557</u>
Change in net position	<u>74,179</u>	<u>6,781</u>	<u>6,727</u>	<u>87,687</u>
Net position, beginning (previously reported)	759,236	3,808,333	53,640	4,621,209
Prior period adjustment (note 15)	8,134	6,218	-	14,352
Net position, beginning (restated)	<u>767,370</u>	<u>3,814,551</u>	<u>53,640</u>	<u>4,635,561</u>
Net position, ending	<u>\$ 841,549</u>	<u>\$ 3,821,332</u>	<u>\$ 60,367</u>	<u>4,723,248</u>

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Business-type Activities			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	\$ 603,456	\$ 628,896	\$ 100,706	\$ 1,333,058
Cash payments to suppliers for goods and services	(318,849)	(120,438)	(101,705)	(540,992)
Cash payments to employees	(204,031)	(229,575)	-	(433,606)
Net cash provided (used) by operating activities	<u>80,576</u>	<u>278,883</u>	<u>(999)</u>	<u>358,460</u>
Cash flows from non-capital financing activities:				
Operating transfers from other funds	<u>18,000</u>	<u>(4,345)</u>	<u>(125)</u>	<u>13,530</u>
Net cash provided (used) by noncapital financing activities	<u>18,000</u>	<u>(4,345)</u>	<u>(125)</u>	<u>13,530</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(46,068)	(1,215,029)	-	(1,261,097)
Sale of fixed assets	3,438	-	-	3,438
Proceeds from issuance of debt	-	1,085,529	-	1,085,529
Principal paid on long-term debt	(26,681)	(63,285)	-	(89,966)
Interest paid on long term debt	(5,694)	(24,529)	-	(30,223)
Net cash provided (used) by capital and related financing activities	<u>(75,005)</u>	<u>(217,314)</u>	<u>-</u>	<u>(292,319)</u>
Cash flows from investing activities:				
Investments purchased	(202,358)	(202,358)	-	(404,716)
Investments sold	507	507	-	1,014
Investment income	3,143	4,307	55	7,505
Net cash provided by investing activities	<u>(198,708)</u>	<u>(197,544)</u>	<u>55</u>	<u>(396,197)</u>
Net (decrease) increase in cash and cash equivalents	<u>(175,137)</u>	<u>(140,320)</u>	<u>(1,069)</u>	<u>(316,526)</u>
Cash and cash equivalents, beginning of year	<u>659,673</u>	<u>819,070</u>	<u>60,235</u>	<u>1,538,978</u>
Cash and cash equivalents, end of year	<u>\$ 484,536</u>	<u>\$ 678,750</u>	<u>\$ 59,166</u>	<u>\$ 1,222,452</u>
Reconciliation of total cash and cash equivalents:				
Current assets - cash and cash equivalents	\$ 163,514	\$ 245,076	\$ 59,166	\$ 467,756
Restricted assets - cash and cash equivalents	<u>321,022</u>	<u>433,674</u>	<u>-</u>	<u>754,696</u>
Total cash and cash equivalents	<u>\$ 484,536</u>	<u>\$ 678,750</u>	<u>\$ 59,166</u>	<u>\$ 1,222,452</u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Business-type Activities			
	Water	Sewer	Solid Waste	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 37,550	\$ (31,000)	\$ 6,672	\$ 13,222
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	48,678	186,653	-	235,331
(Increase) decrease in:				
Accounts receivable	(12,548)	(3,820)	(450)	(16,818)
Other receivable	(19,796)	(22,110)	-	(41,906)
Prepaid expense	(323)	(323)	-	(646)
Deferred outflows OPEB	(5,813)	(6,741)	-	(12,554)
Deferred outflows pension	2,663	3,089	-	5,752
Increase (decrease) in:				
Accounts payable	11,103	126,537	(7,221)	130,419
Other withholdings and payables	(2,479)	(3,493)	-	(5,972)
Customer deposits	1,750	-	-	1,750
Accrued liabilities	(8,859)	82	-	(8,777)
Net OPEB liability	(15,530)	(18,011)	-	(33,541)
Net pension liability	(35,357)	(41,005)	-	(76,362)
Deferred inflows OPEB	33,428	35,552	-	68,980
Deferred inflows Pension	46,109	53,473	-	99,582
Net cash provided (used) by operating activities	<u>\$ 80,576</u>	<u>\$ 278,883</u>	<u>\$ (999)</u>	<u>\$ 358,460</u>

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

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Elkton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The government's most significant accounting policies are described below.

A. Reporting Entity

Form of government - The City of Elkton, Kentucky is incorporated under provisions of the Commonwealth of Kentucky. The City operates under a council - mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (streets and highways and cemetery), health and welfare, culture and recreation, public improvements, water, sewer and sanitation, planning and zoning and general administrative services. All are responsible to the Citizens of Elkton, Kentucky and are therefore included within the reporting entity.

Principles determining scope of reporting entity - The criteria used in determining what accounting entities, agencies, commissions, boards and authorities are part of the City of Elkton's operations include how the budget is adopted, whether debt is secured by general obligation of the city, the City's duty to cover any deficits that may occur, and supervision over the accounting functions. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity:

Excluded from the reporting entity:

Elkton City Tree Board
Elkton Airport Board
Elkton Planning and Zoning Commission
Elkton Board of Adjustments

These units have no assets, liabilities and fund equity at June 30, 2022, and had no material financial activities for the year then ended.

The accounts of the Todd County Emergency Services Center are excluded from the accompanying financial statements because the Center is an autonomous agency, operated as a joint venture supported by the city and county. The City contributed \$7,936 for the year ended June 30, 2022. There was not an amount due at the end of the fiscal year.

