

CITY OF ELKTON, KENTUCKY  
BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2021  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the pension and OPEB schedules on pages 3-14 and 50-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022, on our consideration of the City of Elkton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Elkton, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elkton, Kentucky's internal control over financial reporting and compliance.

*Thurman Campbell Group, PLC*

Hopkinsville, Kentucky  
January 28, 2022

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2021

As management of the *City of Elkton, Kentucky*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- As of June 30, 2021, the City's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources for a total net position of \$8,214,596.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$514,128 to a June 30, 2021 balance of \$2,912,520. Of this amount, \$2,487,674 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2021 totaled \$4,621,206, a decrease of \$85,496 from the prior year.
- The City's general fund balance as of June 30, 2021 was \$2,557,853, an increase of \$483,269 over the prior year. Of the total fund balance, \$2,487,674 is unassigned. The unassigned general fund balance represents 137.8% of total general fund revenues.
- Total capital assets of the City, net of depreciation, (land, buildings and improvements, park and land improvements, equipment, vehicles, plants and lines, construction in progress) totaled \$9,072,074 as of June 30, 2021.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide financial statements**

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

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

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

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

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

development and culture and recreation. The *business-type activities* of the city include water, sewer and solid waste.

**Fund financial statements**

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

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

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

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

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

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

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

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

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities had a net position of \$3,593,390, while business-type activities had a net position of \$4,621,206, for total city wide net position of \$8,214,596 as of June 30, 2021.

Statement of Net Position of Governmental and Business-Type Activities						
June 30, 2021						
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b><u>ASSETS</u></b>						
Current and other assets	\$ 3,081,084	\$ 2,583,651	\$ 1,718,724	\$ 1,839,430	\$ 4,799,808	\$ 4,423,081
Capital assets	2,110,091	2,259,465	6,961,983	6,505,301	9,072,074	8,764,766
Total assets	5,191,175	4,843,116	8,680,707	8,344,731	13,871,882	13,187,847
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>						
Deferred outflows related to pensions/OPEB	398,738	472,056	322,790	342,858	721,528	814,914
Total deferred outflows of resources	398,738	472,056	322,790	342,858	721,528	814,914
<b><u>LIABILITIES</u></b>						
Current liabilities	159,605	172,260	325,701	932,304	485,306	1,104,564
Net pension liability	1,545,723	1,663,285	1,129,917	1,020,031	2,675,640	2,683,316
Long-term liabilities	-	-	2,832,872	1,921,518	2,832,872	1,921,518
Total liabilities	1,705,328	1,835,545	4,288,490	3,873,853	5,993,818	5,709,398
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Deferred inflows related to pensions/OPEB	291,195	157,737	93,801	107,034	384,996	264,771
Total deferred inflows of resources	291,195	157,737	93,801	107,034	384,996	264,771
<b><u>NET POSITION</u></b>						
Net investment in capital assets	2,110,091	2,259,465	4,039,127	4,207,390	6,149,218	6,466,855
Restricted	276,147	258,109	747,002	1,048,338	1,023,149	1,306,447
Unrestricted	1,207,152	804,316	(164,923)	(549,026)	1,042,229	255,290
Total net position	<u>\$ 3,593,390</u>	<u>\$ 3,321,890</u>	<u>\$ 4,621,206</u>	<u>\$ 4,706,702</u>	<u>\$ 8,214,596</u>	<u>\$ 8,028,592</u>

In the City as a whole, the largest portion of net position, \$6,149,218 or 74.9%, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens and these assets are not available for future spending.

The net position of governmental activity funds was \$3,593,390 with \$2,110,091 or 58.7% being invested in capital assets and \$1,207,152 or 33.6% unrestricted. The unrestricted net position of governmental funds includes fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities was \$4,621,206. Of the net position, \$4,039,127 or 87.4% were invested in capital assets.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

**Statement of Activities**

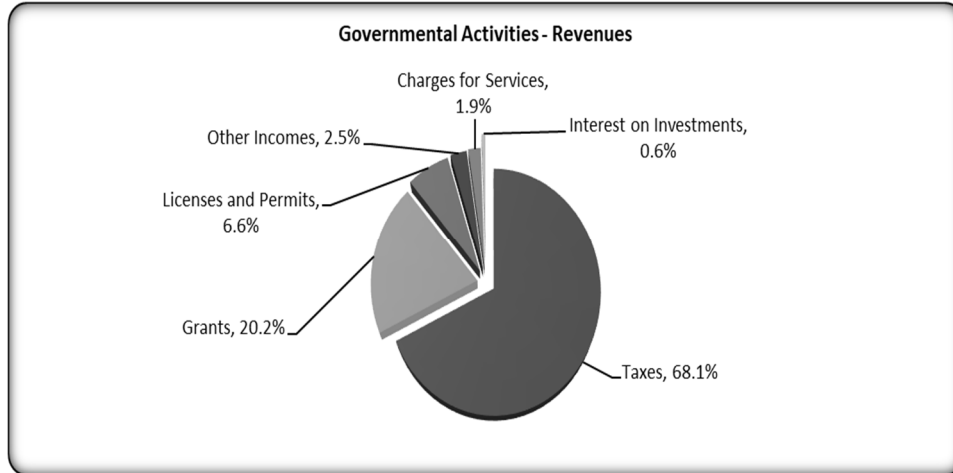
<b>Statement of Activities of Governmental and Business-Type Activities</b>						
<b>For the Year Ended June 30, 2021</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 36,275	\$ 38,793	\$ 1,268,630	\$ 1,234,118	\$ 1,304,905	\$ 1,272,911
Operating Grants and Contributions	87,397	21,642	-	-	87,397	21,642
Capital Grants and Contributions	291,188	260,835	3,000	85,000	294,188	345,835
General Revenues:						
Taxes	1,277,187	1,333,409	-	-	1,277,187	1,333,409
Licenses and Permits	124,615	68,290	-	-	124,615	68,290
Interest on Investments	10,873	40,860	2,830	22,199	13,703	63,059
Gain/(Loss) on Sale of Fixed Assets	(9,040)	6,102	-	12,101	(9,040)	18,203
Other Income	71,065	51,991	20,861	16,907	91,926	68,898
Transfers In/(Out)	(14,400)	(14,400)	14,400	14,400	-	-
Total Revenues	1,875,160	1,807,522	1,309,721	1,384,725	3,184,881	3,192,247
<b>Expenditures:</b>						
General Government	458,386	442,276	-	-	458,386	442,276
Public Safety	881,096	825,844	-	-	881,096	825,844
Public Works	211,203	415,616	-	-	211,203	415,616
Community Development	3,535	2,025	-	-	3,535	2,025
Culture and Recreation	49,440	113,687	-	-	49,440	113,687
Water	-	-	662,863	652,384	662,863	652,384
Sewer	-	-	643,256	603,173	643,256	603,173
Solid Waste	-	-	89,098	87,151	89,098	87,151
Total Expenditures	1,603,660	1,799,448	1,395,217	1,342,708	2,998,877	3,142,156
Change in Net Position	271,500	8,074	(85,496)	42,017	186,004	50,091
Net Position, Beginning (Restated)	3,321,890	3,313,816	4,706,702	4,664,685	8,028,592	7,978,501
Net Position, Ending	<u>\$ 3,593,390</u>	<u>\$ 3,321,890</u>	<u>\$ 4,621,206</u>	<u>\$ 4,706,702</u>	<u>\$ 8,214,596</u>	<u>\$ 8,028,592</u>



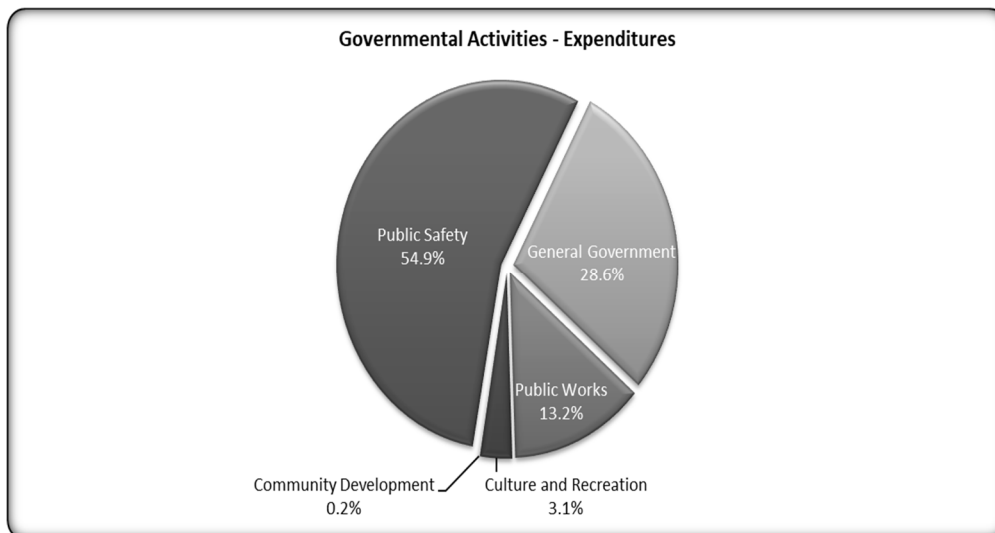
CITY OF ELKTON, KENTUCKY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
 FOR THE YEAR ENDED JUNE 30, 2021

Governmental Activities

Revenues for the City's governmental activities totaled \$1,875,160. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,277,187 which is 68.1% of total revenue. Capital and Operating Grants and Contributions totaled \$378,585 and accounted for about 20.2% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$124,615 or 6.6% of the total. Charges for services totaled \$36,275, or 1.9% of revenues. Interest on Investments accounted for about 0.6% of revenues, totaling \$10,873. All other incomes totaled \$47,625, or about 2.5% of revenues.



