

Financial Statements and Required
Supplementary Information

2022

City of Shepherdsville, Kentucky

June 30, 2022



Financial Statements and Required
Supplementary Information

City of Shepherdsville, Kentucky

June 30, 2022

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The City of Shepherdsville, Kentucky

As of and for the Year Ended June 30, 2022

Transmittal Letter

City Council and Citizens of Shepherdsville
Shepherdsville, Kentucky

The Annual Comprehensive Financial Report

The Annual Comprehensive Financial Report (“ACFR”) of the City of Shepherdsville, Kentucky (the “City”), for the fiscal year ended June 30, 2022, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rest with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

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

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

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

Strothman and Company audited the financial statements and the related notes of the City of Shepherdsville, Kentucky. As stated in the auditors' report, the audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Respectively submitted:

Mayor

City Clerk

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

City of Shepherdsville Officials

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



Independent Auditors' Report

To the Mayor and City Council
City of Shepherdsville, Kentucky

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 Shepherdsville, Kentucky (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities and each major fund of the City as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standard applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standard are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant 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.

Change in Accounting Principle

As described in Note A to the financial statements, in 2022, the City adopted new accounting standard guidance, *Governmental Accounting Standards Board ("GASB") Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.



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

To the Mayor and City Council
City of Shepherdsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shepherdsville, Kentucky (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 11, 2024.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2022-001 and 2022-002 to be material weaknesses.

Restatement

As disclosed in Note D to the financial statements, the City discovered that the accumulated depreciation of its governmental activities capital assets for the year ended June 30, 2021 was understated. An adjustment to beginning fund balance has been posted. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit for 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 auditors' 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 GAAS 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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

GAAP requires that the management's discussion and analysis, pension schedules, OPEB schedules, and budgetary comparison information on pages 60 and 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Strothman and Company

Louisville, Kentucky
March 11, 2024

Management's Discussion and Analysis

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

As management of the City of Shepherdsville, Kentucky (the "City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City as of June 30, 2022 and for the fiscal year then ended. We encourage the readers to read information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The ending cash and equivalents balances for the City and the Sewer Department were approximately \$8.5 million and \$8.7 million, respectively.
- The ending net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) for the City and the Sewer Department were approximately \$2.6 million and \$31.9 million, respectively.
- Overall net position of the City increased approximately \$6.5 million from \$28.2 million at June 30, 2021 to \$34.6 million at June 30, 2022.
- General fund revenues before other financing sources and uses, of \$19 million exceeded expenditures of \$15.6 million for the year ended June 30, 2022. This represents an excess of revenue over expenses of approximately \$3.5 million.
- Long-term debt (bonds, leases, and notes) for the sewer fund was reduced by approximately \$1.3 million during 2022. The total balance of bonds and notes payable at June 30, 2022 totaled approximately \$16 million for the sewer fund.
- The City has recorded a net pension liability for the City's proportionate share of the County Employees' Retirement System (CERS) net pension liability at June 30, 2022 of \$21.3 million. This is an decrease from the prior year of approximately \$1.5 million.
- The City has recorded a net Other Post-Employment Benefit Obligation (OPEB) liability for the City's proportionate share of the County Employees' Retirement System (CERS) net OPEB liability at June 30, 2022 of \$6.5 million. This represents an decrease of \$0.5 million from the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements as of June 30, 2022 and for the fiscal year then ended. The City's financial statements consist of three (3) components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The basic financial statements present two (2) different views of the City through the use of government-wide financial statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Required Components of Annual Financial Report

Basic Financial Statements

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

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

The next section of the basic financial statements is the notes section. The notes to the financial statements explain in detail some of the data contained in these financial statements. After the notes section, required supplementary information is provided, which contains budgetary comparison statement for the general fund and certain required pension and OPEB schedules.

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements are reported on pages 14 and 15.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements--The notes to the financial statements provide additional information to the reader that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 23 of this report.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

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

Government-Wide Financial Analysis

Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021 (as restated)	2022	2021	2022	2021 (as restated)
Current and other assets	\$ 11,408,192	\$ 7,488,841	\$ 9,603,908	\$ 10,020,882	\$ 21,012,100	\$ 17,509,723
Capital assets	16,157,541	16,448,582	40,483,014	39,754,639	56,640,555	56,203,221
Total Assets	\$ 27,565,733	\$ 23,937,423	\$ 50,086,922	\$ 49,775,521	\$ 77,652,655	\$ 73,712,944
Deferred Outflows of Resources	\$ 9,422,287	\$ 7,401,582	\$ 475,038	\$ 430,392	\$ 9,897,325	\$ 7,831,974
Current liabilities	\$ 2,514,792	\$ 3,059,297	\$ 1,985,668	\$ 1,888,659	\$ 4,500,460	\$ 4,947,956
Long-term liabilities	28,576,272	31,024,351	16,177,460	17,843,799	44,753,732	48,868,150
Total Liabilities	\$ 31,091,064	\$ 34,083,648	\$ 18,163,128	\$ 19,732,458	\$ 49,254,192	\$ 53,816,106
Deferred Inflows of Resources	\$ 5,202,862	\$ 1,253,699	\$ 411,418	\$ 119,937	\$ 5,614,280	\$ 1,373,636
Net Position						
Net investment in capital assets	\$ 13,383,547	\$ 12,152,054	\$ 24,509,534	\$ 22,502,112	\$ 37,893,081	\$ 34,654,166
Restricted	118,519	76,674	1,811,912	525,163	1,930,431	601,837
Unrestricted	(12,807,972)	(16,227,070)	5,665,968	7,326,243	(7,142,004)	(8,900,827)
	\$ 694,094	\$ (3,998,342)	\$ 31,987,414	\$ 30,353,518	\$ 32,681,508	\$ 26,355,176

As noted earlier, net position may serve over time as one of the useful indicators of a government's financial condition. The combined assets and deferred outflows of resources of the City exceeded the liabilities and deferred inflows of resources by approximately \$31 million as of June 30, 2022. The City's net position increased by approximately \$4.7 million for the fiscal year ended June 30, 2022. Capital assets of the City increased by approximately \$550 thousand due to purchases of \$3.5 million, which exceeded depreciation expense for the year. The City uses capital assets to provide services (fire and police protection, City parks, street, roads and sidewalks maintenance) for residents of the City. Therefore, these assets are not available for future spending. Although the City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay the debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities. Long-term debt liabilities (excluding compensated absences and the net pension / OPEB liabilities) decreased by approximately \$2.8 million during fiscal year ended June 30, 2022.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Program Revenue						
Charges for services		\$ 1,905	\$ 6,703,803	\$ 6,298,055	\$ 6,703,803	\$ 6,299,960
Operating grants and contributions	\$ 3,666,776	1,494,696			3,666,776	1,494,696
Capital grants and contributions	269,815	233,485			269,815	233,485
General Revenues						
Property taxes	2,451,040	2,613,835			2,451,040	2,613,835
Occupational taxes	10,561,643	8,607,965			10,561,643	8,607,965
Fees, licenses and permits	796,163	414,387			796,163	414,387
Insurance premium tax	1,014,183	1,264,585			1,014,183	1,264,585
Motor vehicle taxes	158,968	138,483			158,968	138,483
Telecommunications tax	78,054	76,836			78,054	76,836
Franchise taxes	103,304	84,277			103,304	84,277
Rent income	15,984	26,329			15,984	26,329
Other income	195,506	325,971	230,363	545,344	425,869	871,315
Interest income	6,223	8,307	2,638	3,627	8,861	11,934
Gain (loss) on sale or disposal of capital	177,180	(8,772)			177,180	(8,772)
Total Revenues	19,494,839	15,282,289	6,936,804	6,847,026	26,431,643	22,129,315
Expenses						
General government	2,486,183	2,298,368			2,486,183	2,298,368
Fire department	4,618,754	5,794,938			4,618,754	5,794,938
Police department	5,451,509	6,616,366			5,451,509	6,616,366
Public works department	1,411,164	1,599,135			1,411,164	1,599,135
Municipal aid - streets	719,557	535,319			719,557	535,319
Interest on long-term debt	115,236	155,934			115,236	155,934
Sewer services			5,302,908	5,746,176	5,302,908	5,746,176
Total Expenses	14,802,403	17,000,060	5,302,908	5,746,176	20,105,311	22,746,236
Change in Net Position	\$ 4,692,436	\$ (1,717,771)	\$ 1,633,896	\$ 1,100,850	\$ 6,326,332	\$ (616,921)

Governmental Activities

Total revenue increased approximately \$4.2 million or 28% for governmental activities, primarily driven by increases in grants and occupational taxes. City departments experienced a decrease in operating expenses of approximately \$4.1 million or 24%, primarily driven by the pension expense recorded as a result of the actual results vs actuarial assumptions.