The accounts of the Elkton - Todd County Industrial Foundation, Inc. have been excluded from these financial statements because the City is not financially accountable over this agency and the agency is fiscally independent of the City of Elkton. The City contributed \$11,916 for the year ended June 30, 2022. There was not an amount due at the end of the fiscal year.

The accounts of the Elkton - Todd County Park and Recreation Commission are excluded from the accompanying financial statements because the Commission is a jointly operated venture of the City and County. Both the City and County contribute to the Commission, however neither has a fiscal liability for the Commissions' operations. The City contributed \$17,000 for the year ended June 30, 2022. There was not an amount due at the end of the fiscal year.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

Government-wide Financial Statements – The statements of net position and activities display information about the City as a whole. These statements include the financial activities of the overall government. The effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the City’s governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the City’s funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds. The City of Elkton reports the General, Water and Sewer funds as major funds.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the City’s major governmental fund:

General Fund – The general fund accounts for all financial resources except those that are required to be accounted for in another fund. The general fund balance is available to the City for any purpose, provided it is expended or transferred in accordance with the charter of the City.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds). The following are the City’s major proprietary funds:

Water – This fund is used to account for the provision of water and related services.

Sewer – This fund is used to account for the collection of wastewater and related treatment services.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

Government-wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which government-wide statements are presented; therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e. revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of the proprietary funds.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and proprietary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements, and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue, and charges for services. Fines, permits and other revenues are not susceptible to accrual because generally they are not measurable until received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for utility funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues of the proprietary funds are recorded on a cyclical billing basis. The utility records unbilled receivables for services provided but not billed at the end of a fiscal period. The receivable is estimated based on the number of days of service unbilled through the end of the period.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than on expenses. Expenditures are generally recognized in the accounting period in which the related liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Deposits and Investments

For purposes of financial statement presentation, all highly liquid investments (including restricted cash and certificates of deposits) with original maturities of less than 90 days when purchased by the City are considered to be cash equivalents. The City's official deposit and investment policy follows investments as outlined in KRS 66.480

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) US government obligations and instrumentalities including obligations subject to repurchase, if delivery of these obligations is taken directly or through an authorized custodian. KRS 66.480(1)(a).
- (b) US Treasury and other US government obligations that carry the full faith and credit guarantee of the US for the payment of principal and interest. KRS 66.480(1)(b)
- (c) Federal Agency or US government sponsored enterprises (GSE) obligations, participations or other instruments. KRS 66.480(1)(c)

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (d) CDs issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky and that are insured by the FDIC or similar entity or that are collateralized by an obligations, including surety bonds permitted by KRS 41.240. KRS 66.480(1)(d)
- (e) Uncollateralized CDs issued by any bank or savings and loan institution having a physical presence in Kentucky rated in one of the three highest categories by a competent rating agency. KRS 66.480(1)(e)
- (f) Bankers' acceptances, which must be rated in on of the three highest rating categories by a competent rating agency. KRS 66.480(1)(f)
- (g) Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a competent rating organization. KRS 66.480(1)(g)
- (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. KRS 66.480(1)(h)
- (i) Investment-grade obligations of state or local governments or instrumentality thereof rated one of three highest categories by a competent rating agency. KRS 66.480(1)(i)
- (j) Shares of mutual funds and exchange traded funds as identified by KRS 66.480(1)(j)
- (k) Individual equity securities if the funds are managed by a professional investment manager regulated by a federal regulatory agency and are included within the S&P 500 pursuant to KRS 66.480(1)(k)
- (l) Individual high-quality corporate bonds managed by a professional investment manager pursuant to KRS 66.480(1)(l)

As security for deposits of the City, banks doing business with the City are required to pledge securities in an amount to exceed uninsured funds on deposit by the City.

E. Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2022 are recorded as prepaid items.

F. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

General capital assets are long-lived assets of the City as a whole. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value by the City.

The City maintains a capitalization policy of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The City capitalizes interest cost incurred as part of the cost of constructing capital assets, when material. All reported assets are depreciated except for land. Improvements are depreciated over the remaining estimated useful lives of the related capital assets.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City was not required to capitalize infrastructure assets used in general government operations including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to July 1, 2003. Infrastructure assets acquired since July 1, 2003 will be recorded at cost, and classified as “Infrastructure”. As allowed by accounting principles generally accepted in the United States, the City has elected not to record infrastructure values retroactively. For the year ended June 30, 2022 there were no infrastructure asset additions.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Position and each proprietary fund’s Statement of Net Position. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Lives</u>
Buildings & Utility Plant	30 years
Equipment	7-10 years
Vehicles	5 years

Governmental activities capital assets and related depreciation expenses are only reported in the Governmental Activities columns on the government-wide financial statements. Because their measurement focus is on “current financial resources,” capital assets and related depreciation expenses are not recorded in the governmental fund-type fund financial statements. Instead, in the governmental fund-type fund financial statements, capital asset acquisitions are reported as capital outlay expenditures.

Capital assets reported in both governmental and proprietary funds are carried at cost and depreciation is calculated using the straight line method.

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Due to/Due from other funds”. These amounts are eliminated in the governmental activities column of the statement of net position.

I. Compensated Absences

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2022. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements as an accrued liability. The City considers the amount to be a current liability.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 fund. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions 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.