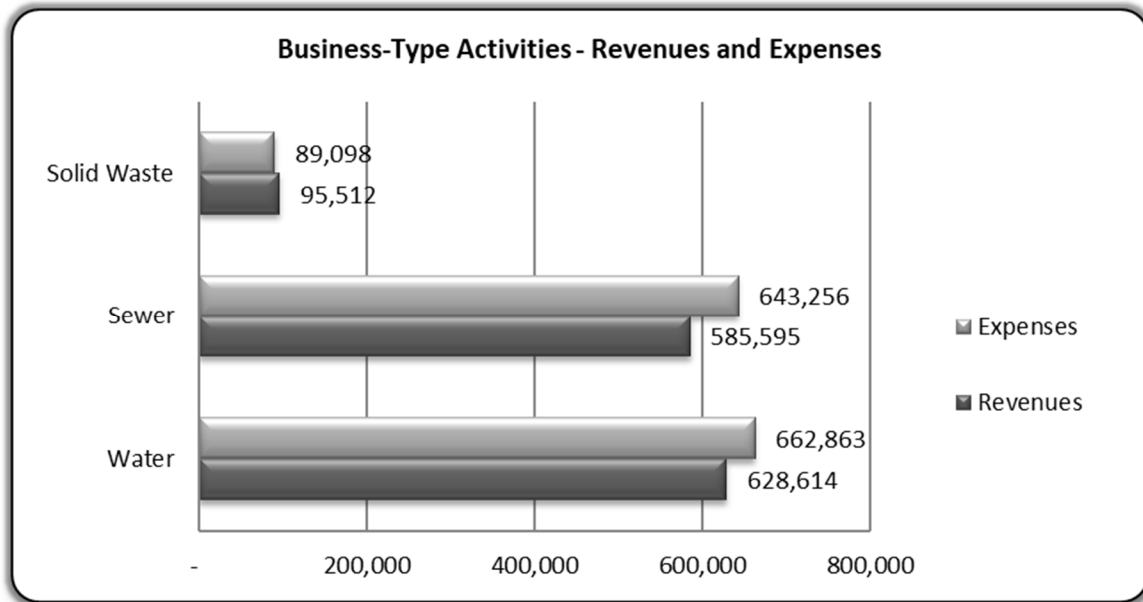
Total expenses of the City's governmental activities were \$1,603,660. The largest expenditure at 54.9% of total expenses, or \$881,096, was for Public Safety, which includes police and fire protection. The second largest category of expense is General Government, which totaled \$458,386 or 28.6% of expenses. Public Works was third and totaled \$211,203, or 13.2%. Culture and Recreation expenses totaled \$49,440, or 3.1% of the total. Finally, all other expenses totaled \$3,535, or 0.2% of total expenditures.



CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

Business-type Activities

Revenues for business-type activities totaled \$1,309,721 for the fiscal year ended June 30, 2021. Of this total, revenue from Charges for Services totaled \$1,268,630, or 96.9% of revenues. Expenses for business-type activities totaled \$1,395,217. Water department expenses accounted for \$662,863 of total expenditures, or 47.5%. Sewer department expenses accounted for 46.1% of total expenses, or \$643,256. Finally, the solid waste department accounted for 6.4% of total business-type activities expenditures with \$89,098 in expenses.



**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

The City's governmental funds for the year ended June 30, 2021 reflect a combined ending fund balance of \$2,912,520, an increase of \$514,128 from the prior year. Of the total fund balance, \$2,487,674 is unassigned and is available for spending at the City's discretion. The remainder \$424,846 is restricted or committed for prepaid expenses, mortgage receivables, and cemetery maintenance.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

General Fund Highlights

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was \$2,557,853 which is an increase of \$483,269 from the prior year. Of the total General Fund balance, 97.3% (\$2,487,674) is *unassigned fund balance*. As a measure of the general fund’s liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represented 137.8% of total general fund revenues.

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

<b>General Fund - Revenues by Source</b>						
	FY 2021		FY 2020		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
	Revenues by Source					
Taxes	\$1,213,963	67.2%	\$1,296,582	81.1%	\$ (82,619)	-6.37%
Licenses and Permits	124,615	6.9%	68,290	4.3%	56,325	82.48%
Intergovernmental Revenues	90,397	5.0%	92,043	5.8%	(1,646)	-1.79%
Charges for Services	36,645	2.0%	43,826	2.7%	(7,181)	-16.39%
Interest Income	9,564	0.5%	35,105	2.2%	(25,541)	-72.76%
Grant Income	212,610	11.8%	-	0.0%	212,610	n/a
Other Income	70,695	3.9%	41,658	2.6%	29,037	69.70%
Total Revenues	\$1,758,489	97.4%	\$1,577,504	98.7%	\$ 180,985	11.47%
Total Other Financing (uses)	46,848	2.6%	21,575	1.3%	25,273	117.14%
Total Revenues and Other Financing (uses)	\$1,805,337	100.0%	\$1,599,079	100.0%	\$ 206,258	12.90%

- The General Fund saw about an 82% increase in License and Permits revenue over last year. The increase is mainly due to the COVID-19 pandemic causing the Internal Revenue Service to give an extension to file tax returns in the year 2020 from April 15, 2020 to July 15, 2020 and therefore many occupational license tax returns were filed in FY 2021 that would normally have been filed in FY 2020.
- The largest total percentage decrease in revenue came from Interest Income, which decreased by almost 73%, or \$25,541, over last year. This decrease is due to the reduction in interest rates during the year.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

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

<b>General Fund - Expenditures by Function</b>						
	<b>FY 2021</b>		<b>FY 2020</b>		<b>Increase/(Decrease)</b>	
	<b>Percent</b>		<b>Percent</b>		<b>Percent</b>	
	<b>Amount</b>	<b>of Total</b>	<b>Amount</b>	<b>of Total</b>	<b>Amount</b>	<b>of Change</b>
<b>Expenditures by Function</b>						
General Government	\$ 396,322	30.0%	\$ 358,983	27.5%	\$ 37,339	10.40%
Public Works	127,483	9.6%	162,225	12.4%	(34,742)	-21.42%
Public Safety	670,804	50.7%	563,963	43.2%	106,841	18.94%
Culture and Recreation	49,599	3.8%	118,717	9.1%	(69,118)	-58.22%
Capital Outlay	77,860	5.9%	102,940	7.9%	(25,080)	-24.36%
Debt Service	-	0.0%	-	0.0%	-	0.00%
<b>Total Expenditures</b>	<b>\$ 1,322,068</b>	<b>100.0%</b>	<b>\$ 1,306,828</b>	<b>100.0%</b>	<b>\$ 15,240</b>	<b>1.17%</b>

- Overall, General Fund expenditures increased by about 1%, a total increase of \$15,240 over last year.
- The largest total decrease in expenditures was in the area of Culture and Recreation with a decrease in expenditures of \$69,118, or 58% less than last year. This decrease is mainly due to a decrease in community events and the closing of the Elkton-Todd County Welcome Center during the COVID-19 pandemic
- The largest total increase in expenditures was in Public Safety, with a \$106,841 increase in expenditures, or about 19% over last year. The increase was due to the department being severely understaffed during part of the previous FY 2020, with only 6 police officers on staff during most of the year and 7 police officers in FY 2021.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