Business-type Activities

Operating revenue related to sewer charges for services offered by the City decreased approximately \$90 thousand or 1.3% for fiscal year ended June 30, 2022. Primarily due to a decrease in other income of 58%. Expenses for sewer services decreased approximately \$400 thousand or 8%.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Capital Asset and Debt Administration

Capital Assets

The City's total investment in capital assets for its governmental and business-type activities as of June 30, 2022 totals approximately \$56.8 million (net of depreciation). These assets include buildings, infrastructure (streets, roads, sewer lines/system, and sidewalks) land, machinery and equipment, park facilities and vehicles.

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

1. Construction in process for the following projects:
 - a. General project - \$623 thousand
 - b. Sewer projects - \$668 thousand
2. Sewer mains - \$800 thousand
3. Pump strikes- \$567 thousand
4. Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

Governmental Activities

As of June 30, 2022, the City had a total debt outstanding of \$2.8 million reported for governmental activities. During the fiscal year, \$1.5 million of debt was retired.

The City of Shepherdsville is required by Government Accounting Standards Board Statement No. 68 and No. 75 to begin reporting in its financial statements the City's proportionate share of the unfunded pension and OPEB liabilities of the City related to the City participation in CERS. See notes of these financial statements. The amount of the unfunded pension liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$21.3 million. The amount of the unfunded OPEB liability allocated to the City of Shepherdsville by the Kentucky Retirement System is \$6.5 million.

The net pension and OPEB liabilities are presented as non-current liabilities as of June 30, 2022 and represent an allocation of the unfunded pension and OPEB liabilities, respectively, of the Kentucky Retirement System measured as of June 30, 2021.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Business-type Activities

As of June 30, 2022, the City had \$16 million long-term debt for the Sewer Fund. The City is prohibited from making early payments to retire the debts.

The reserve and replacement sinking funds required by three (3) of the bonds are fully funded as of June 30, 2022.

The sewer fund did not acquire any new debt during fiscal year end June 30, 2022.

Economic Factors, Next Year's Budget and Tax Rates

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

1. Future job growth over the next ten years is expected to be 38.9%.
2. Unemployment rate: The unemployment rate for the Commonwealth of Kentucky at June 2022 was 3.9% compared to 4.8% at the end of June 2021. The unemployment rate for Bullitt County June 2022 was at 3.9%
3. The median household income in Bullitt County is \$65,531
4. Interstate 65 is a major highway that runs north and south through the City. There are two (2) exits off the interstate into the City. Large industrial parks have been developed around these exits. The City partnered with the Kentucky Department of Transportation to construct major improvements at Exit 116 on I-65 in Shepherdsville. The improvements to the exit ramps and the addition of another road have improved traffic flow on and off the ramps at Exit 116.
5. The City is 17 miles from the Louisville International Airport which is a major transportation hub for United Parcel Service (UPS) and FedEx.
6. The cost of living in Shepherdsville, Kentucky is slightly more than Kentucky and less than the national average (90 vs. 100.0).
7. The real estate property tax for 2022 (due November 1, 2022) decreased to \$0.122 per \$100 of assessed value.

Management Discussion and Analysis--Continued

City of Shepherdsville, Kentucky

As of and For the Year Ended June 30, 2022

Budget Highlights for the Fiscal Year Ended June 30, 2022

Governmental Activities

The City did not amend its original annual budgets (General Fund, Sewer Fund and Municipal Aid Fund), for fiscal year ended June 30, 2022. Generally, if required, budget amendments fall into one of three (3) categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available, 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants, and 3) increases in appropriations that become necessary to maintain services.

Request for Information

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

Please visit our website at www.Shepherdsville.gov.

Government-Wide Financial Statements

Statement of Net Position

City of Shepherdsville, Kentucky

June 30, 2022

	Governmental Activities	Business- Type Activities	Totals
Assets			
Cash and cash equivalents	\$ 3,483,586	\$ 8,185,442	\$ 11,669,028
Restricted cash and cash equivalents	5,031,486	525,432	5,556,918
Receivables, net	2,065,020	206,141	2,271,161
Unbilled receivables, net		250,433	250,433
Internal balances	(101,338)	101,338	
Due from Louisville Water Company		329,580	329,580
Prepaid expenses	6,649	5,542	12,191
Leased assets, net	922,789		922,789
Non-depreciable capital assets	2,473,420	2,066,184	4,539,604
Depreciable capital assets, net	13,684,121	38,416,830	52,100,951
Total Assets	27,565,733	50,086,922	77,652,655
Deferred Outflow of Resources			
CERS - Pension - Non-Hazardous	438,168	268,554	706,722
CERS - Pension - Hazardous	5,484,520		5,484,520
CERS - OPEB - Non-Hazardous	336,895	206,484	543,379
CERS - OPEB - Hazardous	3,162,704		3,162,704
Total Deferred Outflows	9,422,287	475,038	9,897,325
Total Assets and Deferred Outflows of Resources	\$ 36,988,020	\$ 50,561,960	\$ 87,549,980
Liabilities			
Current Liabilities			
Accounts payable	\$ 128,197	\$ 512,472	\$ 640,669
Accrued expenses	735,129	89,787	824,916
Accrued interest	10,945	42,275	53,220
Deposits	12,150		12,150
Lease obligations	296,377		296,377
Accrued compensated absences	44,313	6,898	51,211
Bonds payable - due in one year		230,000	230,000
Notes payable - due in one year	1,287,681	1,104,236	2,391,917
Total Current Liabilities	2,514,792	1,985,668	4,500,460
Long-Term Liabilities			
Lease obligations	626,412		626,412
Accrued compensated absences	241,686	44,052	285,738
Bonds payable - non-current		2,620,000	2,620,000
Notes payable - non-current	1,486,313	12,019,244	13,505,557
Net pension liability - CERS Non-Hazardous	1,874,981	1,149,181	3,024,162
Net pension liability - CERS Hazardous	18,243,165		18,243,165
Net OPEB liability - CERS Non-Hazardous	562,868	344,983	907,851
Net OPEB liability - CERS Hazardous	5,540,847		5,540,847
Total Long-Term Liabilities	28,576,272	16,177,460	44,753,732
Total Liabilities	31,091,064	18,163,128	49,254,192
Deferred Inflows of Resources			
CERS - Pension - Non-Hazardous	370,189	226,890	597,079
CERS - Pension - Hazardous	2,540,991		2,540,991
CERS - OPEB - Non-Hazardous	301,072	184,528	485,600
CERS - OPEB - Hazardous	1,990,610		1,990,610
Total Deferred Inflows	5,202,862	411,418	5,614,280
Net Position			
Net investment in capital assets	13,383,547	24,509,534	37,893,081
Restricted for:			
Municipal Street Fund	118,519		118,519
Debt service		211,227	211,227
Construction		1,600,685	1,600,685
Unrestricted	(12,807,972)	5,665,968	(7,142,004)
Total Net Position	694,094	31,987,414	32,681,508
Total Liabilities, Deferred Inflows of Resources and Net Pension	\$ 36,988,020	\$ 50,561,960	\$ 87,549,980