K. Net Position

Equity is classified as net position and displayed in three components:

- *Net investment in capital assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

L. Fund Balances:

Governmental funds classify fund balances in the following five components:

- *Nonspendable* — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.
- *Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City’s adopted policy, only City Council may assign amounts for specific purposes.
- *Unassigned* — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

The City has not adopted a minimum fund balance policy for the General Fund.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of June 30, 2022, fund balance components balances are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General	\$ 2,420	\$ 360,668	\$ -	\$ 2,983,974	\$ 3,347,062
Other	-	205,832	182,439	-	388,271
Total	<u>\$ 2,420</u>	<u>\$ 566,500</u>	<u>\$ 182,439</u>	<u>\$ 2,983,974</u>	<u>\$ 3,735,333</u>

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Stewardship, Compliance and Accountability

As provided by Ordinance, the City submits an annual budget to govern City revenues and expenditures. KRS 91A.030 calls for submission of the annual budget 30 days prior to the beginning of the fiscal year.

The budget is adopted by ordinance and may be amended by ordinance. The executive authority has the power to transfer surplus funds to supplement departments as needed.

The annual budget is prepared, to the extent practical, on a basis consistent with generally accepted accounting principles and, with exception to minor adjustments, is presented in comparison with actual figures.

General fund had expenditures in excess of budgeted amounts in Public Works. In total, budget expenditures did not exceed actual expenditures.

Water and Sewer funds have negative unrestricted net position balances due to investment in capital assets and debt restricted assets.

Q. Accounts Receivable

The city grants credit to its customers, all of whom are residents or businesses located in Elkton and Todd County. An allowance for doubtful accounts has been established.

R. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Deferred Outflows and Inflows of Resources

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The Statement of Net Position reports deferred outflows and inflows related to pension and OPEB requirements and the Balance Sheet-Governmental Fund reports a deferred inflow related to unavailable property tax revenue.

T. New Pronouncements

For 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government’s leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement had no cumulative-effect adjustment to the beginning fund balance/net position and there is no effect of this change in the current period on changes in fund balance/net position. The effect of this statement is considered immaterial to the financial statements.

NOTE 2 – CASH AND INVESTMENTS

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government’s ability to provide services and meet its obligations as they become due.

The City has investments in the Kentucky League of Cities Investment Pool Plus Program. The City has no regulatory oversight for the pool, which is governed by the board of directors of the fund. Investments in the KLOCIP are highly liquid, as deposits can be converted to cash within twenty-four hours. The pool contains investments in money market funds, government bond funds, corporate bond funds, S&P 500 index funds and dividend focus equity funds. The following represents the City’s investments in the KLOCIP:

<u>Investments:</u>	Weighted <u>Average Maturity</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
KLC Investment Pool:				
Dividend Focus Equity Pool	1 year or less	\$ 90,636	\$ -	\$ -
Government Bond Fund	1-7 years	190,833	-	-
Corporate Bond Fund	1-10 years	221,022	-	-
Equity S&P 500 Index Fund	1 year or less	110,957	-	-
		<u>\$ 613,448</u>	<u>\$ -</u>	<u>\$ -</u>
General Fund		\$ 250,328		
Water Fund		181,560		
Sewer Fund		181,560		
		<u>\$ 613,448</u>		

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 – CASH AND INVESTMENTS (continued)

The City categorized its fair value measurements with the fair value hierarchy by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investment assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The inputs or methodology for valuing securities are not an indication of risk associated with those securities. No changes have been made to the valuation of securities for the year ended June 30, 2022.

1. Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit investments in debt securities to the highest rated category by at least three nationally recognized rating agencies. As of June 30, 2022, the City’s investment in the KLOCIP was unrated.
2. Concentration of credit risk: A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The City places no limit on the amount the City may invest in any one issuer. One hundred percent of the City’s investments are in the KLOCIP.
3. Interest rate risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but mitigates the risk by investing only in the KLOCIP.
4. Custodial credit risk: Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure. The City does not have custodial credit risk policy for investments.

The Federal Depository Insurance Corporation (FDIC) currently insures the first \$250,000 of the City’s deposits at each financial institution. State statutes require that all deposits with financial institutions be secured by FDIC or by collateral held by the financial institution in the City’s name. As of June 30, 2022, the carrying amount of the City’s deposits was \$4,809,802 and the bank balance of \$4,851,588 was categorized as follows:

Insured by the FDIC	\$ 250,000
Uninsured and collateralized with securities held by the pledging financial institution's agent but not in the name of the City.	4,005,743
Uninsured and uncollateralized	<u>595,845</u>
Total	<u><u>\$ 4,851,588</u></u>

Restricted Cash – Cemetery Perpetual Care Fund cash and investments (certificates of deposit) are classified as restricted. Other assets are classified as restricted when their use is restricted by third-party covenants.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 3 – RECEIVABLES

A. Property Taxes

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2022 are as follows:

Real property - \$0.2490
Personal property - \$0.1497
Motor Vehicles and Watercraft - \$0.3030

Property tax receivables are shown net of an allowance for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end. Property tax receivable as of June 30, 2022 is \$20,676 with an allowance of \$8,316 for a net receivable of \$16,227.

B. Mortgages Receivable

During prior years, the City participated in the Department of Housing and Urban Development community development block grant program. The objective of the program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for persons of low to moderate income. In order to meet the objectives of the grant, provisions are made for various types of financial assistance for housing rehabilitation programs. The City provided financial assistance to eligible applicants in the form of deferred payment loans.

The City utilized three types of deferred payment loans, (a) low interest mortgage loans, (b) equity secured mortgages and (c) forgivable deferred mortgages.

Mortgage loans - Mortgage loans totaling \$13,796 have been granted through June 30, 2022. The loans are for varying terms based on the low to moderate income person's ability to repay the loan. The loans carry an interest rate of zero percent. The outstanding balance at June 30, 2022 was \$10,446 for loans made with funds from a grant for the Main Street project and \$3,350 for loans made with funds from a grant project for the Marion Street area.