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

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

Proprietary Funds								
Statement of Revenues, Expenses and Changes in Fund Net Position								
	Water		Sewer		Solid Waste		Total	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Operating Revenues	\$ 618,611	\$ 596,809	\$ 575,418	\$ 560,531	\$ 95,462	\$ 93,685	\$ 1,289,491	\$ 1,251,025
Operating Expenses	656,442	645,255	618,293	583,078	89,098	87,151	1,363,833	1,315,484
Operating Income (loss)	(37,831)	(48,446)	(42,875)	(22,547)	6,364	6,534	(74,342)	(64,459)
Non-operating revenues (expenses)	(3,618)	88,668	(21,986)	2,838	50	568	(25,554)	92,074
Income (loss) before transfers	(41,449)	40,222	(64,861)	(19,709)	6,414	7,102	(99,896)	27,615
Transfer in (out)	7,200	7,200	7,200	7,200	-	-	14,400	14,400
Net income (loss)	\$ (34,249)	\$ 47,422	\$ (57,661)	\$ (12,509)	\$ 6,414	\$ 7,102	\$ (85,496)	\$ 42,015
Net Position, beginning of year	793,486	746,064	3,865,991	3,878,500	47,224	40,122	4,706,701	4,664,686
Net Position, end of year	\$ 759,237	\$ 793,486	\$ 3,808,330	\$ 3,865,991	\$ 53,638	\$ 47,224	\$ 4,621,205	\$ 4,706,701

- The **water** fund accounts for the operation and maintenance of the water distribution system for City customers and a few County customers. The funds operating revenue increased by \$21,802 over last year. The water fund also saw an increase in operating expenditures by \$11,187. Operating revenues and expenditures mainly increased due to an increase in new construction generating new tap fee revenue, but also causes an increase in supplies for tap on expenses. The net position of the water fund as of June 30, 2021 decreased by \$34,249 to a total of \$759,237.
- The **sewer** fund accounts for the operation and maintenance of the sanitary sewer system and wastewater treatment facilities in the City. The funds operating revenue saw an increase of \$14,887 over the previous year, while operating expenses increased by \$35,215. Operating revenues basically saw minor increase in charges for services, tap fees, and the introduction of the new cellular meter fee in FY 2021. Operating expenses increased due to increase in sewer plant maintenance and increase in cost of supplies. As of June 30, 2021, the sewer fund saw a net decrease of \$57,661 for a net position of \$3,808,330.
- The **solid waste** fund accounts for contractual payments to Waste Management, Inc. for residential solid waste collection and disposal and the annual spring cleanup expenses. The fund had a net increase of \$6,414. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2021 for the solid waste fund is \$53,638.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City Council revises the General Fund’s budget in order to make adjustments in revenues and expenditures that were not anticipated when the budget was first adopted. In all, the original revenue and other financing sources budget decreased in the final budget by about 5.7%, or \$100,900. While the total expenditure budget decreased by \$349,621 or approximately 18.5%. These changes can be briefly summarized as follows:

- Although there were several minor changes throughout the budget, the main modifications to the general fund budget revenues were due to the city expecting to receive several grant rewards by the end of FY 2021 but were not received. This funding included about \$195,000 in American Rescue Plan Act (ARPA) funding and about \$50,000 in Transportation Alternative Project (TAP) funding.
- As for the decrease in budgeted expenditures, the city expected to complete the Goebel Avenue Sidewalk and Bicycle Lane project, however the project was still in the design phase at the end of FY 2021 therefore the final budget was decreased by \$425,000 for this project.

For the year, general fund actual revenues and other financing sources compared to the final budget came in about \$80,358 or about 4.3% less than expected. Actual expenditures were \$213,411 less than expected, or about 13.9% below budgetary estimates. The main reason for the less than expected expenditures were due to the following:

- The city budgeted for 8 full-time police officers and only had 7 full-time officers on staff during the year saving the city about \$68,000.
- The city expected to complete at least \$60,000 in construction of the Goebel Avenue TAP project in FY 2021 and none was completed.

**CAPITAL ASSETS**

The City’s capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2021 totaled \$2,110,091. For business-type activities, total capital assets amount to \$6,961,983. The City’s total net capital assets as of June 30, 2021 totaled \$9,072,074.

<b>City of Elkton Capital Assets</b>			
<b>June 30, 2021</b>			
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Land	\$ 130,545	\$ 138,500	\$ 269,045
Buildings and Improvements	689,918	-	689,918
Park and Land Improvements	889,877	-	889,877
Equipment	81,977	422,021	503,998
Vehicles	317,774	19,782	337,556
Plant and Lines	-	4,627,437	4,627,437
Construction in Progress	-	1,754,243	1,754,243
Total	<b>\$ 2,110,091</b>	<b>\$ 6,961,983</b>	<b>\$ 9,072,074</b>

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

**DEBT ADMINISTRATION**

At the end of the fiscal year, the City had a total outstanding debt of \$2,922,857. The General Fund and other Governmental Activities had no outstanding debt as of June 30, 2021. Therefore, the total outstanding debt for Business Type Activities totaled \$2,922,857 as of June 30, 2021.

- The largest portion of long-term debt in the amount of \$1,741,979 is payable from the Sewer Fund for a 0.5% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2018 for the Wastewater System Rehabilitation & Improvements Project. The total project is estimated to cost \$3,934,451. However, the city will also receive \$1,000,000 in debt forgiveness once the project is completed bringing the total estimated loan to about \$2,934,451.
- The sewer system also has a 0% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2006 to pay off the 1990 Series Sewer Revenue Bonds with outstanding debt as of June 30, 2021 of \$417,467.
- The sewer system also has an outstanding debt in the amount of \$315,833 from Revenue Bond Issue through the Kentucky League of Cities to pay off 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project.
- The sewer system also received a 1% interest loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$71,788.
- The Water Fund also has a low interest loan through KIA with a remaining balance of \$40,011 for the purchase of new radio read water meters that was completed in July 2010.
- In June 2014, the city received a low interest loan through KIA to separate the water distribution system from intersecting lines with the Todd County Water District and to replace an old water line on Goebel Avenue with a total balance of \$238,513.
- In 2018, the Water Fund received another 1% interest loan from KIA for the Water Rehabilitation & Upgrade Project. The outstanding debt for this project as of June 30, 2021 was \$81,045.
- The water and sewer systems entered into a note payable through Elkton Bank and Trust Company in 2018 for the purchase of a new 2019 Ford truck with an outstanding balance of \$7,003 as of June 30, 2021.
- Finally, the Sewer Fund entered into a note payable through Elkton Bank and Trust Company in November 2019 for the purchase of new Sewer Jetter equipment with an outstanding balance of \$16,304 as of June 30, 2021.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2021

<b>City of Elkton Outstanding Debt</b>			
<b>June 30, 2021</b>			
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Revenue Bonds			
Revenue Bonds Issue \$325,000 - Refunding	\$ -	\$ 315,833	315,833
Less Unamortized Discount	-	(7,086)	(7,086)
Notes Payable			
KIA Loan \$80,233 - Water Meter Project	-	40,011	40,011
KIA Loan \$808,000 - Sewer Plant Debt Retirement	-	417,467	417,467
KIA Loan \$136,761 - Sewer Extension Projects	-	71,788	71,788
KIA Loan \$346,246 - Water Separation and Goebel Extension	-	238,513	238,513
KIA Loan \$3,934,451 - Sewer Improvements Project	-	1,741,979	1,741,979
KIA Loan \$85,000 - Water Rehabilitation Project	-	81,045	81,045
Elkton Bank and Trust \$47,675 - Sewer Jetter	-	16,304	16,304
Elkton Bank and Trust \$26,672 - 2019 Ford Truck	-	7,003	7,003
Total	<u>\$ -</u>	<u>\$ 2,922,857</u>	<u>\$ 2,922,857</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

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

An ongoing issue the city has been dealing with for many years is water loss, or the difference of the water being purchased by the city and not being billed to customer possibly due to water leaks in the system or billing errors. For the year ended June 30, 2021, the water loss averaged about 38%, an increase of about 6% over last year. The average water loss for similar systems is approximately 15-20%, so finding and maintaining low water loss levels can save the water fund several thousand dollars. If the city could reduce water loss to about 15%, it would have saved the water fund about \$45,000 in FY 2021. The city continues to work on finding water leaks in the system to reduce water loss. Also, maintenance issues on water tanks and aging water lines will be a large expense that needs to be addressed in the near future.

Ongoing maintenance of the sewer system continues to increase at a fast rate due to an aging system and new regulations and requirements. In 2018, the City was awarded a KIA Planning Loan, which led to additional loans to complete a Wastewater System Rehabilitation & Improvements Project. Once this project is complete, the total new debt will be about \$2,934,451 at 0.5% interest with an annual debt service of about \$105,456. As part of the loan agreement, KIA has required that sewer rates be increased to meet new debt service requirements, which the city has already completed. The first principal payment is expected to be in June 2023.