See Notes to Financial Statements

Statement of Activities

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Primary Governmental Activities	Net Revenue (Expense) and Changes in Net Position Government Business-Type Activities	Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities							
General Government							
General government	\$ 2,486,183		\$ 3,288,772		\$ 802,589		\$ 802,589
Fire department	4,618,754		180,193		(4,438,561)		(4,438,561)
Police department	5,451,509		197,811		(5,253,698)		(5,253,698)
Public works department	1,411,164				(1,411,164)		(1,411,164)
Municipal aid - streets	719,557			\$ 269,815	(449,742)		(449,742)
Interest on long-term debt	115,236				(115,236)		(115,236)
Total Governmental Activities	\$ 14,802,403	\$	\$ 3,666,776	\$ 269,815	\$ (10,865,812)		\$ (10,865,812)
Business-Type Activities							
Sewer services	\$ 5,302,908	\$ 6,703,803	\$	\$	\$	\$ 1,400,895	\$ 1,400,895
General Revenues							
Property taxes					\$ 2,451,040		\$ 2,451,040
Occupational taxes					10,561,643		10,561,643
Fees, license and permits					796,163		796,163
Insurance premium tax					1,014,183		1,014,183
Motor vehicle taxes					158,968		158,968
Telecommunications tax					78,054		78,054
Franchise taxes					103,304		103,304
Rent income					15,984		15,984
Other income					195,506	\$ 230,363	425,869
Interest income					6,223	2,638	8,861
Gain on sale or disposal of capital assets					177,180		177,180
Total General Revenues					15,558,248	233,001	15,791,249
Change in Net Position					4,692,436	1,633,896	6,326,332
Net Position, June 30, 2021, as previously reported					(2,183,028)	30,353,518	28,170,490
Correction of an error (Note D)					(1,815,314)		(1,815,314)
Net Position, Beginning, as restated					(3,998,342)	30,353,518	26,355,176
Net Position, Ending					\$ 694,094	\$ 31,987,414	\$ 32,681,508

See Notes to the Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

City of Shepherdsville, Kentucky

June 30, 2022

	General Government Fund	Municipal Aid Fund	Total Governmental Funds
Assets			
Cash and cash equivalents			
Cash	\$ 3,483,586		\$ 3,483,586
Cash, restricted	4,912,967	\$ 118,519	5,031,486
Receivables, net	2,065,020		2,065,020
Prepaid expenses	6,649		6,649
Due from other governmental fund	409,533		409,533
Total Assets	\$ 10,877,755	\$ 118,519	\$ 10,996,274
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 128,197		\$ 128,197
Accrued expenses	735,129		735,129
Accrued interest	10,945		10,945
Deposits	12,150		12,150
Due to other governmental fund		\$ 409,533	409,533
Due to sewer fund	101,338		101,338
Total Liabilities	987,759	409,533	1,397,292
Fund Balances			
Nonspendable	6,649		6,649
Restricted		118,519	118,519
Committed	979,584		979,584
Assigned	2,001,000		2,001,000
Unassigned	6,902,763	(409,533)	6,493,230
Total Fund Balances	9,889,996	(291,014)	9,598,982
Total Liabilities and Fund Balances	\$ 10,877,755	\$ 118,519	\$ 10,996,274

See Notes to the Financial Statements

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

City of Shepherdsville, Kentucky

June 30, 2022

Fund Balance - Total Governmental Funds \$ 9,598,982

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

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

Governmental leased assets	\$ 1,187,201	
Less: accumulated depreciation	(264,412)	
Governmental capital assets	29,377,148	
Less: accumulated depreciation	<u>(13,219,607)</u>	17,080,330

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

Deferred outflows of resources - CERS	9,422,287	
Deferred inflows of resources - CERS	<u>(5,202,862)</u>	4,219,425

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

Lease obligations	(922,789)	
Governmental notes payable	(2,773,994)	
Net pension liability	(20,118,146)	
Net OPEB liability	(6,103,715)	
Compensated absences	<u>(285,999)</u>	<u>(30,204,643)</u>

Net Position of Governmental Activities \$ 694,094

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

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

	General Government Fund	Municipal Aid Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 2,451,040		\$ 2,451,040
Occupational taxes	10,561,643		10,561,643
Fees, license and permits	796,163		796,163
Insurance premium tax	1,014,183		1,014,183
Motor vehicle taxes	158,968		158,968
Telecommunications tax	78,054		78,054
Franchise taxes	103,304		103,304
Rent income	15,984		15,984
Other income	195,506		195,506
Intergovernmental revenues	3,666,776	\$ 269,814	3,936,590
Interest income	6,223		6,223
Total Revenues	19,047,844	269,814	19,317,658
Expenditures			
General government	2,509,368		2,509,368
Public safety, fire department	4,081,122		4,081,122
Public safety, police department	5,023,019		5,023,019
Public works	1,394,319		1,394,319
Municipal road aid expense		219,252	219,252
Capital outlay	962,755		962,755
Debt service			
Principal	1,522,534		1,522,534
Interest	115,236		115,236
Total Expenditures	15,608,353	219,252	15,827,605
Revenues in Excess of Expenditures	3,439,491	50,562	3,490,053
Other Financing Sources (Uses)			
Transfers in	421,250		421,250
Transfers out		(421,250)	(421,250)
Proceeds from sale of capital assets	181,056		181,056
Total Other Financing Sources (Uses)	602,306	(421,250)	181,056
Net Change in Fund Balances	4,041,797	(370,688)	3,671,109
Fund Balances, Beginning	5,848,199	79,674	5,927,873
Fund Balances, Ending	\$ 9,889,996	\$ (291,014)	\$ 9,598,982

See Notes to the Financial Statements

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

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

Net Change in Fund Balances - Total Governmental Funds \$ 3,671,109

Amounts reported for changes in net position in the
Statement of Activities are different because of the following:

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

Expenditures for capital assets	\$ 962,755	
Depreciation expense	(1,249,920)	(287,165)

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

(3,876)

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

1,522,534

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

These activities include:

Pension and OPEB expense related to changes in the
net pension liability and the net changes in deferred
inflows and deferred outflows related to CERS
Changes in compensated absences

(138,044)	
(72,122)	(210,166)

Change in Net Position of Governmental Activities \$ 4,692,436

See Notes to the Financial Statements

Statement of Net Position - Proprietary Fund

City of Shepherdsville, Kentucky

June 30, 2022

	Sewer Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 8,185,442
Restricted cash and cash equivalents	525,432
Accounts receivable, net	206,141
Unbilled receivables, net	250,433
Due from General Fund	101,338
Due from Louisville Water Company	329,580
Prepaid expenses	5,542
Total Current Assets	9,603,908
Non-current Assets	
Non-depreciable capital assets	2,066,184
Depreciable capital assets, net	38,416,830
Total Non-current Assets	40,483,014
Total Assets	50,086,922
Deferred Outflow of Resources	
CERS - Pension - Non-Hazardous	268,554
CERS - OPEB - Non-Hazardous	206,484
Total Deferred Outflows of Resources	475,038
Total Assets and Deferred Outflows of Resources	\$ 50,561,960
Liabilities	
Current Liabilities	
Accounts payable	\$ 512,472
Accrued expenses	89,787
Accrued interest	42,275
Accrued compensated absences	6,898
Bonds payable - due in one year	230,000
Notes payable - due in one year	1,104,236
Total Current Liabilities	1,985,668
Non-current Liabilities	
Accrued compensated absences	44,052
Net pension liability - CERS	1,149,181
Net OPEB liability - CERS	344,983
Bonds payable - non-current	2,620,000
Notes payable - non-current	12,019,244
Total Non-current Liabilities	16,177,460
Total Liabilities	18,163,128
Deferred Inflow of Resources	
CERS - Pension - Non-Hazardous	226,890
CERS - OPEB - Non-Hazardous	184,528
Total Deferred Inflows of Resources	411,418
Net Position	
Net investment in capital assets	24,509,534
Restricted for debt service	211,227
Restricted for construction	1,600,685
Unrestricted	5,665,968
Total Net Position	31,987,414
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 50,561,960

