

**Audit of the
CITY OF ELKTON, KENTUCKY**

Fiscal Year Ended June 30, 2023

Performed by:

Tichenor & Associates, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Louisville, Kentucky 40223

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Elkton, Kentucky (the City), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Elkton, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

Honorable Mayor Arthur Green and City Council
City of Elkton, Kentucky

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

Honorable Mayor Arthur Green and City Council
City of Elkton, Kentucky

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension and OPEB schedules on pages 4-14 and 51-55 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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.

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky
June 6, 2024

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

As management of the City of Elkton, Kentucky (the City), we offer readers of the City's financial statements this brief narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023.

Financial Highlights

- As of June 30, 2023, the City's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources for a total net position of \$9,509,118.
- Fund balance, a measure of current financial resources, decreased in the governmental funds by \$294,239 to a June 30, 2023, balance of \$3,669,572. Of this amount, \$2,960,717 is unassigned.
- The City's business-type activities (water, sewer, and waste management) net position as of June 30, 2023, totaled \$5,329,662, an increase of \$606,414 from the prior year.
- The City's general fund balance as of June 30, 2023, was \$3,294,980, a decrease of \$52,082 over the prior year. Of the total fund balance, \$2,960,717 is unassigned. The unassigned general fund balance represents 126.05% 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 \$11,824,528 as of June 30, 2023.

Overview of the Financial Statements

This discussion and analysis are 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.

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

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

Fund financial statements

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

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

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

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

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

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

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

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities had a net position of \$4,179,456, while business-type activities had a net position of \$5,329,662, for total city wide net position of \$9,509,118 as of June 30, 2023.

Statement of Net Position of Governmental and Business-Type Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2022</u>
<u>ASSETS</u>						
Current and Other Assets	\$ 3,472,935	\$ 3,926,966	\$ 1,896,682	\$ 1,833,720	\$ 5,369,617	\$ 5,760,686
Noncurrent Assets	<u>2,357,880</u>	<u>2,014,410</u>	<u>9,813,591</u>	<u>8,099,500</u>	<u>12,171,471</u>	<u>10,113,910</u>
Total Assets	5,830,815	5,941,376	11,710,273	9,933,220	17,541,088	15,874,596
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred Outflows Related to Pensions/OPEB	\$ 681,525	\$ 599,522	\$ 379,182	\$ 329,592	\$ 1,060,707	929,114
Total Deferred Outflows of Resources	<u>\$ 681,525</u>	<u>\$ 599,522</u>	<u>\$ 379,182</u>	<u>\$ 329,592</u>	<u>\$ 1,060,707</u>	<u>929,114</u>
<u>LIABILITIES</u>						
Current Liabilities	129,861	188,737	429,519	420,522	559,380	609,259
Net Pension Liability	1,764,155	1,557,913	1,120,166	1,020,015	2,884,321	2,577,928
Long-term Liabilities	-	-	<u>4,993,355</u>	<u>3,851,016</u>	<u>4,993,355</u>	<u>3,851,016</u>
Total Liabilities	1,894,016	1,746,650	6,543,040	5,291,553	8,437,056	7,038,203
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Deferred Inflows Related to Pensions/OPEB	438,868	538,779	216,753	248,011	655,621	786,790
Total Deferred Inflows of Resources	<u>438,868</u>	<u>538,779</u>	<u>216,753</u>	<u>248,011</u>	<u>655,621</u>	<u>786,790</u>
<u>NET POSITION</u>						
Invested in Capital Assets	2,025,247	2,014,410	4,644,433	4,181,098	6,669,680	6,195,508
Restricted	727,986	816,828	333,062	754,696	1,061,048	1,571,524
Unrestricted Net Position	<u>1,426,223</u>	<u>1,424,231</u>	<u>352,167</u>	<u>(212,546)</u>	<u>1,778,390</u>	<u>1,211,685</u>
Total Net Position	<u>\$ 4,179,456</u>	<u>\$ 4,255,469</u>	<u>\$ 5,329,662</u>	<u>\$ 4,723,248</u>	<u>\$ 9,509,118</u>	<u>\$ 8,978,717</u>

In the City as a whole, the largest portion of net position, \$6,669,680 or 70.14%, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens and these assets are not available for future spending.

The net position of governmental activity funds was \$4,179,456 with \$2,025,247 or 48.46% being invested in capital assets and \$1,426,223 or 34.12% 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 \$5,329,662. Of the net position, \$4,644,433 or 87.14% were invested in capital assets.