**REQUESTS FOR INFORMATION**

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



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

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
<b>Current assets:</b>			
Cash	\$ 1,420,431	\$ 791,976	\$ 2,212,407
Investments	1,304,510	-	1,304,510
<b>Receivables:</b>			
Taxes, net	15,161	-	15,161
Accounts	-	173,994	173,994
Other	62,998	6,530	69,528
Internal balances, net	1,102	(1,102)	-
Prepaid expenses	735	324	1,059
Total current assets	<u>2,804,937</u>	<u>971,722</u>	<u>3,776,659</u>
<b>Restricted assets:</b>			
Restricted cash	70,612	195,428	266,040
Restricted investments	190,299	551,574	741,873
Total restricted assets	<u>260,911</u>	<u>747,002</u>	<u>1,007,913</u>
<b>Noncurrent assets:</b>			
Mortgages receivable	15,236	-	15,236
Capital assets (not being depreciated)	130,545	1,892,743	2,023,288
Capital assets, net	1,979,546	5,069,240	7,048,786
Total noncurrent assets	<u>2,125,327</u>	<u>6,961,983</u>	<u>9,087,310</u>
Total assets	<u>5,191,175</u>	<u>8,680,707</u>	<u>13,871,882</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows related to OPEB	173,677	139,861	313,538
Deferred outflows related to pensions	225,061	182,929	407,990
Total deferred outflows of resources	<u>398,738</u>	<u>322,790</u>	<u>721,528</u>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Accounts payable	103,208	58,113	161,321
Accrued liabilities	56,397	30,806	87,203
Withholdings and other payables	-	23,823	23,823
Customer deposits	-	122,975	122,975
Current maturities of long-term debt	-	90,280	90,280
Total current liabilities	<u>159,605</u>	<u>325,997</u>	<u>485,602</u>
<b>Noncurrent liabilities:</b>			
Net OPEB liability	361,208	277,175	638,383
Net pension liability	1,184,515	852,743	2,037,258
Long-term debt	-	2,832,577	2,832,577
Total noncurrent liabilities	<u>1,545,723</u>	<u>3,962,495</u>	<u>5,508,218</u>
Total liabilities	<u>1,705,328</u>	<u>4,288,491</u>	<u>5,993,819</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows related to OPEB	113,450	59,212	172,662
Deferred inflows related to pensions	177,745	34,589	212,334
Total deferred inflows of resources	<u>291,195</u>	<u>93,801</u>	<u>384,996</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	2,110,091	4,039,126	6,149,217
<b>Restricted for:</b>			
Mortgages receivable	15,236	-	15,236
Cemetery perpetual care	191,467	-	191,467
Debt service	-	747,002	747,002
Special funds	69,444	-	69,444
Unrestricted	1,207,152	(164,922)	1,042,230
Total net position	<u>\$ 3,593,390</u>	<u>\$ 4,621,206</u>	<u>\$ 8,214,596</u>

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

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Government activities:							
General government	\$ 458,386	\$ 26,787	\$ 9,794	\$ 212,610	\$ (209,195)	\$ -	\$ (209,195)
Public safety	881,096	9,488	77,603	-	(794,005)	-	(794,005)
Public works	211,203	-	-	78,578	(132,625)	-	(132,625)
Community development	3,535	-	-	-	(3,535)	-	(3,535)
Culture and recreation	49,440	-	-	-	(49,440)	-	(49,440)
Total government activities	<u>1,603,660</u>	<u>36,275</u>	<u>87,397</u>	<u>291,188</u>	<u>(1,188,800)</u>	<u>-</u>	<u>(1,188,800)</u>
Business-type activities:							
Water	662,863	610,214	-	1,500	-	(51,149)	(51,149)
Sewer	643,256	562,954	-	1,500	-	(78,802)	(78,802)
Solid waste	89,098	95,462	-	-	-	6,364	6,364
Total business activities	<u>1,395,217</u>	<u>1,268,630</u>	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>(123,587)</u>	<u>(123,587)</u>
Total city	<u>\$ 2,998,877</u>	<u>\$ 1,304,905</u>	<u>\$ 87,397</u>	<u>\$ 294,188</u>	<u>(1,188,800)</u>	<u>(123,587)</u>	<u>(1,312,387)</u>
General revenues:							
Taxes					1,277,187	-	1,277,187
Licenses and permits					124,615	-	124,615
Interest on investments					10,873	2,830	13,703
Gain (loss) on disposition of fixed asset					(9,040)	-	(9,040)
Other income					71,065	20,861	91,926
Transfers					(14,400)	14,400	-
Total general revenues and transfers					<u>1,460,300</u>	<u>38,091</u>	<u>1,498,391</u>
Change in net position					<u>271,500</u>	<u>(85,496)</u>	<u>186,004</u>
Net position, beginning (previously reported)					3,337,872	4,708,723	8,046,595
Prior period adjustment (note 11)					(15,982)	(2,021)	(18,003)
Net position, beginning (restated)					<u>3,321,890</u>	<u>4,706,702</u>	<u>8,028,592</u>
Net position, ending					<u>\$ 3,593,390</u>	<u>\$ 4,621,206</u>	<u>\$ 8,214,596</u>

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

CITY OF ELKTON, KENTUCKY  
BALANCE SHEET  
GOVERNEMENTAL FUNDS  
JUNE 30, 2021

	General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 1,218,494	\$ 201,937	\$ 1,420,431
Investments	1,304,510	-	1,304,510
Receivables:			
Taxes, net	15,161	-	15,161
Other	60,039	2,959	62,998
Prepaid expenses	735	-	735
Mortgages receivable	-	15,236	15,236
Due from other funds	61,842	8,158	70,000
Restricted cash	69,444	1,168	70,612
Restricted investments	-	190,299	190,299
	<hr/>	<hr/>	<hr/>
Total assets	\$ 2,730,225	\$ 419,757	\$ 3,149,982
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
Accounts payable	\$ 98,323	\$ 4,885	\$ 103,208
Accrued liabilities	56,397	-	56,397
Due to other funds	8,693	60,205	68,898
	<hr/>	<hr/>	<hr/>
Total liabilities	163,413	65,090	228,503
	<hr/>	<hr/>	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues - taxes	8,959	-	8,959
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	8,959	-	8,959
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u>			
Nonspendable:			
Prepaid expenses	735	-	735
Restricted	69,444	206,703	276,147
Committed	-	147,964	147,964
Unassigned	2,487,674	-	2,487,674
	<hr/>	<hr/>	<hr/>
Total fund balance	2,557,853	354,667	2,912,520
	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,730,225	\$ 419,757	\$ 3,149,982
	<hr/>	<hr/>	<hr/>

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

CITY OF ELKTON, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2021

Total fund balance - total government funds	\$ 2,912,520
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the funds.	2,110,091
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds.	8,959
Certain long-term obligations are not due and payable in the current period and therefore are not reported in the funds.	
Net OPEB liability	(361,208)
Net pension liability	(1,184,515)
Deferred outflows related to OPEB	173,677
Deferred outflows related to pensions	225,061
Deferred inflows related to OPEB	(113,450)
Deferred inflows related to pension	<u>(177,745)</u>
Net position of governmental activities	<u>\$ 3,593,390</u>

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,213,963	\$ 54,265	\$ 1,268,228
Licenses and permits	124,615	-	124,615
Intergovernmental revenues	90,397	75,578	165,975
Charges for services	36,645	-	36,645
Interest income	9,564	1,309	10,873
Grant income	212,610	-	212,610
Other income	70,695	-	70,695
Total revenues	<u>1,758,489</u>	<u>131,152</u>	<u>1,889,641</u>
Expenditures:			
Current:			
General government	396,322	-	396,322
Public works	127,483	10,507	137,990
Public safety	670,804	35,498	706,302
Culture and recreation	49,599	-	49,599
Capital outlay	77,860	-	77,860
Total expenditures	<u>1,322,068</u>	<u>46,005</u>	<u>1,368,073</u>
Revenues over (under) expenditures	<u>436,421</u>	<u>85,147</u>	<u>521,568</u>
Other financing sources (uses):			
Sale of fixed assets	6,960	-	6,960
Operating transfers in	54,288	-	54,288
Operating transfers out	(14,400)	(54,288)	(68,688)
Total other financing sources (uses)	<u>46,848</u>	<u>(54,288)</u>	<u>(7,440)</u>
Net changes in fund balance	483,269	30,859	514,128
Fund balance, beginning of year	<u>2,074,584</u>	<u>323,808</u>	<u>2,398,392</u>
Fund balance, end of year	<u>\$ 2,557,853</u>	<u>\$ 354,667</u>	<u>\$ 2,912,520</u>

CITY OF ELKTON, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

Net change in fund balance - total governmental funds	\$ 514,128
<p>Amounts reported for governmental activities in the statement of activities  are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the  statement of activities, the cost of those assets is allocated over their estimated  useful lives and reported as depreciation expense.</p>	
Capital assets purchased	77,860
Depreciation expense	(211,235)
Gain or (loss) on sale of fixed assets	(16,000)
<p>Revenues in the statement of activities that do not provide current financial  resources are not reported as revenues in the governmental funds.</p>	
	8,959
<p>Net pension/OPEB expense is an actuarial calculation and does not require the  use of current financial resources and is excluded as an expenditure in the  governmental funds.</p>	
Contributions for OPEB recorded as deferred outflows	25,394
Contributions for pensions recorded as deferred outflows	94,112
OPEB expense recorded in the governmental fund	(57,932)
Pension expense recorded in the governmental fund	(163,786)
	(163,786)
Change in net position of governmental activities	\$ 271,500