See Notes to Financial Statements

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

City of Shepherdsville, Kentucky

June 30, 2022

	Sewer Fund
Operating Revenues	
Sewer service	\$ 3,343,924
Jim Beam service	2,699,632
Sewer connection	628,447
Other fees	31,800
	<hr/>
Total Operating Revenues	6,703,803
Operating and Maintenance Expenses	
Personnel expenses	775,428
Personnel benefits	266,705
Sewer plant operating expenses	773,807
Repairs and maintenance	615,064
Training and travel	2,575
General administrative and supplies	183,560
Professional fees	30,132
Insurance	75,036
Other	5,138
Depreciation and amortization	1,656,648
	<hr/>
Total Operating and Maintenance Expenses	4,384,093
Operating Income	2,319,710
Non-operating Revenues (Expenses)	
Interest expense	(918,815)
Interest income	2,638
Other income	230,363
	<hr/>
Total Non-operating Income (Expenses)	(685,814)
Change in Net Position	1,633,896
Net Position, Beginning	<hr/> 30,353,518
Net Position, Ending	<hr/> <u>\$ 31,987,414</u>

See Notes to Financial Statements

Statement of Cash Flows - Proprietary Fund

City of Shepherdsville, Kentucky

Year Ended June 30, 2022

	Sewer Fund
Cash Flow from Operating Activities	
Cash received from customers	\$ 7,069,790
Cash payments made to suppliers for goods and services	(1,084,457)
Cash payments made to employees and professional contractors for services	<u>(1,144,251)</u>
Net Cash Provided By Operating Activities	4,841,082
Cash Flows from Noncapital Financing Activity	
Other miscellaneous income	230,363
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(2,385,023)
Principal paid on long-term debt	(1,279,047)
Interest paid on long-term debt	<u>(918,815)</u>
Net Cash Used By Capital and Related Financing Activities	(4,582,885)
Cash Flows from Investing Activity	
Interest income	<u>2,638</u>
Net Increase in Cash and Cash Equivalents	491,198
Cash and Cash Equivalents, Beginning	<u>8,219,676</u>
Cash and Cash Equivalents, Ending	<u>\$ 8,710,874</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating income	\$ 2,319,710
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,656,648
Increases (decreases) In:	
Accounts receivable, net	318,021
Due from Louisville Water Company	47,966
Accounts payable	57,516
Accrued expenses	(3,984)
Accrued compensated absences	16,502
Net change in pension /OPEB related items	(113,482)
Due to/from General Fund, net	<u>542,185</u>
Net Cash Provided By Operating Activities	<u>\$ 4,841,082</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents - unrestricted	\$ 8,185,442
Cash and cash equivalents - restricted	<u>525,432</u>
Total Cash and Cash Equivalents	<u>\$ 8,710,874</u>
Noncash Transactions	
CERS Pension/OPEB	<u>\$ (113,482)</u>

See Notes to Financial Statements

Notes to the Financial Statements

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

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

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

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

Government-Wide Financial Statements--The government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of Governmental and Business-type Activities for the City accompanied by a total column.

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

The City applies all applicable GASB pronouncements.

Governmental Fund Financial Statements Measurement Focus and Basis of Accounting

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

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

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

- Nonspendable--Amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid expenses as being nonspendable.

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

- Restricted--Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant) grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain cash accounts as being restricted because their use is restricted by Kentucky Revised Statutes and/or a City Ordinance. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.
- Committed--Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned--Amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for Other Capital Projects that are to be used for the repair and replacement of equipment.
- Unassigned--All amounts not include in the other spendable classifications. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

Proprietary Fund Financial Statements Measurement Focus and Basis of Accounting

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

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

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

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

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

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

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

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

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

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

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

The City reports these funds:

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

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

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

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

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

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

Interfund receivables and payables as of June 30, 2022, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund		\$ 101,338
Sewer Fund	\$ 101,338	
	<u>\$ 101,338</u>	<u>\$ 101,338</u>

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

Capital Assets--Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. The City has established a threshold of \$5,000 for capitalization of depreciable assets. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but charged to an expense account in the current year.

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

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

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

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

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

Compensated Absences	July 1 2021	Additions	Deletions	June 30 2022	Current Portion
Governmental activities	\$ 213,877	\$ 275,342	\$ 203,220	\$ 285,999	\$ 44,313
Business-type activities	34,448	77,870	61,368	50,950	6,898
	<u>\$ 248,325</u>	<u>\$ 353,212</u>	<u>\$ 264,588</u>	<u>\$ 336,949</u>	<u>\$ 51,211</u>

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

Use of Estimates--The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Tax Revenue--Property tax (real property) rolls are prepared by the Bullitt County Property Tax Assessors office on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The property tax rates assessed for the year ended June 30, 2022 to finance the General Fund operations were \$0.133 per \$100 valuation of real property and \$0.128 per \$100 valuation for motor vehicles. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

Deferred Outflows and Inflows of Resources--In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until that period.

The City has one item that qualifies as a deferred outflow of resources for CERS pension and OPEB contributions made subsequent to the pension plan's measurement date.

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

Leases--The City adopted GASB Statement No. 87, *Leases*, during the fiscal year ended June 30, 2022. The City is a lessee for various noncancellable leases of vehicles.

Short-Term Leases

For leases with a maximum possible term of 12 months or less at commencement, the City recognizes expense/expenditure based on the provisions of the lease contract.

Leases Other than Short-Term

For all other leases, the City recognizes a lease liability and an intangible right-to-use lease asset in the applicable columns of the government-wide (governmental or business-type activities) and proprietary fund financial statements.

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

Measurement of Lease Amounts

At lease commencement, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the City is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key Estimates and Judgments

Key estimates and judgments include how the City determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- The City generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known.
- The lease term includes the noncancellable period of the lease plus any additional periods covered by either the City or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Period in which both the City and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by the City to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made.

Remeasurement of Lease Amounts

The City monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset.

City of Shepherdsville, Kentucky

June 30, 2022

Note B--Deposits and Investments

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

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

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

Custodial Credit Risk--Custodial credit risk for cash and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The City's policy dictates that all cash maintained in any financial institution be collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. At June 30, 2022, the City's bank balances of \$16,222,211 were exposed to custodial credit risk. Of the amount exposed to custodial credit risk, the entire balance was collateralized by securities held by the pledging financial institution.

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

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

Note C--Receivables

As of June 30, 2022, the receivables due the City consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Occupational tax	\$ 1,708,872	
Insurance tax	336,114	
KLEFPF	20,034	
Sewer customers		\$ 217,549
Less provision for uncollectible accounts		(11,408)
Total Receivables, net	<u>\$ 2,065,020</u>	<u>\$ 206,141</u>

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note D--Capital Assets

Capital asset activities for the governmental activities for the year ended June 30, 2022 are as follows:

<u>Governmental Activities</u>	<u>July 1 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2022</u>
Non-depreciable capital assets:				
Land	\$ 1,744,220			\$ 1,744,220
Construction in process	106,580	\$ 622,620		729,200
Total Non-depreciable Assets	1,850,800	622,620		2,473,420
Depreciable capital assets:				
Building and improvements	5,887,214			5,887,214
City Park	408,961	48,400		457,361
Furniture and fixtures	111,814			111,814
Equipment	2,971,831	239,547	\$ 49,172	3,162,206
Vehicles	6,105,158			6,105,158
Infrastructure	11,035,673	12,000		11,047,673
Software	92,114	40,188		132,302
Total Depreciable Assets	26,612,765	340,135	49,172	26,903,728
Total Capital Assets	28,463,565	962,755	49,172	29,377,148
Accumulated depreciation	12,014,983	1,249,920	45,296	13,219,607
Governmental Capital Assets, Net	<u>\$ 16,448,582</u>	<u>\$ (287,165)</u>	<u>\$ 3,876</u>	<u>\$ 16,157,541</u>

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

General Government	\$ 83,132
Fire	366,839
Police	216,274
Public Works	83,370
Infrastructure	500,305
Total Depreciation Expense	<u>\$ 1,249,920</u>

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note D--Capital Assets--Continued

During the year, the City migrated its capital assets management database to a new system. In the process, management of the City identified errors in the depreciation of a number of assets that impacted accumulated depreciation. The City has corrected this error by increasing accumulated depreciation on its governmental activities in the amount of \$1,815,314.