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

Statement of Activities for the Years Ended June 30, 2023 and 2022

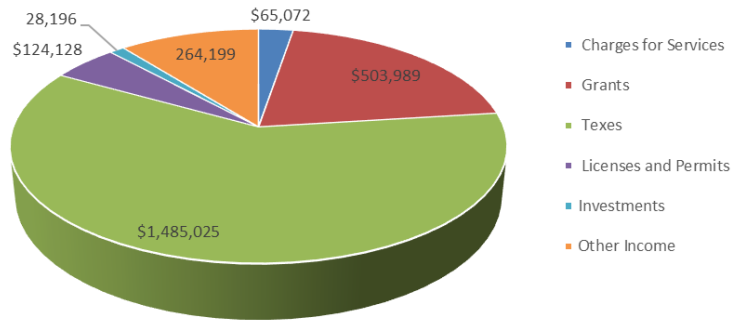
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2022</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 65,072	\$ 41,466	1,478,247	\$ 1,367,013	\$ 1,543,319	\$ 1,408,479
Operating Grants and Contributions	103,017	43,632	-	-	103,017	43,632
Capital Grants and Contributions	400,972	692,838	177,181	111,772	578,153	804,610
General Revenues:						
Taxes	1,485,025	1,509,516	-	-	1,485,025	1,509,516
Licenses and Permits	124,128	100,496	-	-	124,128	100,496
Investment Gain (Loss)	10,262	(27,977)	14,886	(40,583)	25,148	(68,560)
Investment Income (Loss)	17,934	10,765	11,917	7,505	29,851	18,270
Gain/(Loss) on Sale of Fixed Assets	121,844	2,615	-	3,438	121,844	6,053
Other Income	142,673	39,574	47,823	22,119	190,496	61,693
Transfers In/(Out)	(392,102)	(22,557)	402,508	22,557	10,406	-
Total Revenues	<u>2,078,825</u>	<u>2,390,368</u>	<u>2,132,562</u>	<u>1,493,821</u>	<u>4,211,387</u>	<u>3,884,189</u>
Expenses						
General Government	430,877	451,843	-	-	430,877	451,843
Public Safety	994,758	874,291	-	-	994,758	874,291
Public Works	623,459	276,329	-	-	623,459	276,329
Community Development	2,900	3,920	-	-	2,900	3,920
Culture and Recreation	102,844	77,109	-	-	102,844	77,109
Water	-	-	646,821	602,195	646,821	602,195
Sewer	-	-	782,336	710,355	782,336	710,355
Solid Waste	-	-	96,991	93,584	96,991	93,584
Total Expenses	<u>2,154,838</u>	<u>1,683,492</u>	<u>1,526,148</u>	<u>1,406,134</u>	<u>3,680,986</u>	<u>3,089,626</u>
Change in Net Position	<u>(76,013)</u>	<u>706,876</u>	<u>606,414</u>	<u>87,687</u>	<u>530,401</u>	<u>794,563</u>
Net Position, Beginning	<u>4,255,469</u>	<u>3,548,593</u>	<u>4,723,248</u>	<u>4,635,561</u>	<u>8,978,717</u>	<u>8,184,154</u>
Net Position, Ending	<u>\$ 4,179,456</u>	<u>\$ 4,255,469</u>	<u>\$ 5,329,662</u>	<u>\$ 4,723,248</u>	<u>\$ 9,509,118</u>	<u>\$ 8,978,717</u>

Governmental Activities

Revenues for the City's governmental activities totaled \$2,078,825. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,485,025 which is 71.45% of total revenue. Capital and Operating Grants and Contributions totaled \$503,989 and accounted for about 24.25% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$124,128 or 5.97% of the total. Charges for services totaled \$65,072 or 3.13% of revenues. Investments gain (loss) and Investment Income combined for a total gain of \$28,196. Finally, other incomes totaled \$142,673, or about 6.85% of revenues.

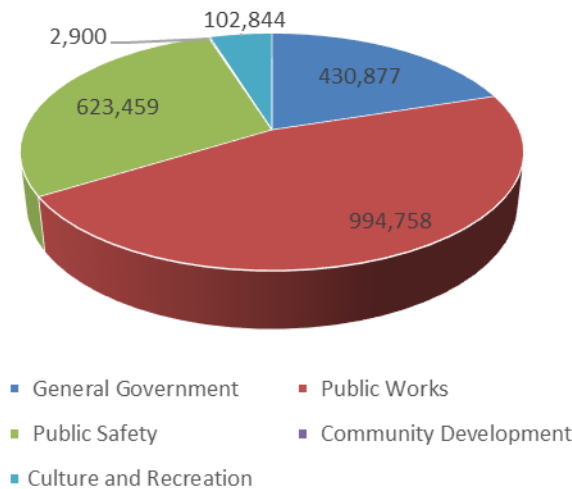
**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

Governmental Activities - Revenues



Total expenses of the City's governmental activities were \$2,154,838. The largest expenditure at 46.16% of total expenses, or \$994,758, was for Public Safety, which includes police and fire protection. The second largest category of expense is Public Works, which totaled \$623,459 or 28.93% of expenses. General Government was third and totaled \$430,877, or 20.00%. Culture and Recreation expenses totaled \$102,844, or 4.77% of the total. Finally, Community Development totaled \$2,900, or 0.13% of total expenditures.