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

	Business-Type Activities			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	
<b><u>ASSETS</u></b>				
Current assets:				
Cash	\$ 344,643	\$ 387,098	\$ 60,235	\$ 791,976
Accounts receivable, net	173,994	-	-	173,994
Other receivables	4,693	1,837	-	6,530
Due from other funds	3,902	56,092	8,517	68,511
Prepaid expenses	162	162	-	324
Total current assets	<u>527,394</u>	<u>445,189</u>	<u>68,752</u>	<u>1,041,335</u>
Restricted assets:				
Restricted cash	144,096	51,332	-	195,428
Restricted investments	170,934	380,640	-	551,574
Total restricted assets	<u>315,030</u>	<u>431,972</u>	<u>-</u>	<u>747,002</u>
Noncurrent assets:				
Capital assets (not being depreciated)	55,000	1,837,743	-	1,892,743
Capital assets, net	914,282	4,154,958	-	5,069,240
Total noncurrent assets	<u>969,282</u>	<u>5,992,701</u>	<u>-</u>	<u>6,961,983</u>
Total assets	<u>1,811,706</u>	<u>6,869,862</u>	<u>68,752</u>	<u>8,750,320</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>				
Deferred outflows related to OPEB	70,411	69,450	-	139,861
Deferred outflows related to pensions	90,257	92,672	-	182,929
Total deferred outflows of resources	<u>160,668</u>	<u>162,122</u>	<u>-</u>	<u>322,790</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable	19,215	23,784	15,114	58,113
Accrued liabilities	20,616	10,190	-	30,806
Payroll withholdings and other payables	11,155	12,667	-	23,822
Due to other funds	64,718	4,895	-	69,613
Customer deposits	122,975	-	-	122,975
Current portion of note	26,681	63,304	-	89,985
Total current liabilities	<u>265,360</u>	<u>114,840</u>	<u>15,114</u>	<u>395,314</u>
Noncurrent liabilities:				
Net OPEB liability	137,609	139,566	-	277,175
Net pension liability	427,354	425,389	-	852,743
Note payable	336,390	2,496,481	-	2,832,872
Total noncurrent liabilities	<u>901,353</u>	<u>3,061,436</u>	<u>-</u>	<u>3,962,790</u>
Total liabilities	<u>1,166,713</u>	<u>3,176,276</u>	<u>15,114</u>	<u>4,358,104</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred inflows related to OPEB	30,016	29,196	-	59,212
Deferred inflows related to pensions	16,408	18,181	-	34,589
Total deferred inflows of resources	<u>46,424</u>	<u>47,377</u>	<u>-</u>	<u>93,801</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	606,211	3,432,916	-	4,039,127
Restricted for:				
Debt service	315,030	431,972	-	747,002
Unrestricted	(162,004)	(56,557)	53,638	(164,923)
Total net position	<u>\$ 759,237</u>	<u>\$ 3,808,330</u>	<u>\$ 53,638</u>	<u>\$ 4,621,205</u>

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

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

	Business-Type Activities			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	
Operating revenues:				
Charges for services	\$ 610,214	\$ 562,954	\$ 95,462	1,268,630
Miscellaneous	8,397	12,464	-	20,861
Total operating revenues	<u>618,611</u>	<u>575,418</u>	<u>95,462</u>	<u>1,289,491</u>
Operating expenses:				
Personnel services	291,591	268,957	-	560,548
Purchased water	231,582	-	-	231,582
Materials and supplies	98,093	173,810	-	271,903
Depreciation	35,176	171,037	-	206,213
Contractual services	-	4,489	89,098	93,587
Total operating expenses	<u>656,442</u>	<u>618,293</u>	<u>89,098</u>	<u>1,363,833</u>
Operating income (loss)	<u>(37,831)</u>	<u>(42,875)</u>	<u>6,364</u>	<u>(74,342)</u>
Nonoperating revenues (expenses):				
Capital grant income	1,500	1,500	-	3,000
Interest income	1,303	1,477	50	2,830
Interest expense	(6,421)	(24,963)	-	(31,384)
Total nonoperating revenues (expenses)	<u>(3,618)</u>	<u>(21,986)</u>	<u>50</u>	<u>(25,554)</u>
Income (loss) before transfers	(41,449)	(64,861)	6,414	(99,896)
Transfers:				
Transfer in	7,200	7,200	-	14,400
Total transfers	<u>7,200</u>	<u>7,200</u>	<u>-</u>	<u>14,400</u>
Change in net position	<u>(34,249)</u>	<u>(57,661)</u>	<u>6,414</u>	<u>(85,496)</u>
Net position, beginning (previously reported)	794,530	3,866,969	47,224	4,708,723
Prior period adjustment (note 11)	(1,044)	(977)	-	(2,021)
Net position, beginning (restated)	<u>793,486</u>	<u>3,865,992</u>	<u>47,224</u>	<u>4,706,702</u>
Net position, ending	<u>\$ 759,237</u>	<u>\$ 3,808,331</u>	<u>\$ 53,638</u>	<u>4,621,206</u>



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

	Business-type Activities			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	\$ 608,894	\$ 573,581	\$ 95,462	\$ 1,277,937
Cash payments to suppliers for goods and services	(346,883)	(496,342)	(81,064)	(924,289)
Cash payments to employees	(229,891)	(212,312)	-	(442,203)
Net cash provided (used) by operating activities	32,121	(135,073)	14,398	(88,554)
Cash flows from non-capital financing activities:				
Operating transfers from other funds	14,304	860	(266)	14,898
Net cash provided (used) by noncapital financing activities	14,304	860	(266)	14,898
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(143,661)	(519,236)	-	(662,897)
Capital grants	1,500	1,500	-	3,000
Proceeds from issuance of debt	-	1,010,280	-	1,010,280
Principal paid on long-term debt	(26,004)	(359,330)	-	(385,334)
Interest paid on long term debt	(6,421)	(24,963)	-	(31,384)
Net cash provided (used) by capital and related financing activities	(174,586)	108,251	-	(66,335)
Cash flows from investing activities:				
Interest on cash and investments	1,303	1,477	50	2,830
Net cash provided by investing activities	1,303	1,477	50	2,830
Net (decrease) increase in cash and cash investments	(126,858)	(24,484)	14,182	(137,161)
Cash and cash investments, beginning of year	786,531	843,554	46,054	1,676,139
Cash and cash investments, end of year	\$ 659,673	\$ 819,070	\$ 60,235	\$ 1,538,978
Reconciliation of total cash and cash investments:				
Current assets - cash and cash investments	\$ 344,643	\$ 387,098	\$ 60,235	\$ 791,976
Restricted assets - cash and cash investments	315,030	431,972	-	747,002
Total cash and cash investments	\$ 659,673	\$ 819,070	\$ 60,235	\$ 1,538,978

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

	Business-type Activities			Total
	Water	Sewer	Solid Waste	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (37,831)	\$ (42,875)	\$ 6,364	\$ (74,342)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	35,176	171,037	-	206,213
(Increase) decrease in:				
Accounts receivable	(14,284)	-	-	(14,284)
Other receivable	(4,693)	(1,837)	-	(6,530)
Prepaid expense	1,931	1,931	-	3,863
Deferred outflows OPEB	(20,993)	(19,679)	-	(40,671)
Deferred outflows pension	31,350	29,389	-	60,739
Increase (decrease) in:				
Accounts payable	(24,086)	(319,974)	8,034	(336,027)
Other withholdings and payables	1,455	978	-	2,433
Customer deposits	9,260	-	-	9,260
Accrued liabilities	4,947	(809)	-	4,138
Net OPEB liability	36,291	34,020	-	70,311
Net pension liability	21,471	20,126	-	41,596
Deferred inflows OPEB	(6,867)	(6,436)	-	(13,303)
Deferred inflows Pension	(1,007)	(944)	-	(1,951)
Net cash provided (used) by operating activities	<u>\$ 32,121</u>	<u>\$ (135,073)</u>	<u>\$ 14,398</u>	<u>\$ (88,554)</u>

CITY OF ELKTON, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

Excluded from the reporting entity:

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

These units have no assets, liabilities and fund equity at June 30, 2021, and had no material financial activities for the year then ended.

The accounts of the Todd County Emergency Services Center are excluded from the accompanying financial statements because the Center is an autonomous agency, operated as a joint venture supported by the city and county. The City contributed \$7,936 for the year ended June 30, 2021. There was not an amount due at the end of the fiscal year.