Capital asset activity for the business-type activities for the year ended June 30, 2022:

Business-type Activities	July 1 2021	Additions	Deletions	June 30 2022
Non-depreciable capital assets:				
Land	\$ 592,054	\$ 111,956		\$ 704,010
Construction in process	1,400,298	667,578	\$ 705,702	1,362,174
Total Non-depreciable Assets	1,992,352	779,534	705,702	2,066,184
Depreciable capital assets:				
Equipment	405,019	22,532		427,551
Vehicles	669,904	208,750		878,654
Wastewater treatment plant and lines	32,404,361	1,505,296		33,909,657
Building improvements	249,302	7,600		256,902
Pump strikes	231,913	567,013		798,926
Salt River Regional Interceptor	11,173,712			11,173,712
South Bullitt Regional Interceptor	11,089,249			11,089,249
Solids processing building	3,090,325			3,090,325
Total Depreciable Assets	59,313,785	2,311,191		61,624,976
Total Capital Assets	61,306,137	3,090,725	705,702	63,691,160
Accumulated depreciation	21,551,498	1,656,648		23,208,146
Business-type Capital Assets, Net	<u>\$ 39,754,639</u>	<u>\$ 1,434,077</u>	<u>\$ 705,702</u>	<u>\$ 40,483,014</u>

City of Shepherdsville, Kentucky

June 30, 2022

Note E--Lease Accounting

The City adopted the requirements of GASB No. 87, as of July 1, 2022 at which time a right-to-use asset and related liability for vehicle leases were recorded in the amount of \$1,024,873.

The City recognizes a lease liability and right-of-use asset at the commencement of the lease term. The lease liability is based on the present value of the lease payments expected to be paid during the lease term. The right-to-use asset should be valued at the lease liability in addition to the accumulated amortization expense recognized throughout the life of the leases. The lease liability is discounted to the net present value by using a range of 3.06% to 4.93% implied interest rate. Lease terms range from 12 to 72 months.

At June 30, 2022, the City's lease obligation was as follows:

Lessee Accounting	<u>Beginning Lease Obligation</u>	<u>Increases</u>	<u>Reduction</u>	<u>Ending Lease Obligation</u>
Total Leases	\$ 1,024,873	\$ 162,328	\$ 264,412	\$ 922,789
Implied Interest			35,175	
Annual Lease Payments			\$ 299,587	

* Annual Lease Payment = Reduction + Implied Interest

Right-to-use assets for the year ended June 30, 2022, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Amortization</u>	<u>Ending Balance</u>
Right-to-Use Assets	\$ 1,024,873	\$ 162,328	\$ 264,412	\$ 922,789

The future minimum lease payments for the above leases are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2023	\$ 322,936
2024	284,045
2025	251,796
2026	165,545
2027	21,954
Thereafter	9,147
Total Future Lease Payments	1,055,423
Less Implied Interest	(132,634)
Total	<u>\$ 922,789</u>

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note F--Long-Term Liabilities

As of June 30, 2022, the governmental activities debt of the City consisted of the following:

	<u>Original Principal</u>	<u>Outstanding Principal June 30, 2022</u>
Series 2017 General Obligation Development Revenue Note dated July 31, 2017, annual principal and quarterly interest payments at 2.59%, maturing July 30, 2022	\$ 3,000,000	\$ 470,515
Note payable with a local bank dated September 1, 2018, principal and interest payments due monthly bearing interest at 3.55%, maturing August 1, 2023	2,350,000	1,525,015
Note payable with a local bank dated September 1, 2018, principal and interest payments due monthly bearing interest at 3.50%, maturing August 1, 2023	<u>2,262,791</u>	<u>778,464</u>
	<u>\$ 7,612,791</u>	<u>\$ 2,773,994</u>

Long-term liability activity for the year ended June 30, 2022 is as follows:

<u>Governmental Activities</u>	<u>July 1 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2022</u>	<u>Current Portion</u>
Notes payable	\$ 4,296,528		\$ 1,522,534	\$ 2,773,994	\$ 1,287,681
Lease obligations	1,024,873	\$ 162,328	264,412	922,789	322,936
Net pension liability	21,427,201		764,706	20,662,495	
Net OPEB liability	6,585,074		317,946	6,267,128	
Compensated absences	<u>213,877</u>	<u>275,342</u>	<u>203,220</u>	<u>285,999</u>	<u>44,313</u>
Governmental Activities, Long-Term Liabilities	<u>\$ 33,547,553</u>	<u>\$ 437,670</u>	<u>\$ 3,072,818</u>	<u>\$ 30,912,405</u>	<u>\$ 1,654,930</u>
<u>Business-Type Activities</u>	<u>July 1 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30 2022</u>	<u>Current Portion</u>
Bonds	\$ 3,060,000		\$ 210,000	\$ 2,850,000	\$ 230,000
Notes payable	14,192,527		1,069,047	13,123,480	1,104,236
Net pension liability	1,410,535		805,703	604,832	
Net OPEB liability	443,946		262,376	181,570	
Compensated absences	<u>34,448</u>	<u>\$ 77,870</u>	<u>61,368</u>	<u>50,950</u>	<u>6,898</u>
Business-Type Activities, Long-Term Liabilities	<u>\$ 19,141,456</u>	<u>\$ 77,870</u>	<u>\$ 2,408,494</u>	<u>\$ 16,810,832</u>	<u>\$ 1,341,134</u>

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note F--Long-Term Liabilities--Continued

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

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

Interest expense of \$115,236 is included in governmental activities in the statement of activities.

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

Governmental Activities - Notes Payable

<u>Amount to be Paid During Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 1,287,681	\$ 70,566	\$ 1,358,247
2024	1,486,313	15,774	1,502,087
Total	<u>\$ 2,773,994</u>	<u>\$ 86,340</u>	<u>\$ 2,860,334</u>

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

Business-type Activities - Bonds Payable

<u>Amount to be Paid During Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 230,000	\$ 117,054	\$ 347,054
2024	240,000	105,669	345,669
2025	255,000	93,709	348,709
2026	265,000	81,289	346,289
2027	275,000	68,294	343,294
2028-2032	1,585,000	127,776	1,712,776
Total	<u>\$ 2,850,000</u>	<u>\$ 593,791</u>	<u>\$ 3,443,791</u>

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note F--Long-Term Liabilities--Continued

Business-type Activities- Notes Payable

<u>Amount to be Paid During Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 1,104,236	\$ 536,857	\$ 1,641,093
2024	930,281	502,652	1,432,933
2025	757,407	468,332	1,225,739
2026	792,287	436,051	1,228,338
2027	829,698	401,439	1,231,137
2028-2032	4,681,265	1,430,017	6,111,282
2033-2036	4,028,306	355,085	4,383,391
Total	<u>\$ 13,123,480</u>	<u>\$ 4,130,433</u>	<u>\$ 17,253,913</u>

Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note F--Long-Term Liabilities--Continued

Bond Payable--On May 31, 2006, the City entered into an agreement with Kentucky Rural Water Finance Corporation to issue \$5,385,000 in public project revenue bonds. The bonds are to be used to finance the expansion of the City's sewer lines. The bonds are collateralized by a pledge of the additional revenues generated by this expansion. These bonds begin to mature annually starting August 1, 2007 through August 1, 2031. The bonds carry a variable interest rate from 3.60% to 4.80%, depending on the amount of time to maturity. Interest payments are due semi-annually in February and August of each year. Principal payments are due semi-annually in August. These bonds also require the City to make an annual payment of \$450 in August for trustee fees. There is no collateral assigned to the bonds. The City is required to establish a sinking fund for the segregation of funds to repay the bonds. 1/6 of the required amount to pay interest is to be deposited in the sinking fund by the due date of the interest payment. 1/12 of the required amount to pay principal is to be deposited in the sinking fund by the due date of the principal payment. The City is required to create a depreciation reserve account and segregate funds for the repair and replacement of property associated with the bonds. As of June 30, 2022, the sinking fund was fully funded.