Governmental Activities - Expenditures



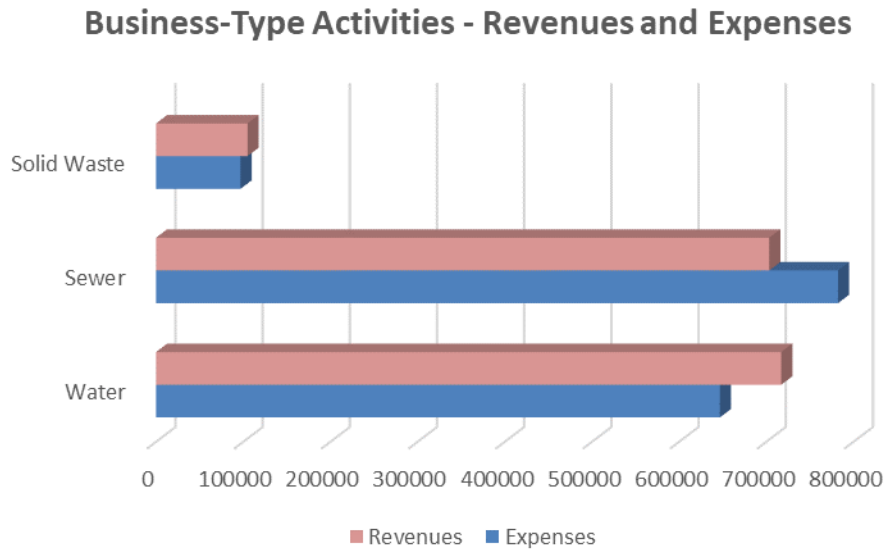
Business-Type Activities

Revenues for business-type activities totaled \$2,132,562 for the fiscal year ended June 30, 2023. Of this total, revenue from Charges for Services totaled \$1,478,247, or 96.89% of revenues.

Expenses for business-type activities totaled \$1,526,148. Water department expenses accounted for \$646,821 of total expenditures, or 42.38%. Sewer department expenses accounted for 51.26%

**CITY OF ELKTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

of total expenses, or \$782,336. Finally, the solid waste department accounted for 6.36% of total business-type activities expenditures with \$96,991 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, 2023, reflect a combined ending fund balance of \$3,669,572, a decrease of \$65,761 from the prior year. Of the total fund balance, \$2,960,717 is unassigned and is available for spending at the City's discretion. The remainder \$708,855 is restricted or committed for prepaid expenses, mortgage receivables, and cemetery maintenance.

General Fund Highlights

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was \$3,294,980 which is a decrease of \$52,082 from the prior year. Of the total General Fund balance, 89.9% \$2,960,717 is *unassigned fund balance*. As a measure of the general fund’s liquidity, it may be useful to compare unassigned fund

**CITY OF ELKTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

balance to total general fund revenues. The unassigned fund balance represented about 196.1% of total general fund revenues.

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

General Fund - Revenues by Source						
Revenues by Source	FY 2023		FY 2022		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Taxes	\$ 1,485,025	71.26%	\$ 1,447,163	61.78%	\$ 37,862	319.51%
Licenses and Permits	124,128	5.96%	100,496	4.29%	23,632	199.43%
Intergovernmental Revenues	3,000	0.14%	3,000	0.13%	-	0.00%
Charges for Services	65,072	3.12%	41,466	1.77%	23,606	199.21%
Investment Income	17,934	0.86%	10,001	0.43%	7,933	66.95%
Investment Gain/(loss)	10,262	0.49%	(27,977)	-1.19%	38,239	322.69%
Grant Income	371,316	17.82%	654,966	27.96%	(283,650)	-2393.67%
Other Income	142,355	6.83%	39,574	1.69%	102,781	867.35%
Total Revenues	\$ 2,219,092	106.48%	\$ 2,268,689	96.85%	\$ (49,597)	-418.54%
Total Other Financing (Uses)	(135,129)	-6.48%	73,682	3.15%	61,447	518.54%
Total Revenues and Other Financing (Uses)	\$ 2,083,963	100.00%	\$ 2,342,371	100.00%	\$ 11,850	100.00%

- The General Fund saw about a 2,400% decrease in Grant Income over last year. This decrease is due to receipt of \$560,958 in American Rescue Plan Act (ARPA) funding in FY 2022.
- The largest total percentage increase in revenue came from Other Income, which increased by 867.35%, or \$102,781, over last year.