The accounts of the Elkton - Todd County Industrial Foundation, Inc. have been excluded from these financial statements because the City is not financially accountable over this agency and the agency is fiscally independent of the City of Elkton. The City contributed \$21,530 for the year ended June 30, 2021. There was not an amount due at the end of the fiscal year.

The accounts of the Elkton - Todd County Park and Recreation Commission are excluded from the accompanying financial statements because the Commission is a jointly operated venture of the City and County. Both the City and County contribute to the Commission, however neither has a fiscal liability for the Commissions' operations. The City contributed \$17,000 for the year ended June 30, 2021. There was not an amount due at the end of the fiscal year.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation**

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

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

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

**Fund Accounting**

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

**Governmental Funds**

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

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

**Proprietary Funds**

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

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Measurement Focus**

Government-wide and Proprietary Financial Statements

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

Fund Financial Statements

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

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

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

**C. Basis of Accounting**

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

Unearned Revenue

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

Expenses/Expenditures

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

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

**D. Deposits and Investments**

For purposes of financial statement presentation, all highly liquid investments (including restricted cash and investment assets) with original maturities of less than 90 days when purchased by the City are considered to be cash equivalents. Currently the City only holds certificates of deposit as investments which are recorded at cost. The City does not have an official deposit and investment policy, but adheres to the provisions of KRS 66.480.

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

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky.
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to: 1) United States Treasury; 2) Export-Import Bank of the United States; 3) Farmers Home Administration; 4) Government National Mortgage Corporation; and 5) Merchant Marine Bonds.
- (c) Obligations of any corporation of the United States government.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- (f) Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency.
- (h) Bonds or certificates of indebtedness of the state of Kentucky and of its agencies and instrumentalities.
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.
- (j) Shares of mutual funds, each of which shall have the following characteristics:
  - 1. The mutual fund shall be an open-ended diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
  - 2. The management company of the investment company shall have been in operation for at least five years.
  - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

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

**E. Prepaid items**

Payments made to vendors for services that will benefit periods beyond June 30, 2021 are recorded as prepaid items.

**F. Inventories**

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

**G. Capital Assets**

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

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City was not required to capitalize infrastructure assets used in general government operations including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to July 1, 2003. Infrastructure assets acquired since July 1, 2003 will be recorded at cost, and classified as “Infrastructure”. As allowed by accounting principles generally accepted in the United States, the City has elected not to record infrastructure values retroactively. For the year ended June 30, 2021 there were no infrastructure asset additions.

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

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

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

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

**H. Interfund Balances**

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

**I. Compensated Absences**

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2021. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements as an accrued liability. The City considers the amount to be a current liability.



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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

**K. Net Position**

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

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

**L. Fund Balances:**

Governmental funds classify fund balances in the following five components:

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

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

As of June 30, 2021, fund balance components balances are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General	\$ 735	\$ 69,444	\$ -	\$ 2,487,674	\$ 2,557,853
Other	-	206,703	147,964	-	354,667
Total	<u>\$ 735</u>	<u>\$ 276,147</u>	<u>\$ 147,964</u>	<u>\$ 2,487,674</u>	<u>\$ 2,912,520</u>

**N. Interfund Activity**

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

**O. Estimates**

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

**P. Stewardship, Compliance and Accountability**

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

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

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

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

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

**Q. Accounts Receivable**

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

**R. Restricted and Unrestricted Resources**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**S. Deferred Outflows and Inflows of Resources**

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

**T. Future Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued statements that will become effective in subsequent fiscal years. Below is a listing of future GASB statements:

- GASB Statement No. 87, Leases: The provisions of this Statement are effective for fiscal years beginning after June 15, 2021. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

The City is evaluating the impact that will result from adopting the above GASB statements and is currently unable to disclose the impact of the adoption of these standards upon the financial position and results of operations.

**NOTE 2 – CASH AND INVESTMENTS**

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

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the City, includes disclosure of the following:

- Risks related to custodial credit risk of bank deposits;

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2021, the carrying amount of City's deposits (including certificates of deposit) was \$4,524,830 and the bank balance of \$4,523,863 was collateralized as follows:

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

**NOTE 2 – CASH AND INVESTMENTS (continued)**

Insured by the FDIC	\$ 250,000
Uninsured and collateralized with securities held by the pledging financial institution's agent but not in the name of the City.	<u>4,273,863</u>
Total	<u>\$ 4,523,863</u>

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

**NOTE 3 – RECEIVABLES**

**A. Property Taxes**

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2021 are as follows:

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

Property tax receivables are shown net of an allowance for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end. Property tax receivable as of June 30, 2021 is \$21,325 with an allowance of \$7,733 for a net receivable of \$15,161.

**B. Mortgages Receivable**

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

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

**Mortgage loans** - Mortgage loans totaling \$15,236 have been granted through June 30, 2021. The loans are for varying terms based on the low to moderate income person's ability to repay the loan. The loans carry an interest rate of zero percent. The outstanding balance at June 30, 2021 was \$11,136 for loans made with funds from a grant for the Main Street project and \$4,100 for loans made with funds from a grant project for the Marion Street area.

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

**NOTE 3 – RECEIVABLES (continued)**

**C. Utility Receivable**

The City maintains a utility fund for the billing and collecting of water, sewer and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2021, the balance of the receivable account is \$173,994 which consists of billings for June service billed in July. The City maintains a high level of collectability and therefore does not maintain an allowance against this amount.

**NOTE 4 – INTERFUND ACTIVITIES**

Individual fund balances and activities at June 30, 2021 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Transfer in</u>	<u>Interfund Transfer out</u>
General	\$ 61,842	\$ (8,693)	\$ (54,288)	\$ 14,400
KLEFPF	-	(5,917)	-	-
ABC	7,234	(54,288)	-	54,288
RLF	924	-	-	-
Perpetual Care	-	-	-	-
Water	3,902	(64,718)	(7,200)	-
Sewer	56,092	(4,895)	(7,200)	-
Solid Waste	8,517	-	-	-
Total	<u>\$ 138,511</u>	<u>\$ (138,511)</u>	<u>\$ (68,688)</u>	<u>\$ 68,688</u>

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

**NOTE 5 – CONTINGENCIES**

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

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 - CLAIMS AND JUDGEMENTS**

The City is party to a pending suit as of June 30, 2021. While the outcome of this suit cannot be predicted, due to the insurance coverage maintained by the City, the City management and the City's legal representative feel that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

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

**NOTE 8 – OTHER MATTERS**

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

**NOTE 9 – LEASES**

During March 2002, the City leased the unused Todd County Courthouse building from Todd County. The lease period is for 25 years at an annual lease amount of \$1. The lease is renewable for an additional 25 years at the end of the initial term.

**NOTE 10 – COMPENSATED ABSENCES AND SICK PAY**

In accordance with the City of Elkton's policy on vacation and sick pay, the City has accrued a current liability for pay, which has been earned but not taken by employees as of June 30, 2021. The City is currently liable for compensated absences of the following:

<u>Fund</u>	<u>June 30, 2021</u>
General	\$ 34,255
Water	12,966
Sewer	<u>9,326</u>
	<u>\$ 56,547</u>

**NOTE 11 – PRIOR PERIOD ADJUSTMENT**

The net position was restated to reflect the change in proportionate share of the net OPEB liability related to the County Employee Retirement System pension plan. The net position of the governmental activities was decreased by \$15,982. The net positions of the business-type activities were decreased as follows: water fund \$1,044 and sewer fund \$977. This change is reflected in beginning net position balance.