C. Utility Receivable

The City maintains a utility fund for the billing and collecting of water, sewer and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2022, the balance of the receivable account is \$190,812 which consists of billings for June service billed in July. The City maintains a high level of collectability and therefore does not maintain an allowance against this amount.

NOTE 4 – CONTINGENCIES

The City receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. It is the opinion of City management that such disallowances, if any, will not be material.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5 – INTERFUND ACTIVITIES

Individual fund balances and activities at June 30, 2022 were as follows:

Fund	Interfund <u>Receivable</u>	Interfund <u>Payable</u>	Interfund <u>Transfer in</u>	Interfund <u>Transfer out</u>
General	\$ 62,750	\$ (17,878)	\$ 60,239	\$ (22,557)
KLEFPF	-	(3,029)	-	-
ABC	9,031	(59,489)	-	(59,489)
RLF	690	-	-	(750)
Perpetual Care	-	-	-	-
Water	5,401	(72,842)	11,375	-
Sewer	68,066	(1,342)	11,182	-
Solid Waste	8,642	-	-	-
Total	<u>\$ 154,580</u>	<u>\$ (154,580)</u>	<u>\$ 82,796</u>	<u>\$ (82,796)</u>

Transfers are used to (a) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – RISK MANAGEMENT

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 7 - CLAIMS AND JUDGEMENTS

The City is party to a pending suit as of June 30, 2022. While the outcome of this suit cannot be predicted, due to the insurance coverage maintained by the City, the City management and the City's legal representative feel that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

NOTE 8 – OTHER MATTERS

The City has, over several years, appropriated funds to civic and charitable organizations which, while being made for civic purposes and public welfare, may not be in accordance with Section 179 of the Kentucky Constitution. It is in the opinion of the City management that these funds would not have a material adverse effect on the financial condition of the City.

NOTE 9 – LEASES

During March 2002, the City leased the unused Todd County Courthouse building from Todd County. The lease period is for 25 years at an annual lease amount of \$1. The lease is renewable for an additional 25 years at the end of the initial term. The lease does not constitute and exchange transaction therefore it has not been accounted for under GASB 87.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

<u>Government Activities</u>	<u>Balance 06/30/2021</u>	<u>Additions</u>	<u>Retirements/ Reclass</u>	<u>Balance 06/30/2022</u>
Capital Assets Not Being Depreciated:				
Land	\$ 130,545	\$ 75,035	\$ -	\$ 205,580
Capital Assets Being Depreciated:				
Buildings & Improvements	1,398,652	7,340	(53,382)	1,352,610
Park and Land Improvements	1,462,210	12,000	-	1,474,210
Equipment	721,626	35,725	(5,000)	752,351
Vehicles	739,433	-	-	739,433
Total Capital Assets	<u>4,452,466</u>	<u>130,100</u>	<u>(58,382)</u>	<u>4,524,184</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(708,734)	(64,051)	20,456	(752,329)
Park and Land Improvements	(572,333)	(65,539)	-	(637,872)
Equipment	(639,649)	(36,322)	-	(675,971)
Vehicles	(421,659)	(26,485)	4,542	(443,602)
Total Accumulated Depreciation	<u>(2,342,375)</u>	<u>(192,397)</u>	<u>24,998</u>	<u>(2,509,774)</u>
Governmental Activities - Capital Assets, net	<u>\$ 2,110,091</u>	<u>\$ (62,297)</u>	<u>\$ (33,384)</u>	<u>\$ 2,014,410</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 68,991
Public Safety	51,340
Public Works	<u>72,066</u>
Total Depreciation Expense	<u>\$ 192,397</u>

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10 – CAPITAL ASSETS (continued)

<u>Business-Type Activities</u>	<u>Balance 06/30/2021</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 06/30/2022</u>
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Construction in process	1,754,243	1,193,296	-	2,947,539
Capital Assets Being Depreciated:				
Plant & lines	9,052,111	159,344	(1,389)	9,210,066
Equipment	889,704	15,459	(36,334)	868,829
Vehicles	146,377	4,750	-	151,127
Total Capital Assets	11,980,935	1,372,849	(37,723)	13,316,061
Less Accumulated Depreciation				
Plant & lines	(4,424,674)	(177,548)	1,389	(4,600,833)
Equipment	(467,683)	(54,957)	36,334	(486,306)
Vehicles	(126,596)	(2,826)	-	(129,422)
Total Accumulated Depreciation	(5,018,953)	(235,331)	37,723	(5,216,561)
Business-Type Activities Capital Assets, net	<u>\$ 6,961,982</u>	<u>\$ 1,137,518</u>	<u>\$ -</u>	<u>\$ 8,099,500</u>

Depreciation expense was charged to the business-type functions as follows:

Water	\$ 48,678
Sewer	186,653
Total Depreciation Expense	<u>\$ 235,331</u>

NOTE 11 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation and sick pay, the City has accrued a current liability for pay, which has been earned but not taken by employees as of June 30, 2022. The City is currently liable for compensated absences of the following:

<u>Fund</u>	<u>June 30, 2022</u>
General	\$ 49,371
Water	10,264
Sewer	9,436
	<u>\$ 69,071</u>

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN

General Information About the Pension Plan

Plan description- Employees with membership in the Kentucky Retirement Systems (KRS) of the County Employee Retirement System are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

Benefits provided- Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. There are currently three benefit Tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 are those that began participation 9/1/2008 through 12/31/2013 and Tier 3 are those members that began participation on or after 1/1/14.