Notes Payable--On June 1, 2002 the City entered into an agreement with Kentucky Infrastructure Authority ("KIA") to borrow up to \$8,187,728 for the upgrade and expansion of the City's sewer system. Proceeds from this loan were drawn down by the City to cover project construction cost. Upon completion of the project, or upon reaching the maximum amount to be borrowed; the loan will convert to an installment note bearing interest at rate of 1% per annum. Repayment will be semi-annually, (June 1 and December 1) over a period of twenty years. During the fiscal year ended June 30, 2004, the note converted to an installment note. The note is collateralized by service revenue of the business-type activity. The City is required to establish maintenance and replacement reserve account. \$40,000 is to be deposited in the reserve account by December 1 of each year until the balance in the reserve account is \$400,000. As of June 30, 2022, the reserve account is fully funded.

September 1, 2009, the City entered into an agreement with the KIA to borrow \$3,000,000 of America Recovery and Reinvestment Act ("ARRA") fund for the South Bullitt Regional Interceptor Project. Proceeds from this loan were drawn by the City to cover project cost. Upon completion of the project the loan will convert to an installment note requiring semi-annual payments (June 1 and December 1) of principal. The loan has an interest rate of 3%, and a loan service fee of .20%. The note will be repaid over a twenty year term. The note contains a provision in which 52% (\$1,563,000) of the principal will be forgiven. The note is collateralized by service revenue of the business-type activity. The City is to establish a replacement reserve account. \$7,500 is to be deposited in the reserve account by December 1 each year until a balance of \$75,000 is reached. As of June 30, 2022, the reserve account is fully funded.

On October 28, 2008, the City entered into a 27-1/4 year fixed rate finance agreement with Kentucky League of Cities in the amount of \$18,000,000 to finance the construction of a new interceptor line for the City's sewer system. The agreement requires monthly payments in varying amounts, including interest at 3.86%, plus related fees. The final payment is due February 1, 2036. Total future minimum payments required by the agreement as of June 30, 2022 total \$16,106,092. The agreement is collateralized by property associated with the financed construction.

City of Shepherdsville, Kentucky

June 30, 2022

Note G--Compliance with Debt Obligations

The City is required to establish sinking fund accounts, depreciation reserve accounts and repair and replacements accounts in order to be compliant with some of the debt financing agreements. As of June 30, 2022 all required sinking funds were fully funded.

Note H--Conduit Debt Obligation

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

Note I--Fund Balances

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2022, there was nonspendable fund balance of \$6,649 related to prepaid expenses.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2022, the City had \$118,519 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Council. The Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. There were no committed fund balances at June 30, 2022.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. There were no assigned fund balances at June 30, 2022.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. At June 30, 2022, the City had \$4,851,861 of unassigned fund balance.

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note I--Fund Balances--Continued

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

Note J--Risk Management

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

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

Note K--Economic Dependency

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

Note L--Tax Abatements

The City enters into occupational tax abatement agreements with local businesses authorized by Kentucky Revised Statutes ("KRS") 154.25-010 and 154.24-150. The KRS established the Kentucky Jobs Development Authority ("KJDA") for encouraging the development and expansion of the service and technology industries in the Commonwealth of Kentucky.

For the fiscal year ended June 30, 2022, the City abated occupational license fees totaling \$116,982 under this program including the following occupational license fee abatement agreement exceeding 10% of the total amount abated:

- A one-half percent (.5%) to one percent (1%) occupational license fee abatement based upon qualifying wages to a distribution company. The amount of the abatement was \$113,542.

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans

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

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

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

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

Benefits Provided: Nonhazardous

	Tier 1 Nonhazardous Participation beginning prior to 9/1/2008	Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Nonhazardous Participation beginning on or after 1/1/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceding retirement; Each year must contain 12 months	No final compensation factor
Benefit Factor:	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment ("COLA"):	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military)	No reduced retirement benefit

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

Benefits Provided: Hazardous

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

Contributions--Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Hazardous covered employees who began participation on or after September 1, 2008 are required to contribute 9% of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS Insurance Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation.

For the year ended June 30, 2022, employers contributed 33.86% of Hazardous employees' creditable compensation and 21.17% of each Nonhazardous employees' creditable compensation as set by KRS. For the year ended June 30, 2022, employer contributions for the City were \$2,739,999 (\$505,282 for nonhazardous and \$2,234,717 for hazardous). By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability--At June 30, 2022, the City reported a liability of \$21,267,327 for its proportionate share of the net pension liability (\$3,024,162 for nonhazardous and \$18,243,165 for hazardous). The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the City's proportion was 0.047432% for nonhazardous and 0.685277%.

Pension Expense--For the year ended June 30, 2022, the City recognized pension expense of \$293,712 for nonhazardous and \$2,860,920 for hazardous.

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

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:

CERS Non-Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,727	\$ 29,352
Changes in actuarial assumptions	40,588	
Net difference between projected and actual earnings on investments	117,317	520,387
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>8,808</u>	<u>47,340</u>
	201,440	597,079
Contributions paid to CERS subsequent to the measurement date	<u>505,282</u>	
	<u>\$ 706,722</u>	<u>\$ 597,079</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$505,282 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2022	\$ (61,313)
2023	(116,144)
2024	(91,963)
2025	<u>(126,219)</u>
	<u>\$ (395,639)</u>

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

CERS Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 503,086	
Changes in actuarial assumptions	227,853	
Net difference between projected and actual earnings on investments	582,548	\$ 2,540,991
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,936,315</u>	
	3,249,802	2,540,991
Contributions paid to CERS subsequent to the measurement date	<u>2,234,717</u>	
	<u>\$ 5,484,519</u>	<u>\$ 2,540,991</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$2,234,717 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	Pension Expense Amount
2022	\$ 680,455
2023	378,365
2024	114,353
2025	<u>(464,362)</u>
	<u>\$ 708,811</u>

Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected</u>
U.S. Equity	21.75%	5.70%
Non-U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.50%
	<u>100.00%</u>	

Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note M--Retirement Plans--Continued

Discount Rate--The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

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

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Non-Hazardous	\$ 3,878,631	\$ 3,024,162	\$ 2,317,109
Hazardous	23,253,446	18,243,165	14,159,807
	<u>\$ 27,132,077</u>	<u>\$ 21,267,327</u>	<u>\$ 16,476,916</u>

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

Deferred Compensation Plan

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

City of Shepherdsville, Kentucky

June 30, 2022

Note N--Other Post-Employment Benefit Plans ("OPEB")

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

Plan Description--The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance ("DEI") plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

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

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

Contributions--For the fiscal year ended June 30, 2022, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The County's contractually required contribution rate for the year ended June 30, 2022, was 5.78% of annual creditable compensation for non-hazardous employees and 10.47% of annual creditable compensation for hazardous employees. Contributions to the OPEB plan from the City were \$681,708 (\$99,768 for nonhazardous and \$581,940 for hazardous).