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

General Fund - Expenditures by Function						
Expenditures by Function	FY 2023		FY 2022		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
General Government	\$ 414,978	20.32%	\$ 373,766	24.91%	\$ 41,212	7.60%
Public Works	225,964	11.06%	191,507	12.76%	34,457	6.35%
Public Safety	815,439	39.92%	728,056	48.53%	87,383	0.00%
Culture and Recreation	98,535	4.82%	76,904	5.13%	21,631	3.99%
Capital Outlay	487,627	23.87%	130,100	8.67%	357,527	65.94%
Debt Service	-	0.00%	-	0.00%	-	0.00%
Total Expenditures	\$ 2,042,543	100.00%	\$ 1,500,333	100.00%	\$ 542,210	83.88%

- Overall, General Fund expenditures increased by 83.88%, a total increase of \$542,210 over last year.
- The largest percentage increase in expenditure was in Capital Outlay, with a \$357,527 increase in expenditures, or 65.94% over last year. This increase was mainly due to the sidewalk projects on W. Main Street and Goebel Avenue. Additionally, the City leased five (5) new Dodge Durangos for the Police Department.

**CITY OF ELKTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

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 to Fund Net Position								
	Water		Sewer		Solid Waste		Total	
	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022
Operating Revenues	\$ 717,216	\$ 634,050	\$ 703,469	\$ 654,826	\$ 105,026	\$ 100,256	\$ 1,525,711	\$ 1,389,132
Operating Expenses	<u>641,552</u>	<u>596,500</u>	<u>756,866</u>	<u>685,826</u>	<u>96,991</u>	<u>93,584</u>	<u>1,495,409</u>	<u>1,375,910</u>
Operating Income (Loss)	<u>75,664</u>	<u>37,550</u>	<u>(53,397)</u>	<u>(31,000)</u>	<u>8,035</u>	<u>6,672</u>	<u>30,302</u>	<u>13,222</u>
Non-Operating Revenues (Expenses)	<u>7,759</u>	<u>25,254</u>	<u>165,767</u>	<u>26,599</u>	<u>78</u>	<u>55</u>	<u>173,604</u>	<u>51,908</u>
Income (Loss) before Transfers	<u>83,423</u>	<u>62,804</u>	<u>112,370</u>	<u>(4,401)</u>	<u>8,113</u>	<u>6,727</u>	<u>203,906</u>	<u>65,130</u>
Transfer In (Out)	<u>7,200</u>	<u>11,375</u>	<u>395,308</u>	<u>11,182</u>	<u>-</u>	<u>-</u>	<u>402,508</u>	<u>22,557</u>
Net Income (Loss)	<u>90,623</u>	<u>74,179</u>	<u>507,678</u>	<u>6,781</u>	<u>8,113</u>	<u>6,727</u>	<u>606,414</u>	<u>87,687</u>
Net Position, Beginning	<u>841,549</u>	<u>767,370</u>	<u>3,821,332</u>	<u>3,814,551</u>	<u>60,367</u>	<u>53,640</u>	<u>4,723,248</u>	<u>4,635,561</u>
Net Position, Ending	<u>\$ 932,172</u>	<u>\$ 841,549</u>	<u>\$ 4,329,010</u>	<u>\$ 3,821,332</u>	<u>\$ 64,480</u>	<u>\$ 60,367</u>	<u>\$ 5,329,662</u>	<u>\$ 4,723,248</u>

- 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 \$83,166 over last year. The water fund saw an increase in operating expenditure of \$45,052. Operating revenues mainly increased due to an increase in new customers and therefore an increase in charges for services. The increase in expenditure is respective to the increase in revenues. The net position of the water fund as of June 30, 2023, increased by \$90,623 to a total of \$932,172.
- 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 \$48,643 over the previous year, while operating expenses also increased by \$71,040. Operating revenues increased mainly due to an increase in Charges for Services due to a rate increase in 2021 to meet new debt obligations from the Wastewater System Rehabilitation & Improvements Project. Operating expenses increased mainly due to an increase in sewer plant maintenance and an increase in the cost of supplies. As of June 30, 2023, the sewer fund saw a net increase of \$507,678 for a net position of \$4,329,010.
- The **solid waste** fund accounts for contractual payments to GFL Environmental, Inc. for residential solid waste collection and disposal. The fund had a net increase of \$4,113. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2023, for the solid waste fund is \$64,480.