Non-Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service-related disability benefits are provided after five years of service. Tier 2 members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must have at least 24 months. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must be 36 months. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 members are also eligible to retire at any age with 25 year of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

Contributions- Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2022, total employer contributions for the City were \$226,794 based on a rate of 26.95% for Non-Hazardous and 44.33% for Hazardous members through covered payroll. The contribution rate of 26.95% for Non-Hazardous comprised of contributions of \$177,964 of which 21.17% or \$37,496 was allocated for pension and 5.78% or \$10,468 was allocated for insurance. The contribution rate of 44.33% for Hazardous comprised contributions of \$48,830 of which 33.86% or \$16,517 was allocated for pension and 10.47% or \$5,103 was allocated for insurance.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

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

Pension liability- At June 30, 2022, the City reported a liability of \$1,981,471 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions to the pension plan during the year ended June 30, 2021, relative to the contributions of all members for the year ended June 30, 2021. At the June 30, 2021 measurement date, the City’s proportion was 0.0206%.

Pension expense- For the year ended June 30, 2022; the City recognized a pension expense of \$252,978.

Deferred outflows of resources and deferred inflows of resources- For the year ended June 30, 2022; the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows / (Inflows)
Differences between expected and actual experience	\$ 30,180	\$ 14,752	\$ 15,428
Change in assumptions	26,164	-	26,164
Net difference between projected and actual earnings on plan investments	73,701	325,832	(252,131)
Changes in proportion and differences between employer contributions and proportionate share of contributions	218,212	119,082	99,130
Contributions subsequent to the measurement date	177,093	-	177,093
	<u>\$ 525,350</u>	<u>\$ 459,666</u>	<u>\$ 65,684</u>

The amount shown for “Contributions subsequent to the measurement date” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2023	\$ 180,148
2024	(21,142)
2025	(29,769)
2026	(63,553)
2027	-
	<u>\$ 65,684</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

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

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% non-hazardous and 3.55% to 19.05% hazardous
Investment rate of return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Growth	68.50%	
US Equity	21.75%	5.70%
Non US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Speciatly Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Expected Real Return	100.00%	5.00%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		7.30%

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

Discount rate- The projection of cash flows used to determine the discount rate of 6.25% for CERS non-hazardous and 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 does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate- The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the system’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate for non-hazardous:

	1% Decrease <u>(5.25%)</u>	Current rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
City of Elkton's net pension liability			
Hazardous	\$ 588,227	\$ 461,485	\$ 358,191
Non-Hazardous	<u>1,949,455</u>	<u>1,519,986</u>	<u>1,164,612</u>
Total	<u>\$ 2,537,682</u>	<u>\$ 1,981,471</u>	<u>\$ 1,522,803</u>

Pension plan fiduciary net position- Detailed information about the pension plan’s fiduciary net position is available in a separately issued CERS financial report and can be found at www.kyret.ky.gov. The plans fiduciary net position has been determined on the same basis used by the pension plans. The aforementioned report discloses the plans basis of accounting, policies and valuation methods of the plan’s assets.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

General Information about the Plan

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 Kentucky Revised Statue 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. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result 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 service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee’s spouse receives \$10 per month for insurance benefits for each year of the deceased employee’s earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

Contributions- Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2022, total employer contributions for the City were \$226,794 based on a rate of 26.95% for Non-Hazardous and 44.33% for Hazardous members through covered payroll. The contribution rate of 26.95% for Non-Hazardous comprised of contributions of \$177,964 of which 21.17% or \$139,796 was allocated for pension and 5.78% or \$38,168 was allocated for insurance. The contribution rate of 44.33% for Hazardous comprised contributions of \$48,830 of which 33.86% or \$37,297 was allocated for pension and 10.47% or \$11,533 was allocated for insurance.

The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Net OPEB Liability

At June 30, 2022, the City reported a net OPEB liability of \$596,457. The City's net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2021. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was .0206%.

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

Inflation	2.30%
Payroll growth rate	2.00% for CERS non-hazardous and hazardous
Salary increases	3.30% to 10.30% non-hazardous, 3.55% to 19.05% hazardous
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initially at 6.30% at January 1, 2023, and gradually decreasing to ultimate trend rate of 4.05% over a period of 13 years.
Healthcare cost trend rates (Post-65)	Initially at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members is PUB-2010 General Mortality Table, for non-hazardous and PUB-2010 Public Safety Mortality table for hazardous, projected with the ultimate rates from the MP-2014 improvement scale using base year 2010. For health retired members and beneficiaries, the mortality table used is system-specific based on mortality experience from 2019, projected with ultimate rates from MP-2014 mortality improvement scale using base year 2010. For disabled members, the PUB-2010 Disabled Mortality table was used, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using base year 2010.

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

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

The target allocation and best estimates of arithmetic 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 Real Rate of Return</u>
Growth	68.50%	
US Equity	21.75%	5.70%
Non US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Speciatly Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Expected Real Return	100.00%	5.00%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		7.30%

Discount rate. The projection of cash flows used to determine the discount rate of 5.20% for CERS non-hazardous and 5.05% CERS were used to measure the total OPEB liability as of June 30,2021 The discount rate determination used and expected rate of return of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021. However, the cost associated with the implicit employers’ subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimate of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

Changes in the Net OPEB Liability

Sensitivity of the City’s proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the City’s proportionate share of the collective net OPEB liability as well as what the City’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease	Current rate	1% Increase
City of Elkton's net OPEB liability	(4.05)	(5.05)	(6.05)
Hazardous	\$ 203,211	\$ 140,164	\$ 89,509
City of Elkton's net OPEB liability	(4.20)	(5.20)	(6.20)
Non-Hazardous	\$ 626,483	\$ 456,293	\$ 316,619