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

At June 30, 2022, the City reported a liability of \$6,448,698 for its proportionate share of the net OPEB liability (\$907,851 for non-hazardous and \$5,540,847). The 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 net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2022, the City's proportion was 0.047421% for nonhazardous and 0.685274% for hazardous.

OPEB Expense--For the year ended June 30, 2022, the City recognized OPEB expense of \$115,085 for nonhazardous and \$837,242 for hazardous).

For the year ended June 30, 2022, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

CERS Non-Hazardous:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 142,760	\$ 271,054
Changes in actuarial assumptions	240,689	844
Net difference between projected and actual earnings on investments	45,740	187,760
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>14,422</u>	<u>25,942</u>
	443,611	485,600
Contributions paid to CERS subsequent to the measurement date	<u>99,768</u>	<u> </u>
	<u>\$ 543,379</u>	<u>\$ 485,600</u>

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

Of the total amount reported as deferred outflows of resources related to OPEB, \$99,768 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2022	\$ 20,553
2023	(1,026)
2024	(4,788)
2025	(56,728)
2026	
	<u>\$ (41,989)</u>

CERS Hazardous:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 173,143	\$ 596,105
Changes in actuarial assumptions	1,389,518	2,071
Net difference between projected and actual earnings on investments	349,521	1,392,434
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>668,582</u>	
	2,580,764	1,990,610
Contributions paid to CERS subsequent to the measurement date	<u>581,940</u>	
	<u>\$ 3,162,704</u>	<u>\$ 1,990,610</u>

Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note N--Other Post-Employment Benefit Plans (“OPEB”)--Continued

Of the total amount reported as deferred outflows of resources related to OPEB, \$581,940 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2022	\$ 105,514
2023	182,424
2024	125,184
2025	1,995
2026	175,037
	<u>\$ 590,154</u>

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

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

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected</u>
U.S. Equity	21.75%	5.70%
Non-U.S. Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.50%
	<u>100.00%</u>	

Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

The projection of cash flows used to determine the discount rate of 5.20% for non-hazardous and 5.05% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

Sensitivity of The City's Proportionate Share of The Net OPEB Liability To Changes In The Discount Rate--The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20% for non-hazardous and 5.05% for hazardous, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease 4.20%	Current Discount Rate 5.20%	1% Increase 6.20%
Non-Hazardous	\$ 1,246,473	\$ 907,851	\$ 629,956
	1% Decrease 4.05%	Current Discount Rate 5.05%	1% Increase 6.05%
Hazardous	\$ 8,033,177	\$ 5,540,847	\$ 3,538,404

Sensitivity Of The City's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Health care Cost Trend Rates--The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

Continued

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

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

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 653,545	\$ 907,851	\$ 1,214,803
Hazardous	\$ 3,630,665	\$ 5,540,847	\$ 7,880,365

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

Note O--Contingencies

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

Litigation

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

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

The City is party to an opioid settlement agreement that will provide funds be used for opioid addiction remediation.

Note P--Related Parties Transactions

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

Notes to Financial Statements--Continued

City of Shepherdsville, Kentucky

June 30, 2022

Note Q--Recent GASB Pronouncements

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

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

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

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

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

Management of the City has not yet determined the effect, if any, that the adoption may have on its financial statements.

Note R--Subsequent Event

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through March 11, 2024, the date the financial statements were available to be issued.

In July 2022, the City paid off the Series 2017 General Obligation Development Revenue Note.

Required Supplementary Information

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

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

	Budget		Actual	Variance with Budget
	Original	Final		
Revenues				
Taxes, occupational, franchise, property, auto and insurance premiums	\$ 12,675,989	\$ 12,554,624	\$ 14,367,192	\$ 1,812,568
Licenses and permits	325,400	414,765	796,163	381,398
LKEFPF - Police	34,500	180,000	197,811	17,811
KBTC - Fire		144,000	180,193	36,193
Rental income	7,500	7,500	15,984	8,484
Tow lot		1,500		(1,500)
Sewer administrative fees	90,000	90,000	91,857	1,857
Other revenues	12,740	353,058	3,392,421	3,039,363
Penalty/interest	8,000	63,739	6,223	(57,516)
Grants	3,934,000	3,862,500		(3,862,500)
Total Revenues	17,088,129	17,671,686	19,047,844	1,376,158
Expenditures				
Administration	5,888,962	6,077,688	2,958,762	3,118,926
Fire Department	6,137,963	6,334,667	4,363,681	1,970,986
Police Department	5,890,586	6,079,363	5,189,605	889,758
Public Works	2,922,074	3,015,719	1,458,535	1,557,184
Total Expenditures	20,839,585	21,507,437	13,970,583	7,536,854
Revenues in Excess of Expenditures	(3,751,456)	(3,835,751)	5,077,261	8,913,012
Other Financing Sources				
Transfers in			421,250	421,250
Proceeds from sale of capital assets			181,056	181,056
Debt service			(1,637,770)	(1,637,770)
Total Other Financing Sources			(1,035,464)	(1,035,464)
Net Change in Fund Balance	\$ (3,751,456)	\$ (3,835,751)	\$ 4,041,797	\$ 7,877,548

See Independent Auditors' Report

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

City of Shepherdsville, Kentucky

June 30, 2022

Last Ten Fiscal Years**

Non-Hazardous	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.047432%	0.048396%	0.048917%	0.047686%	0.046629%	0.043559%	0.044080%	0.043835%
City's proportionate share of the net pension liability	\$ 3,024,162	\$ 3,711,933	\$ 3,440,354	\$ 2,904,224	\$ 2,729,340	\$ 2,144,674	\$ 1,895,173	\$ 1,422,172
City's covered-employee payroll	\$ 1,715,899	\$ 1,490,325	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188	\$ 781,502
City's proportionate share of the net pension liability as a percentage of its covered payroll	176.24%	249.07%	231.45%	223.45%	220.31%	185.17%	183.61%	181.98%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%
Hazardous	2022	2021	2020	2019	2018	2017	2016	2016
City's proportion of the net pension liability	0.685277%	0.634349%	0.583574%	0.531895%	0.504763%	0.495995%	0.434030%	0.397485%
City's proportionate share of the net pension liability	\$ 18,243,165	\$ 19,125,803	\$ 16,120,037	\$ 12,863,651	\$ 11,292,955	\$ 8,510,985	\$ 6,662,849	\$ 4,777,070
City's covered-employee payroll	\$ 4,943,768	\$ 4,188,565	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716	\$ 1,649,414
City's proportionate share of the net pension liability as a percentage of its covered payroll	369.01%	456.62%	461.99%	425.93%	429.87%	302.34%	294.46%	289.62%
Plan fiduciary net position as a percentage of the total pension liability	52.26%	44.11%	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%

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

See Independent Auditors' Report

Schedule of Pension Contributions

**County Employees Retirement System (CERS)

City of Shepherdsville, Kentucky

June 30, 2022

Last Ten Fiscal Years**

Non-Hazardous	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 390,882	\$ 287,633	\$ 290,092	\$ 241,101	\$ 188,200	\$ 172,822	\$ 143,852	\$ 131,604
Contributions in relation to the contractually required contribution	390,882	173,233	290,092	241,101	188,200	172,822	143,852	131,604
Contribution Deficiency	\$ -	\$ 114,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,715,899	\$ 1,490,325	\$ 1,493,011	\$ 1,486,443	\$ 1,299,724	\$ 1,238,867	\$ 1,158,229	\$ 1,032,188
Contributions as a percentage of covered employee payroll	22.78%	19.30%	19.43%	16.22%	14.48%	13.95%	12.42%	12.75%
Hazardous	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,759,981	\$ 1,259,083	\$ 1,158,743	\$ 867,425	\$ 670,466	\$ 570,336	\$ 570,336	\$ 469,061
Contributions in relation to the contractually required contribution	1,759,981	784,347	1,158,743	867,425	670,466	570,336	570,336	469,061
Contribution Deficiency	\$ -	\$ 474,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 4,943,768	\$ 4,188,565	\$ 3,854,767	\$ 3,489,240	\$ 3,020,117	\$ 2,627,066	\$ 2,815,084	\$ 2,262,716
Contributions as a percentage of covered employee payroll	35.60%	30.06%	30.06%	24.86%	22.20%	21.71%	20.26%	20.73%

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

See Independent Auditors' Report

Notes to Required Supplementary Information - County Employees Retirement System (CERS) Pensions

City of Shepherdsville, Kentucky

Year Ended June 30, 2022

Changes in Assumptions and Benefit Terms from 2021 to 2022--There were no changes noted.