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 an effort to not exceed budgetary limitations.

For the year, general fund actual revenues and other financing sources compared to the final budget came in about \$49,153 or about 2.46% more than expected. Actual expenditures were \$269,093 less than expected, or about 13.83% below budgetary estimates.

Debt Administration

At the end of the fiscal year, the City had a total outstanding debt of \$5,158,253. The General Fund and other Governmental Activities had no outstanding debt as of June 30, 2023. Therefore, the total outstanding debt for Business-Type Activities totaled \$5,158,253 as of June 30, 2023.

- The largest portion of long-term debt in the amount of \$4,134,451 is payable from the Sewer Fund for a 0.5% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2018 for the Wastewater System Rehabilitation & Improvements Project. The total project is estimated to cost \$4,582,000, with \$4,134,451 in loan from KIA. However, the city will also receive \$1,000,000 in debt forgiveness once the project is completed bringing the total estimated loan to about \$3,134,451.
- The sewer system also has a 0% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2006 to pay off the 1990 Series Sewer Revenue Bonds with outstanding debt as of June 30, 2023, of \$363,600.
- The sewer system also has an outstanding debt in the amount of \$295,833 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 \$57,998.
- The Water Fund also has a low interest loan through KIA with a remaining balance of \$31,899 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 \$205,242 as of June 30, 2023.

**CITY OF ELKTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

- 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, 2023, was \$75,727.

City of Elkton, Kentucky Outstanding Debt
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
Revenue Bonds			
Revenue Bonds Issue \$325,000 - Refunding	-	295,833	295,833
Less Amortization Discount	-	(6,497)	(6,497)
Notes Payable			-
KIA Loan \$80,233 - Water Meter Project	-	31,899	31,899
KIA Loan \$8098,000 - Sewer Plant Debt Retirement	-	363,600	363,600
KIA Loan \$136,761 - Sewer Extension Projects	-	57,998	57,998
KIA Loan \$346,246 - Water Separation and Goebel Extension	-	205,242	205,242
KIA Loan \$3,934,451 - Sewer Improvements Project	-	4,134,451	4,134,451
KIA Loan \$85,000 - Water Rehabilitation Project	-	75,727	75,727
	<u>\$ -</u>	<u>\$ 5,158,253</u>	<u>\$ 5,158,253</u>

Capital Assets

The City’s capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2023, totaled \$2,025,247. For business-type activities, total capital assets amount to \$9,799,281. The City’s total net capital assets as of June 30, 2023, totaled \$11,824,528.

City of Elkton, Kentucky Capital Assets
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
Land	\$ 163,095	\$ 138,500	\$ 301,595
Building and Improvements	208,765	-	208,765
Park and Land Improvements	1,171,176	-	1,171,176
Equipment	76,380	370,339	446,719
Vehicles	405,831	18,087	423,918
Plant and Lines	-	9,215,209	9,215,209
Construction in Progress	-	57,146	57,146
	<u>\$ 2,025,247</u>	<u>\$ 9,799,281</u>	<u>\$ 11,824,528</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.

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 (Continued)**

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 the customer, possibly due to water leaks in the system or billing errors. For the year ended June 30, 2021, the water loss averaged about 38%. By the end of FY 2022, water loss for the year averaged 13%. This decrease in water loss saved the water department approximately \$60,000 for the year. The city continues to work on finding water leaks in the system to reduce water loss. Also, maintenance issues on water tanks and aging water lines will be a large expense that needs to be addressed in the near future.