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

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

City of Elkton's net OPEB liability	Current Healthcare		
	1% Decrease	Trend Rates	1% Increase
Hazardous	\$ 91,843	\$ 140,164	\$ 199,345
Non-Hazardous	328,475	456,293	610,565
Total	<u>\$ 420,318</u>	<u>\$ 596,457</u>	<u>\$ 809,910</u>

OPEB plan fiduciary net position- Detailed information about the OPEB plan’s fiduciary net position is available in a separately issued CERS financial report and can be found at www.kyret.ky.gov. The plans fiduciary net position has been determined on the same basis used by the OPEB plans. The aforementioned report discloses the plans basis of accounting, policies and valuation methods of the plan’s assets.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, the City recognized OPEB expense of \$102,844. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows / (Inflows)
Differences between expected and actual experience	\$ 76,132	\$ 151,312	\$ (75,180)
Change in assumptions	156,121	476	155,645
Net difference between projected and actual earnings on plan investments	31,831	129,593	(97,762)
Changes in proportion and differences between employer contributions and proportionate share of contributions	88,978	45,744	43,234
Contributions subsequent to the measurement date	50,701	-	50,701
	<u>\$ 403,763</u>	<u>\$ 327,125</u>	<u>\$ 76,638</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB are recognized in OPEB expense as follows:

Year Ended June 30	
2023	\$ 71,737
2024	13,145
2025	5,636
2026	(24,096)
2027	10,216
	<u>\$ 76,638</u>

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – LONG-TERM OBLIGATIONS

As of June 30, 2022, the governmental funds debt balance had been reduced to zero.

<u>Business-Type Activities:</u>	<u>06/30/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2022</u>	<u>Current</u>
Revenue Bond Issue \$325,000	\$ 315,834	\$ -	\$ 10,000	\$ 305,834	\$ 10,000
Less Unamortized Discount	(7,085)	-	(294)	(6,791)	-
Notes from direct borrowings:					
KIA Loan \$808,000	417,466	-	26,933	390,533	26,933
KIA Loan \$80,233	40,010	-	4,035	35,975	4,076
KIA Loan \$136,761	71,788	-	6,861	64,927	6,930
KIA Loan \$346,243	238,513	-	16,491	222,022	16,781
KIA Loan \$3,934,451	1,741,979	1,085,529	-	2,827,508	-
Elkton Bank Loan \$26,672	7,004	-	7,004	-	-
KIA Loan \$85,000	81,047	-	2,653	78,394	2,666
Elkton Bank Loan \$47,675	16,303	-	16,303	-	-
	<u>\$ 2,922,859</u>	<u>\$ 1,085,529</u>	<u>\$ 89,986</u>	<u>\$ 3,918,402</u>	<u>\$ 67,386</u>

Debt service requirement on long-term obligations at June 30, 2022 are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 67,386	\$ 14,676
2024	67,804	13,955
2025	68,229	5,164
2026	68,661	4,654
2027	69,099	4,138
2028-2032	338,048	47,442
2033-2037	242,738	31,098
2038-2042	89,512	19,868
2043-2047	78,629	7,745
2048-2052	<u>2,835,087</u>	<u>57</u>
Total long-term debt	3,925,193	<u>148,797</u>
Less: Unamortized Discount	<u>(6,791)</u>	
Net long-term debt total	<u><u>3,918,402</u></u>	

Interest expense for the year ended June 30, 2022

Business-type Activities:	<u>\$ 30,223</u>
Total	<u><u>\$ 30,223</u></u>

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Default provisions:

Kentucky Infrastructure Authority loans include a provision that in the event of default, the full amount of the note can be declared due immediately.

Revenue bonds include a provision that in the event of default rates owners of the current bonds, through any court with jurisdiction, may adjust rates sufficient enough to provide for payment of the operating expenses, principal and interest of the bonds in accordance with the laws of the Commonwealth of Kentucky.

Elkton Bank & Trust loans include a provision that in the event of default, the full amount of the note can be declared due immediately.

Kentucky Infrastructure Authority Loan

In December 2006, the city received a thirty year, 1% interest loan from the Kentucky Infrastructure Authority, in the amount of \$808,000 to retire the existing sewer bonds. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. Annual principal payments of \$26,933 will be required through December 2037. The loan requires the city to maintain a "Maintenance and Replacement Reserve" account. The account is to be funded on or before each payment date an amount equal to 10% of each loan payment until the amount on deposit is equal to 5% of the original principal amount of the loan or \$40,400. Amounts in the "Maintenance and Replacement Reserve" account may be used for extraordinary maintenance expenses or for the costs of replacing worn or obsolete portions of the sewer system. As of June 30, 2022, the reserve account was funded in compliance with the loan.

Kentucky Infrastructure Authority Loan

On December 1, 2009 the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account as of June 30, 2022 was funded in compliance with the loan.

Kentucky Infrastructure Authority Loan

In June 2011, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$136,761. The purpose of the agreement was to assist the city with the cost of the sewer line extension project completed in August 2011. The terms of the loan are 1% interest rate with a 20-year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account as of June 30, 2022 was funded in compliance with the loan.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Kentucky Infrastructure Authority Loan

In October 2013, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$346,243. The purpose of the agreement was to assist the city with the cost of the Elkton, Todd County Water District Separation Project, to be completed in 2014. The terms of the loan are 1.75% interest rate with a 20-year payout. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$17,600. The "M&R" account as of June 30, 2022 was funded in compliance with the loan.