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

**NOTE 12 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2021 was as follows:

<u>Government Activities</u>	<u>Balance 06/30/2020</u>	<u>Additions</u>	<u>Retirements/ Reclass</u>	<u>Balance 06/30/2021</u>
Capital Assets Not Being Depreciated:				
Land	\$ 130,545	\$ -	\$ -	\$ 130,545
Capital Assets Being Depreciated:				
Buildings & Improvements	1,393,652	5,000	-	1,398,652
Park and Land Improvements	1,448,923	13,287	-	1,462,210
Equipment	721,626	-	-	721,626
Vehicles	<u>727,047</u>	<u>59,574</u>	<u>(47,188)</u>	<u>739,433</u>
Total Capital Assets	<u>4,421,793</u>	<u>77,861</u>	<u>(47,188)</u>	<u>4,452,466</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(662,668)	(46,066)	-	(708,734)
Park and Land Improvements	(507,061)	(65,272)	-	(572,333)
Equipment	(608,141)	(31,508)	-	(639,649)
Vehicles	<u>(384,458)</u>	<u>(68,389)</u>	<u>31,188</u>	<u>(421,659)</u>
Total Accumulated Depreciation	<u>(2,162,328)</u>	<u>(211,235)</u>	<u>31,188</u>	<u>(2,342,375)</u>
Governmental Activities - Capital Assets, net	<u>\$ 2,259,465</u>	<u>\$ (133,374)</u>	<u>\$ (16,000)</u>	<u>\$ 2,110,091</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 46,485
Public Safety	91,537
Public Works	<u>73,213</u>
Total Depreciation Expense	<u>\$ 211,235</u>

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

**NOTE 12 – CAPITAL ASSETS (continued)**

<u>Business-Type Activities</u>	<u>Balance 06/30/2020</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 06/30/2021</u>
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Construction in process	1,375,766	378,477	-	1,754,243
Capital Assets Being Depreciated:				
Plant & lines	9,052,111	-	-	9,052,111
Equipment	605,284	284,420	-	889,704
Vehicles	146,377	-	-	146,377
Total Capital Assets	<u>11,318,038</u>	<u>662,897</u>	<u>-</u>	<u>11,980,935</u>
Less Accumulated Depreciation				
Plant & lines	(4,254,476)	(170,198)	-	(4,424,674)
Equipment	(434,335)	(33,348)	-	(467,683)
Vehicles	(123,928)	(2,667)	-	(126,595)
Total Accumulated Depreciation	<u>(4,812,739)</u>	<u>(206,213)</u>	<u>-</u>	<u>(5,018,952)</u>
Business-Type Activities Capital Assets, net	<u>\$ 6,505,299</u>	<u>\$ 456,684</u>	<u>\$ -</u>	<u>\$ 6,961,983</u>

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

Water	\$ 35,176
Sewer	<u>171,037</u>
Total Depreciation Expense	<u>\$ 206,213</u>



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

**NOTE 13 – PENSION PLAN**

**General Information About the Pension Plan**

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

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

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

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

*Contributions-* Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2021, total employer contributions for the City were \$189,112 based on a rate of 24.06% for Non-Hazardous and 39.58% for Hazardous members through covered payroll. The contribution rate of 24.06% for Non-Hazardous comprised of contributions of \$149,947 of which 19.30% or \$118,788 was allocated for pension and 4.76% or \$31,159 was allocated for insurance. The contribution rate of 39.58% for Hazardous comprised contributions of \$39,165 of which 30.06% or \$29,297 was allocated for pension and 9.52% or \$9,868 was allocated for insurance.

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

**NOTE 13 – PENSION PLAN (Continued)**

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

*Pension liability-* At June 30, 2021, the City reported a liability of \$2,037,258 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions to the pension plan during the year ended June 30, 2020, relative to the contributions of all members for the year ended June 30, 2020. At the June 30, 2020 measurement date, the City’s proportion was 0.0191%.

*Pension expense-* For the year ended June 30, 2021; the City recognized a pension expense of \$306,713.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows / (Deferred Inflows)
Differences between expected and actual experience	\$ 52,867	\$ -	\$ 52,867
Change in assumptions	79,170	-	79,170
Net difference between projected and actual earnings on plan investments	86,448	36,316	50,132
Changes in proportion and differences between employer contributions and proportionate share of contributions	39,556	176,018	(136,462)
Contributions subsequent to the measurement date	149,949	-	149,949
	<u>\$ 407,990</u>	<u>\$ 212,334</u>	<u>\$ 195,656</u>

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

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

Year Ended June 30	
2022	\$ 60,082
2023	1,240
2024	(19,514)
2025	3,899
2026	-
	<u>\$ 45,707</u>

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

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

**NOTE 13 – PENSION PLAN (Continued)**

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

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

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 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, 2008 through June 30, 2013.

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

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

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

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

**NOTE 13 – PENSION PLAN (Continued)**

*Discount rate-* The projection of cash flows used to determine the discount rate of 6.25% for CERS non-hazardous and CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

	1% Decrease (5.25%)	Current rate (6.25%)	1% Increase (7.25%)
City of Elkton's net pension liability			
Hazardous	\$ 419,788	\$ 339,674	\$ 274,279
Non-Hazardous	2,093,489	1,697,584	1,369,757
Total	<u>\$ 2,513,277</u>	<u>\$ 2,037,258</u>	<u>\$ 1,644,036</u>

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

**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)**

**General Information about the Plan**

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

*Benefits provided.* The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee’s spouse receives \$10 per month for insurance benefits for each year of the deceased employee’s earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes.

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

**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

*Contributions-* Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2021, total employer contributions for the City were \$189,112 based on a rate of 24.06% for Non-Hazardous and 39.58% for Hazardous members through covered payroll. The contribution rate of 24.06% for Non-Hazardous comprised of contributions of \$149,947 of which 19.30% or \$118,788 was allocated for pension and 4.76% or \$31,159 was allocated for insurance. The contribution rate of 39.58% for Hazardous comprised contributions of \$39,165 of which 30.06% or \$29,297 was allocated for pension and 9.52% or \$9,868 was allocated for insurance.

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

**Net OPEB Liability**

At June 30, 2021, the City reported a net OPEB liability of \$638,383. The City's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020, the City's proportion was .0191%.

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

Inflation	2.30%
Payroll growth rate	2.00% for CERS non-hazardous and hazardous
Salary increases	3.30% to 10.30% non-hazardous, 3.55% to 19.05% hazardous
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initially at 6.40% at January 1, 2022, and gradually decreasing to ultimate trend rate of 4.05% over a period of 14 years.
Healthcare cost trend rates (Post-65)	Initially at 2.90% at January 1, 2022, increasing to 6.30% in 2023 and then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

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

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

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

**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

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

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

*Discount rate.* The projection of cash flows used to determine the discount rate of 5.34% for CERS non-hazardous and 5.30 CERS hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used and 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, 2019. However, the cost associated with the implicit employers’ subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimate of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

**Changes in the Net OPEB Liability**

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

	1% Decrease	Current rate	1% Increase
City of Elkton's net OPEB liability	(4.30)	(5.30)	(6.30)
Hazardous	\$ 141,289	\$ 104,082	\$ 74,101
	1% Decrease	Current rate	1% Increase
City of Elkton's net OPEB liability	(4.34)	(5.34)	(6.34)
Non-Hazardous	686,418	534,301	409,360

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

**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

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

City of Elkton's net OPEB liability	Current Healthcare		
	1% Decrease	Trend Rates	1% Increase
Hazardous	\$ 74,380	\$ 104,082	\$ 140,598
Non-Hazardous	409,360	534,301	680,673
<b>Total</b>	<b>\$ 483,740</b>	<b>\$ 638,383</b>	<b>\$ 821,271</b>

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

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

For the year ended June 30, 2021, the City recognized OPEB expense of \$82,758. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,842	\$ 99,734
Change in assumptions	109,917	661
Net difference between projected and actual earnings on plan investments	36,368	13,987
Changes in proportion and differences between employer contributions and proportionate share of contributions	35,247	58,280
Contributions subsequent to the measurement date	39,164	-
	<b>\$ 313,538</b>	<b>\$ 172,662</b>

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

Year Ended June 30	
2022	\$ 31,435
2023	33,983
2024	25,767
2025	18,523
2026	(7,996)
	<b>\$ 101,712</b>

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

**NOTE 15 – LONG-TERM OBLIGATIONS**

As of June 30, 2021, the governmental funds debt balance had been reduced to zero.

<u>Business-Type Activities:</u>	<u>06/30/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2021</u>	<u>Current</u>
Revenue Bond Issue \$360,000	\$ 298,500	\$ -	\$ 298,500	\$ -	\$ -
Revenue Bond Issue \$325,000	-	325,000	9,167	315,833	10,000
Less Unamortized Discount	-	(7,355)	(269)	(7,086)	
Notes from direct borrowings:					
KIA Loan \$808,000	444,400	-	26,933	417,467	26,933
KIA Loan \$80,233	44,006	-	3,995	40,011	4,035
KIA Loan \$136,761	78,581	-	6,793	71,788	6,861
KIA Loan \$346,243	254,719	-	16,206	238,513	16,491
KIA Loan \$3,934,451	1,049,613	692,366	-	1,741,979	-
Elkton Bank Loan \$26,672	13,329	-	6,326	7,003	7,003
KIA Loan \$85,000	83,685	-	2,640	81,045	2,653
Elkton Bank Loan \$47,675	31,078	-	14,774	16,304	16,303
	<u>\$ 2,297,911</u>	<u>\$ 1,010,011</u>	<u>\$ 385,065</u>	<u>\$ 2,922,857</u>	<u>\$ 90,279</u>

Debt service requirement on long-term obligations at June 30, 2021 are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 90,279	\$ 16,412
2023	67,386	14,676
2024	67,804	13,955
2025	68,229	5,164
2026	68,661	4,654
2027-2031	347,795	51,193
2032-2036	270,764	33,864
2037-2041	102,906	21,979
2042-2046	93,554	10,819
2047-2051	<u>1,752,565</u>	<u>106</u>
Total long-term debt	2,929,943	<u>172,822</u>
Less: Unamortized Discount	<u>(7,086)</u>	
Net long-term debt total	<u>2,922,857</u>	

Interest expense for the year ended June 30, 2021

Business-type Activities:	<u>\$ 31,384</u>
Total	<u>\$ 31,384</u>



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

**NOTE 15 – LONG-TERM OBLIGATIONS (continued)**

**Default provisions:**

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

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

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

**Kentucky Infrastructure Authority Loan**

In December 2006, the city received a thirty year, 1% interest loan from the Kentucky Infrastructure Authority, in the amount of \$808,000 to retire the existing sewer bonds. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. Annual principal payments of \$26,933 will be required through December 2037. The loan requires the city to maintain a "Maintenance and Replacement Reserve" account. The account is to be funded on or before each payment date an amount equal to 10% of each loan payment until the amount on deposit is equal to 5% of the original principal amount of the loan or \$40,400. Amounts in the "Maintenance and Replacement Reserve" account may be used for extraordinary maintenance expenses or for the costs of replacing worn or obsolete portions of the sewer system. As of June 30, 2021, the reserve account was funded in compliance with the loan.