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

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, 2023

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,669,441	\$ 708,938	\$ 3,378,379
Investments	-	381,608	381,608
Receivables:			-
Taxes, net	6,317	-	6,317
Accounts	5,635	172,348	177,983
Other	3,907	43,775	47,682
Prepaid expenses	2,410	944	3,354
Total current assets	<u>2,687,710</u>	<u>1,307,613</u>	<u>3,995,323</u>
Restricted assets:			
Restricted cash and cash equivalents	522,152	589,069	1,111,221
Restricted investments	263,073	-	263,073
Total restricted assets	<u>785,225</u>	<u>589,069</u>	<u>1,374,294</u>
Noncurrent assets:			
Mortgages receivable	12,985	-	12,985
Grants Receivable	319,648	10,906	330,554
Capital assets (not being depreciated)	163,095	195,646	358,741
Capital assets, net	1,862,152	9,607,039	11,469,191
Total noncurrent assets	<u>2,357,880</u>	<u>9,813,591</u>	<u>12,171,471</u>
Total assets	<u>5,830,815</u>	<u>11,710,273</u>	<u>17,541,088</u>
DEFERRED OUTFLOWS			
Deferred Outflow-Pension	450,451	239,374	689,825
Deferred Outflow-OPEB	231,074	139,808	370,882
Total deferred outflows of resources	<u>681,525</u>	<u>379,182</u>	<u>1,060,707</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	36,534	106,937	143,471
Accrued liabilities	60,782	26,280	87,062
Withholdings and other payables	11,440	3,158	14,598
Customer deposits	-	124,512	124,512
Other Liabilities	21,105	3,735	24,840
Current maturities of long-term debt	-	164,897	164,897
Total Current Liabilities	<u>129,861</u>	<u>429,519</u>	<u>559,380</u>
Noncurrent Liabilities:			
Net Pension Liability	1,394,442	868,310	2,262,752
Net OPEB Liability	369,713	251,856	621,569
Long-term debt	-	4,993,355	4,993,355
Total noncurrent liabilities	<u>1,764,155</u>	<u>6,113,521</u>	<u>7,877,676</u>
Total Liabilities	<u>1,894,016</u>	<u>6,543,040</u>	<u>8,437,056</u>
DEFERRED INFLOWS			
Deferred Inflows-Pension	220,604	100,266	320,870
Deferred Inflows-OPEB	218,264	116,487	334,751
Total deferred inflows of resources	<u>438,868</u>	<u>216,753</u>	<u>655,621</u>
NET POSITION			
Net investment in capital assets	2,025,247	4,644,433	6,669,680
Restricted for:			
Mortgage receivable	12,985	-	12,985
Cemetery perpetual care	190,299	-	190,299
Debt service	-	333,062	333,062
Special funds	524,702	-	524,702
Unrestricted	1,426,223	352,167	1,778,390
Total net position	<u>\$ 4,179,456</u>	<u>\$ 5,329,662</u>	<u>\$ 9,509,118</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, 2023**

Functions/Programs	Program Revenues Received				Governmental Activities	Changes in Net Position Business-Type Activities	Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:							
General Government	\$ 430,877	\$ 29,355	\$ -		\$ (401,522)	\$ -	\$ (401,522)
Public Safety	994,758	28,843	103,017	-	(862,898)	-	(862,898)
Public Works	623,459	6,874	-	400,972	(215,613)	-	(215,613)
Community Development	2,900	-	-	-	(2,900)	-	(2,900)
Culture and Recreation	102,844	-	-	-	(102,844)	-	(102,844)
Total Governmental Activities	2,154,838	65,072	103,017	400,972	(1,585,777)	-	(1,585,777)
Business-Type Activities:							
Water	646,821	680,900	-	-	-	34,079	34,079
Sewer	781,977	692,321	-	177,181	-	87,525	87,525
Solid Waste	96,991	105,026	-	-	-	8,035	8,035
Total Business-Type Activities	1,525,789	1,478,247	-	177,181	-	129,639	129,639
Total City	\$ 3,680,627	\$ 1,543,319	\$ 103,017	\$ 578,153			
General Revenues:							
Taxes					1,485,025	-	1,485,025
Licenses and Permits					124,128	-	124,128
Investment Gain (Loss)					10,262	14,886	25,148
Investment Income (Loss)					17,934	11,917	29,851
Gain (Loss) on Disposal of Fixed Assets					121,844	-	121,844
Other Income					142,673	47,464	190,137
Transfers					(392,102)	402,508	10,406
Total General Revenues and Transfers					1,509,764	476,775	1,986,539
Change in Net Position					(76,013)	606,414	530,401
Net Position - Beginning					4,255,469	4,723,248	8,978,717
Net Position - Ending					\$ 4,179,456	\$ 5,329,662	\$ 9,509,118

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,420,969	\$ 232,207	\$ 2,653,176
Receivables			
Taxes, net	6,317	-	6,317
Other	6,230	-	6,230
Prepaid Expenses	2,410	-	2,410
Mortgages Receivable	-	12,985	12,985
Grants Receivable	319,648	-	319,648
Due from Other Funds	75,313	10,185	85,498
Restricted Cash and Cash Equivalents	331,853	190,299	522,152
Restricted Investments	263,073	-	263,073
TOTAL ASSETS	<u>\$ 3,425,813</u>	<u>\$ 445,676</u>	<u>\$ 3,871,489</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	19,959	-	19,959
Accrued Liabilities	60,782	-	60,782
Due to Other Funds	43,775	71,084	114,859
TOTAL LIABILITIES	<u>124,516</u>	<u>71,084</u>	<u>195,600</u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenues - Taxes			
	6,317	-	6,317
Toal Deferred Inflows of Resources	<u>6,317</u>	<u>-</u>	<u>6,317</u>
 FUND BALANCE			
Nonspendable:			
Prepaid Expenses	2,410	-	2,410
Restricted	331,853	203,284	535,137
Committed	-	171,308	171,308
Unassigned	2,960,717	-	2,960,717
TOTAL FUND BALANCE	<u>3,294,980</u>	<u>374,592</u>	<u>3,669,572</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,425,813</u>	<u>\$ 445,676</u>	<u>\$ 3,871,489</u>