Kentucky Infrastructure Authority Loan

In November 2019, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of up to \$3,934,451, with current draws totaling \$2,827,508. The purpose of the agreement was to assist the City with the cost of the Elkton, Todd County Sewer District in the construction phase of the sewer plant rehabilitation project. The terms of the loan are 0.50% interest rate. For the construction phase of the project, the loan will be interest only payments and the principal will be rolled into the new KIA loan when complete with a maturity not to exceed 30 years from the completion of the project. The loan will carry a \$1,000,000 forgiveness portion when complete.

Note Payable – Elkton Bank and Trust

The Elkton, Todd County Water and Sewer Districts purchased a new Ford F150 on November 16, 2018 and issued a note payable in the amount of \$26,672. This note is due in 3 annual installments including 4.50% interest through November 2022 and is secured by the vehicle. The debt was paid off during 2022.

Kentucky Infrastructure Authority Loan

On November 21, 2019, the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$170,000 for the purpose of financing the cost of meter replacement. The balance of \$170,000 had a 50.00% forgiveness rate to create a liability of the City of \$85,000. The loan carries a .50% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$400 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$8,000. The "R&M" account as of June 30, 2022 was funded in compliance with the loan.

Note Payable – Elkton Bank and Trust

The Elkton, Todd County Water and Sewer Districts purchased a new sewer jetter on November 27, 2019 and issued a note payable in the amount of \$47,675. This note is due in 3 annual installments of \$16,610 including 4.50% interest through November 2021 and is secured by the equipment. The debt was paid off during the year 2022.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

City of Elkton Sewer System Revenue Bonds – Series 2021

On July 1, 2020, the City adopted a resolution to issue \$325,000 principal "City of Elkton Sewer System Revenue Bonds as follows: Series C \$325,000 for the purpose of refunding the Revenue Bonds – Series 2007.

The City is required to transfer into the Sinking Fund an amount of \$6,000 at the time of issuance, to be held in trust for the duration of the bond and used to offset final bond payment. As of June 30, 2022 the sinking fund balance was funded in compliance with the bond.

Interest, ranging between 2.00% and 2.75%, is to be paid each August 1 and February 1. The bonds are to mature in annual installments in accordance with the schedule presented above as business-type activities.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The net position was restated to reflect the change in proportionate share of the net OPEB liability related to the County Employee Retirement System pension plan. The net position of the governmental activities was increased by \$16,990. The net positions of the business-type activities were increased as follows: water fund \$8,134 and sewer fund \$6,218.

The City also recorded revenues for a grant program from a prior year that had to be paid back, due to lack of fulfilling the program's hiring requirement. To properly record these owed funds, the City had recorded a payable for \$52,827. This payable reduced the City's net position and general fund balance by \$52,827.

NOTE 15 – FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 100, Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62, was issued in June 2022. The requirements of this Statement are effective for periods beginning after June 15, 2023. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, Compensated Absences, was issued in June 2022. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts		Actual Amounts	Variance - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 1,233,500	\$ 1,430,100	\$ 1,447,163	\$ 17,063
Licenses and permits	95,195	97,195	100,496	3,301
Intergovernmental revenues	3,000	3,000	3,000	-
Charges for services	30,700	28,600	41,466	12,866
Investment income	1,000	1,400	10,001	8,601
Investment gain (loss)	8,300	(13,000)	(27,977)	(14,977)
Grant income	749,300	443,000	654,966	211,966
Other income	27,800	41,600	39,574	(2,026)
Total revenues	2,148,795	2,031,895	2,268,689	236,794
Expenditures:				
Current:				
General government	430,500	429,600	373,766	55,834
Public works	221,200	212,000	191,507	20,493
Public safety	846,200	834,100	728,056	106,044
Culture and recreation	97,300	96,200	76,904	19,296
Capital outlay	497,000	166,800	130,100	36,700
Total expenditures	2,092,200	1,738,700	1,500,333	238,367
Revenues over (under) expenditures	56,595	293,195	768,356	475,161
Other financing sources (uses):				
Sale of fixed assets	-	-	36,000	36,000
Operating transfers in	56,300	60,350	-	(60,350)
Operating transfers out	(63,200)	(15,200)	37,682	52,882
Total other financing sources (uses)	(6,900)	45,150	73,682	28,532
Net change in fund balance	\$ 49,695	\$ 338,345	842,038	\$ 503,693
Fund balance, beginning (previously stated)			2,557,851	
Prior period adjustment (note 11)			(52,827)	
Fund balance, beginning (restated)			2,505,024	
Fund balance, ending			\$ 3,347,062	

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

CITY OF ELKTON, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEE RETIREMENT SYSTEM (UNAUDITED)
LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total net pension liability (asset) for Employees Retirement System	\$ 9,037,944,000	\$ 10,684,945,000	\$ 9,795,340,000	\$ 8,508,762,000	\$ 8,090,582,993	\$ 6,639,559,678	\$ 5,834,631,445	\$ 4,446,202,000
City's proportion of the net pension liability (asset)	0.0219%	0.0191%	0.0273%	0.0251%	0.0189%	0.0206%	0.0205%	0.0210%
City's proportionated share of the net pension liability (asset)	\$ 1,981,471	\$ 2,037,256	\$ 2,138,761	\$ 1,813,599	\$ 1,526,181	\$ 1,365,602	\$ 1,198,858	\$ 933,330
City's covered-employee payroll	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173	\$ 624,684	\$ 593,902
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	257.17%	288.16%	332.67%	265.29%	232.35%	240.77%	191.91%	157.15%
Total pension plan's fiduciary net position as a percentage of the total pension liability	55.95%	53.18%	49.43%	52.40%	51.55%	54.73%	58.75%	65.13%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Additional years will be reported when available.