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

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

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

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

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

Continued

Notes to Required Supplementary Information - County Employees Retirement System (CERS) Pensions

City of Shepherdsville, Kentucky

Year Ended June 30, 2022

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

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

See Independent Auditors' Report

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

City of Shepherdsville, Kentucky

June 30, 2021

Last Ten Fiscal Years**

Non-Hazardous	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.047421%	0.048382%	0.048904%	0.047684%	0.046629%
City's proportionate share of the net OPEB liability	\$ 907,851	\$ 1,168,278	\$ 822,543	\$ 846,621	\$ 937,403
City's covered-employee payroll	\$ 1,715,899	\$ 1,490,326	\$ 1,486,445	\$ 1,341,745	\$ 1,238,867
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	52.91%	78.39%	55.34%	63.10%	75.67%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%	60.44%	57.62%	52.39%
Hazardous	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.685274%	0.634207%	0.583615%	0.531930%	50.476300%
City's proportionate share of the net OPEB liability	\$ 5,540,847	\$ 5,860,742	\$ 4,317,924	\$ 3,792,446	\$ 4,172,733
City's covered-employee payroll	\$ 4,943,768	\$ 4,188,565	\$ 3,489,237	\$ 3,067,765	\$ 2,627,066
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	112.08%	139.92%	123.75%	123.62%	158.84%
Plan fiduciary net position as a percentage of the total OPEB liability	66.81%	58.84%	64.44%	64.24%	58.99%

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

See Independent Auditors' Report

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

City of Shepherdsville, Kentucky

June 30, 2022

Last Ten Fiscal Years**

Non-Hazardous	2022	2021	2020	2019	2018
Contractually required contribution	\$ 71,553	\$ 70,940	\$ 71,546	\$ 78,187	\$ 63,062
Contributions in relation to the contractually required contribution	71,553	42,725	71,546	78,187	63,062
Contribution Deficiency	\$ -	\$ 28,215	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,715,899	\$ 1,490,326	\$ 1,503,067	\$ 1,486,445	\$ 1,341,745
Contributions as a percentage of covered employee payroll	4.17%	4.76%	4.76%	5.26%	4.70%
Hazardous	2022	2021	2020	2019	2018
Contractually required contribution	\$ 431,591	\$ 398,751	\$ 366,974	\$ 365,672	\$ 286,836
Contributions in relation to the contractually required contribution	431,591	248,403	366,974	365,672	286,836
Contribution Deficiency	\$ -	\$ 150,348	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 4,943,768	\$ 4,188,565	\$ 3,854,769	\$ 3,489,237	\$ 3,067,765
Contributions as a percentage of covered employee payroll	8.73%	9.52%	9.52%	10.48%	9.35%

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

See Independent Auditors' Report

Notes to Required Supplementary Information - County Employees Retirement System (CERS) OPEBs

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

Changes in Assumptions and Benefit Terms from 2021 to 2022--The single discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20% for the Non-Hazardous Fund and from 5.30% to 5.05% for the Hazardous Fund

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

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

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

Continued

Notes to Required Supplementary Information - County Employees Retirement System (CERS) OPEBs

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

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

See Independent Auditors' Report

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



Independent Auditors' Report

To the Mayor and City Council
City of Shepherdsville, Kentucky

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 Shepherdsville, Kentucky (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities and each major fund of the City as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standard applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standard are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant 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.

Change in Accounting Principle

As described in Note A to the financial statements, in 2022, the City adopted new accounting standard guidance, *Governmental Accounting Standards Board ("GASB") Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2022-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2022-004.

City's Response to Findings

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

Purpose of this Report

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

Strothman and Company

Louisville, Kentucky
March 11, 2024



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

To the Mayor and City Council
City of Shepherdsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shepherdsville, Kentucky (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 11, 2024.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2022-001 and 2022-002 to be material weaknesses.

Schedule of Findings and Responses

Schedule of Findings and Responses

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

2022-001 Material Adjustments

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

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

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

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

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

Management's Response: In May of 2021 the City hired a new Finance Officer, and during the second half of 2022 the city hired two accounting clerks. The additional staff has allowed staff to upgrade the accounting system, separate some job duties, clean up some old issues and put in processes for reconciling accounts. These changes in time will result in fewer adjustments in the financial reports.

2022-002 Timely Issuance of Audited Financial Statements

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

Condition: The 2022 audited financial statements are being issued 19 months after year end.

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

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

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

Management's Response: Management agrees with the auditors' findings. It is important that the audits are done timely. The City has made staffing changes, and, system and process changes to make it possible to complete financials and audits in a timely manner. All these changes have taken time to implement but management believes we are on the right path.

Schedule of Findings and Responses--Continued

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

2022-003 Capital Asset Management

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

Condition: The 2022 audited financial statements include a material prior period adjustment to accumulated depreciation in addition to significant reclassification of capital assets categories.

Cause: The City transitions its capital assets management system during the year, this resulted in the identification of prior errors.

Effect: The City's capital assets balances presented in past financial statements were misstated.

Recommendation: The City should establish a process to ensure the completeness and accuracy of the capital assets and related depreciation.

Management's Response: With the turnover of Finance Officers, and the upgrade of QuickBooks from desktop to the online version, it required the City of Shepherdsville find a new system to record our Assets in. The new system is compatible with QuickBooks so in time the additions, disposals, and depreciation processes can be automated. During data conversion several issues were found, such as assets were in the wrong category, wrong life assigned, or were not depreciating at all, and the city was using three different types of depreciation within the system. The conversion was completed and training for the finance staff is scheduled for July 2024.

2022-004 Tax Roll and Collections

Criteria: The City must bill and collect taxes.

Condition: During the audit, it was noted that the City lacks a process to ensure the completeness and accuracy of the taxes receivable at yearend.

Cause: The system used by the City is based on a cash basis.

Effect: The City's taxes receivable balance may be understated and result in incomplete tax collections.

Recommendation: The City should look into adopting a system that allows management to properly maintain the tax roll and determine those revenues that have not been collected at year end in order to pursue collection.

Management's Response: The City agrees that there should be more visibility, and analysis on the tax collection, and tax assessment processes. We will look at software for our tax base, and work to acquire delinquency reports for the years 2022 and 2023.

Status of Prior Year Findings

Status of Prior Year Findings

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

2021-001 Material Adjustments

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

Current Status--Repeat comment in 2022 (finding 2022-001).

2021-002 Segregation of Duties

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

Current Status--Resolved.

2021-003 Inadequate Collateral of Deposits

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

Current Status--Resolved.

2021-004 Timely Issuance of Audited Financial Statements

Finding--The City's management is responsible for issuing audited financial statements within the timeframe established by regulatory and compliance requirements. The 2021 audited financial statements are being issued 19 months after year end. Turnover in the City's accounting department and the lack of reliable financial information resulted in delays. The City is not in compliance with State regulation and grant agreements.

Current Status--Repeat comment in 2022 (finding 2022-002).

Appendix A
Certification of Compliance
Local Government Economic Assistance Program

Certification of Compliance
Local Government Economic Assistance Program

City of Shepherdsville, Kentucky

For the Year Ended June 30, 2022

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

Mayor

City Clerk