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

**CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023**

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

Total Fund Balance	\$ 3,669,572
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets (Net of Depreciation) Used in Governmental Activities are not Financial Resources and Therefore are not Reported in the Funds.	2,025,247
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds	6,317
Amounts related to the Retirement Plan for the Entity, which are not Expected to be Liquidated using Currently Available Expendable Resources:	
Deferred Outflows related to Pension	449,951
Deferred Outflows related to OPEB	231,074
Net Pension Liability	(1,394,442)
Net OPEB Liability	(369,713)
Deferred Inflows related to Pension	(220,604)
Deferred Inflows related to OPEB	(218,264)
	<hr/>
Net Position of Governmental Activities	<u><u>\$ 4,179,138</u></u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,485,025	\$ -	\$ 1,485,025
Licenses and Permits	124,128	-	124,128
Intergovernmental Revenues	3,000	129,674	132,674
Charges for Service	65,072	-	65,072
Investment Income	17,104	830	17,934
Investment Gain (Loss)	10,262	-	10,262
Grant Income	371,316		371,316
Other Income	13,252	129,421	142,673
TOTAL REVENUES	2,089,159	259,925	2,349,084
EXPENDITURES			
General Government	414,978	-	414,978
Public Works	225,964	61,537	287,501
Public Safety	815,439	43,549	858,988
Culture and Recreation	98,535	-	98,535
Capital Outlay	487,627	-	487,627
TOTAL EXPENDITURES	2,042,543	105,086	2,147,629
Revenues Over (Under) Expenditures	46,616	154,839	201,455
Other Financing Sources (Uses)			
Sale of Fixed Assets	121,844	-	121,844
Operating Transfers Out	(321,739)	(67,321)	(389,060)
	(199,895)	(67,321)	(267,216)
Total Other Financing Sources (Uses)			
Net Changes in Fund Balance	(153,279)	87,518	(65,761)
Fund Balance - Beginning	3,347,062	388,271	3,735,333
Fund Balance - Ending	\$ 3,193,783	\$ 475,789	\$ 3,669,572

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

**CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Reconciliation to the Statement of Activities:

Net Change in Governmental Fund Balance	\$ (65,761)
<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	487,627
Depreciation Expense	(3,383)
Gain or (loss) on sale of fixed assets	(121,844)
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds	6,317
<p>Amounts related to the Retirement Plan for the Entity, which are not Expected to be Liquidated using Currently Available Expendable Resources.</p>	
Pension Expense	(182,178)
OPEB Expense	(68,659)
<p>Financing Obligation and Principal Payments are Expensed in the Governmental Funds as a Use Of Current Financial Resources. However, These Transactions Have No Effect on Net Assets.</p>	
Long-term Debt less Principal Payment	
<p>Certain Expenses Reported in the Statement of Activities do not Require the Use of Current Financial Resources and Therefore are not Reported as Expenses in Government Funds</p>	
Payroll - Vacation Expense	<u>(128,450)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (76,331)</u></u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2023