CITY OF ELKTON, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS –
COUNTY EMPLOYEE RETIRMENT SYSTEM (UNAUDITED)
LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution (ADC)	\$ 177,093	\$ 149,947	\$ 131,301	\$ 120,767	\$ 139,083	\$ 87,084	\$ 88,665	\$ 83,429	\$ 89,356
Contribution in relation to the actuarially determined contribution	177,093	149,947	131,301	120,767	139,083	87,084	88,665	83,429	89,356
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173	\$ 624,684	\$ 593,902	\$ 590,037
Contribution as a percentage of covered-employee payroll	22.98%	21.21%	20.42%	17.67%	21.17%	15.35%	14.19%	14.05%	15.14%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Additional years will be reported when available

CITY OF ELKTON, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -
COUNTY EMPLOYEE RETIREMENT SYSTEM (UNAUDITED)
LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total net OPEB liability (asset) for Employees Retirement System	\$ 2,723,009,000	\$ 3,338,801,000	\$ 2,421,815,000	\$ 2,488,439,000	\$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	<u>0.0219%</u>	<u>0.0191%</u>	<u>0.0217%</u>	<u>0.0213%</u>	<u>0.0189%</u>
City's proportionated share of the net OPEB liability (asset)	\$ 596,457	\$ 638,382	\$ 596,457	\$ 530,205	\$ 535,063
City's covered-employee payroll	<u>\$ 770,500</u>	<u>\$ 706,999</u>	<u>\$ 642,901</u>	<u>\$ 683,619</u>	<u>\$ 656,835</u>
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	77.41%	90.29%	92.78%	77.56%	81.46%
Total OPEB plan's fiduciary net position	\$ 4,874,625,000	\$ 3,902,730,000	\$ 3,910,225,000	\$ 3,695,108,000	\$ 3,401,537,049
Total OPEB plan's OPEB liability	\$ 7,597,634,000	\$ 7,241,531,000	\$ 6,332,040,000	\$ 6,183,547,000	\$ 6,238,550,680
Total OPEB plan's fiduciary net position as a percentage of the total OPEB liability	64.16%	53.89%	61.75%	59.76%	54.52%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Additional years will be reported when available.

CITY OF ELKTON, KENTUCKY
 SCHEDULE OF OPEB CONTRIBUTIONS –
 COUNTY EMPLOYEE RETIRMENT SYSTEM (UNAUDITED)
 LAST TEN FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution (ADC)	\$ 49,701	\$ 39,165	\$ 33,843	\$ 41,789	\$ 35,796	\$ 31,568
Contribution in relation to the actuarially determined contribution	49,701	39,165	33,843	41,789	35,796	31,568
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173
Contribution as a percentage of covered-employee payroll	6.45%	5.54%	5.26%	6.11%	5.45%	5.57%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Additional years will be reported when available.

CITY OF ELKTON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
(UNAUDITED)

Notes Related to the Schedule of Pension Contributions – County Employee Retirement System

Valuation date	June 30, 2021
Experience study	July 1, 2008 – June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	30 years, closed
Payroll growth rate	2.00%
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% - 10.30% non-hazardous, 3.55% - 19.05% hazardous
Investment Rate of Return	6.25%

Notes Related to the Schedule of OPEB Contributions – County Employee Retirement System

Valuation date	June 30, 2021
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	30 years, closed
Payroll growth rate	2.00%
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% - 10.3% non-hazardous, 3.55% - 19.05% hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.



THURMAN CAMPBELL GROUP, PLC

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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 City Council
City of Elkton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements and have issued our report thereon dated December 31, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elkton, Kentucky's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elkton, Kentucky'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 have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-1, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-2.

City of Elkton, Kentucky's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Elkton, Kentucky's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. City of Elkton, Kentucky'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thurman Campbell Group, PLC

Hopkinsville, Kentucky
December 31, 2022

CITY OF ELKTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

A. SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of City of Elkton, Kentucky.
2. One material weakness relating to the audit of the financial statements is reported in the 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.
3. No instances of noncompliance material to the financial statements of the City of Elkton, Kentucky were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2022-1 Internal Control over Financial Reporting:

Condition: Certain transactions were not properly recorded in the general ledger on a timely basis.

Criteria: Accounting department staff record all transactions required by generally accepted accounting principles on a timely basis.

Cause: Accounting department staff failed to timely record transactions.

Effect: The lack of timely recording of all transactions resulted in several audit adjustments necessary to present the financial statements in accordance with generally accepted accounting principles.

Recommendation: The City should implement internal controls necessary to insure financial statements are presented in accordance with generally accepted accounting principles.

Response: The City will review internal controls over financial reporting to determine if cost-effective procedures can be implemented to correct this deficiency.

2022-2 Compliance:

Condition: The City held deposits in excess of FDIC coverage and pledged collateral with financial institutions.

Criteria: To protect public monies from potential loss, state statutes require deposits with financial institutions that are beyond FDIC coverage to be collateralized with pledged securities.

Cause: Accounting department staff did not review deposit insurance and collateralization coverage with the financial institutions.

Effect: Cash deposits exceeding FDIC coverage and pledged collateral are at risk of loss in the event of bank failure. No loss of public monies resulted from these uninsured and uncollateralized deposits.

Recommendation: The City should comply with state statutes to ensure all public monies are protected. Deposit insurance coverage and pledged securities should be reviewed throughout the year to ensure that all deposits are properly insured and collateralized.

Response: The City will review coverage of bank deposits and work with the financial institutions to comply with state statutes.