**City of Elkton Sewer System Revenue Bonds – Series 2007**

During 2007, the City adopted a resolution to issue \$360,000 principal "City of Elkton Sewer System Revenue Bonds as follows: Series A \$225,000 and Series B \$135,000 for the purpose of financing the cost of construction of extensions, additions and improvements to the existing sewer system. The bond covenant requires that rates for all utility services must be reasonable; the City must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the City must be equal to 120% of average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the Utility, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued.

The City is required to transfer into the Sinking Fund an amount equal to one sixth of the next succeeding six-month interest payment and one twelfth of the next succeeding principal maturing on the next succeeding principal payment date. In addition, the City is required to transfer to the Depreciation Fund \$160 per month until \$19,200 has accumulated. As of June 30, 2021 the depreciation fund balance was funded in compliance with the bond.

Series 2007 Bonds maturing before January 1, 2018 shall not be subject to prepayment. Principal maturities falling due on and after January 2, 2018, shall be subject to prepayment by the City on any date falling on and after January 1, 2016, at par plus accrued interest, without any penalty.

These bonds were refunded by issuance of City of Elkton Sewer System Revenue Bonds – Series 2021 issued on July 1, 2020. All sinking and depreciation funds were refunded to the City.

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

**NOTE 15 – LONG-TERM OBLIGATIONS (continued)**

**Kentucky Infrastructure Authority Loan**

On December 1, 2009 the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account as of June 30, 2021 was funded in compliance with the loan.

**Kentucky Infrastructure Authority Loan**

In June 2011, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$136,761. The purpose of the agreement was to assist the city with the cost of the sewer line extension project completed in August 2011. The terms of the loan are 1% interest rate with a 20-year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account as of June 30, 2021 was funded in compliance with the loan.

**Kentucky Infrastructure Authority Loan**

In October 2013, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$346,243. The purpose of the agreement was to assist the city with the cost of the Elkton, Todd County Water District Separation Project, to be completed in 2014. The terms of the loan are 1.75% interest rate with a 20-year payout. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$17,600. The "M&R" account as of June 30, 2021 was funded in compliance with the loan.

**Kentucky Infrastructure Authority Loan**

In November 2019, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of up to \$3,934,451, with current draws totaling \$1,741,979. The purpose of the agreement was to assist the City with the cost of the Elkton, Todd County Sewer District in the construction phase of the sewer plant rehabilitation project. The terms of the loan are 0.50% interest rate. For the construction phase of the project, the loan will be interest only payments and the principal will be rolled into the new KIA loan when complete with a maturity not to exceed 30 years from the completion of the project. The loan will carry a \$1,000,000 forgiveness portion when complete.

**Note Payable – Elkton Bank and Trust**

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

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

**NOTE 15 – LONG-TERM OBLIGATIONS (continued)**

**Kentucky Infrastructure Authority Loan**

On November 21, 2019, the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$170,000 for the purpose of financing the cost of meter replacement. The balance of \$170,000 had a 50.00% forgiveness rate to create a liability of the City of \$85,000. The loan carries a .50% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$400 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$8,000. The "R&M" account as of June 30, 2021 was funded in compliance with the loan.

**Note Payable – Elkton Bank and Trust**

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

**City of Elkton Sewer System Revenue Bonds – Series 2021**

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

The City is required to transfer into the Sinking Fund an amount of \$6,000 at the time of issuance, to be held in trust for the duration of the bond and used to offset final bond payment. As of June 30, 2021 the sinking fund balance was funded in compliance with the bond.

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

**NOTE 16 – REFUNDED BONDS**

On July 1, 2021, the City issued \$325,000 in Series C revenue bonds, with interest rates ranging from 2.00% to 2.75%. The City issued the bonds to currently refund the outstanding balance of \$298,500 sewer revenue bonds – series 2007. As a result, the liability from these bonds has been removed financial statements as of the time of this refunding. The current refunding reduced total debt service payments by \$39,331. This resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$25,403.

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL – GENERAL FUND (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts	Variance - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 1,136,900	\$ 1,176,500	\$ 1,213,963	\$ 37,463
Licenses and permits	141,995	95,695	124,615	28,920
Intergovernmental revenues	446,500	544,800	90,397	(454,403)
Charges for services	30,700	30,700	36,645	5,945
Interest income	21,000	9,200	9,564	364
Other income	20,300	69,300	70,695	1,395
Total revenues	1,797,395	1,926,195	1,758,489	(167,706)
Expenditures:				
Current:				
General government	441,000	447,700	396,322	51,378
Public works	110,500	106,600	127,483	(20,883)
Public safety	755,200	747,300	670,804	76,496
Culture and recreation	74,400	70,000	49,599	20,401
Capital outlay	504,000	163,879	77,860	86,019
Total expenditures	1,885,100	1,535,479	1,322,068	213,411
Revenues over (under) expenditures	(87,705)	390,716	436,421	45,705
Other financing sources (uses):				
Sale of fixed assets	-	-	6,960	6,960
Operating transfers in	50,600	55,700	54,288	(1,412)
Operating transfers out	(63,200)	(15,200)	(14,400)	800
Total other financing sources (uses)	(12,600)	40,500	46,848	6,348
Net change in fund balance	\$ (100,305)	\$ 431,216	483,269	\$ 52,053
Fund balance, beginning of year			2,074,584	
Fund balances, end of year			\$ 2,557,853	

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

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

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

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

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

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total net OPEB liability (asset) for Employees Retirement System	\$ 3,338,801,000	\$ 2,421,815,000	\$ 2,488,439,000	\$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	<u>0.0191%</u>	<u>0.0217%</u>	<u>0.0213%</u>	<u>0.0189%</u>
City's proportionated share of the net OPEB liability (asset)	\$ 638,382	\$ 638,383	\$ 530,205	\$ 535,063
City's covered-employee payroll	<u>\$ 706,999</u>	<u>\$ 642,901</u>	<u>\$ 683,619</u>	<u>\$ 656,835</u>
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	90.29%	99.30%	77.56%	81.46%
Total OPEB plan's fiduciary net position	\$ 3,902,730,000	\$ 3,910,225,000	\$ 3,695,108,000	\$ 3,401,537,049
Total OPEB plan's OPEB liability	\$ 7,241,531,000	\$ 6,332,040,000	\$ 6,183,547,000	\$ 6,238,550,680
Total OPEB plan's fiduciary net position as a percentage of the total OPEB liability	53.89%	61.75%	59.76%	54.52%

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

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

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

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



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

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

Valuation date	June 30, 2020
Experience study	July 1, 2008 – June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% - 11.55% non-hazardous, 3.05% - 18.55% hazardous
Investment Rate of Return	6.25%

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

Valuation date	June 30, 2020
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increases	3.30% - 11.55% non-hazardous, 3.05% - 18.55% hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.



# THURMAN CAMPBELL GROUP, PLC

## CERTIFIED PUBLIC ACCOUNTANTS

Members:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Tennessee Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements and have issued our report thereon dated January 28, 2022.

#### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-1, that we consider to be a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Elkton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Elkton, Kentucky's Response to Findings**

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

*Thurman Campbell Group, PLC*

Hopkinsville, Kentucky  
January 28, 2022

CITY OF ELKTON, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2021

**A. SUMMARY OF AUDITOR’S RESULTS**

1. The auditor’s report expresses an unmodified opinion on the financial statements of City of Elkton, Kentucky.
2. One material weakness relating to the audit of the financial statements is reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Elkton, Kentucky were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

2021-1 Internal Control over Financial Reporting:

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

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

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

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

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