	Business-Type Activities			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 331,717	\$ 310,484	\$ 66,737	\$ 708,938
Investments	190,804	190,804		381,608
Accounts Receivable, net	165,969	5,679	700	172,348
Due from Other Funds	-	114,033	9,178	123,211
Prepaid expenses	472	472		944
Total current assets	<u>688,962</u>	<u>621,472</u>	<u>76,615</u>	<u>1,387,049</u>
Restricted assets:				
Restricted cash and cash equivalents	153,746	435,323	-	589,069
Total restricted assets	<u>153,746</u>	<u>435,323</u>	<u>-</u>	<u>589,069</u>
Noncurrent assets:				
Grants Receivable	-	10,906	-	10,906
Capital assets (not being depreciated)	80,344	115,302	-	195,646
Capital assets, net	1,051,053	8,555,986	-	9,607,039
Total noncurrent assets	<u>1,131,397</u>	<u>8,682,194</u>	<u>-</u>	<u>9,813,591</u>
Total assets	<u>1,974,105</u>	<u>9,738,989</u>	<u>76,615</u>	<u>11,789,709</u>
DEFERRED OUTFLOWS				
Deferred Outflow-Pension	118,018	121,356	-	239,374
Deferred Outflow-OPEB	70,057	69,751	-	139,808
Total deferred outflows of resources	<u>188,075</u>	<u>191,107</u>	<u>-</u>	<u>379,182</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	32,005	66,797	8,135	106,937
Accrued liabilities	9,859	16,421	-	26,280
Withholdings and other payables	1,992	1,166	-	3,158
Due to Other Funds	79,435		-	79,435
Customer deposits	124,512	-	-	124,512
Other Liabilities	3,736	-	-	3,736
Current maturities of long-term debt	23,872	141,025	-	164,897
Total Current Liabilities	<u>275,411</u>	<u>225,409</u>	<u>8,135</u>	<u>508,955</u>
Noncurrent Liabilities:				
Net Pension Liability	436,964	431,346	-	868,310
Net OPEB Liability	126,100	125,756	-	251,856
Long-term debt	288,996	4,704,359	-	4,993,355
Total noncurrent liabilities	<u>852,060</u>	<u>5,261,461</u>	<u>-</u>	<u>6,113,521</u>
Total Liabilities	<u>1,127,471</u>	<u>5,486,870</u>	<u>8,135</u>	<u>6,622,476</u>
DEFERRED INFLOWS				
Deferred Inflows-Pension	45,932	54,334	-	100,266
Deferred Inflows-OPEB	56,605	59,882	-	116,487
Total deferred inflows of resources	<u>102,537</u>	<u>114,216</u>	<u>-</u>	<u>216,753</u>
NET POSITION				
Net investment in capital assets	818,529	3,825,904	-	4,644,433
Restricted for:				
Debt service	153,746	179,316	-	333,062
Unrestricted	(40,103)	323,790	68,480	352,167
Total net position	<u>\$ 932,172</u>	<u>\$ 4,329,010</u>	<u>\$ 68,480</u>	<u>\$ 5,329,662</u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	Business-Type Activities			
	Mayor Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
OPERATING REVENUES				
Charges for Services	\$ 680,900	\$ 692,321	\$ 105,026	\$ 1,478,247
Other Income	36,316	11,148	-	47,464
Total Operating Revenues	<u>717,216</u>	<u>703,469</u>	<u>105,026</u>	<u>1,525,711</u>
OPERATING EXPENDITURES				
Personnel	248,599	266,563	-	515,162
Purchased Water	186,746	-	-	186,746
Materials and Supplies	153,147	272,255	2,272	427,674
Depreciation	53,060	218,048	-	271,108
Contractual Services	-	-	94,719	94,719
Total Operating Expenditures	<u>641,552</u>	<u>756,866</u>	<u>96,991</u>	<u>1,495,409</u>
Revenues Over (Under) Expenditures	<u>75,664</u>	<u>(53,397)</u>	<u>8,035</u>	<u>30,302</u>
Nonoperating Revenues (Expenditures)				
Capital Grant Income	-	157,099	-	157,099
Contributed Property	-	20,082	-	20,082
Investment Income	5,584	6,255	78	11,917
Investment Gain (Loss)	7,443	7,443	-	14,886
Interest Expense	(5,268)	(25,112)	-	(30,380)
Total Nonoperating Revenues (Expenditures)	<u>7,759</u>	<u>165,767</u>	<u>78</u>	<u>173,604</u>
Income (Loss) Before Transfers	<u>83,423</u>	<u>112,370</u>	<u>8,113</u>	<u>203,906</u>
Transfers:				
Transfers In	7,200	395,308	-	402,508
Total Transfers	<u>7,200</u>	<u>395,308</u>	<u>-</u>	<u>402,508</u>
Change in Net Position	<u>90,623</u>	<u>507,678</u>	<u>8,113</u>	<u>606,414</u>
Net Position, Beginning	<u>841,549</u>	<u>3,821,332</u>	<u>60,367</u>	<u>4,723,248</u>
Net Position, Ending	<u>\$ 932,172</u>	<u>\$ 4,329,010</u>	<u>\$ 68,480</u>	<u>\$ 5,329,662</u>

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

**CITY OF ELKTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

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, 2023, 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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 in 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (Continued)

Fund Financial Statements (Continued)

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 in 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

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

Unearned Revenue

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

Expenses/Expenditures

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

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

D. Deposits and Investments

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

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

- (a) US government obligations and instrumentalities including obligations subject to repurchase, if delivery of these obligations is taken directly or through an authorized custodian. KRS 66.480(1)(a).
- (b) US Treasury and other US government obligations that carry the full faith and credit guarantee of

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments (Continued)

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

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

E. Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2023, 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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.

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, 2023, the City completed the Goebel Avenue sidewalk project and added it to the schedule of assets.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 activity’s 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, 2023. 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.

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”.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balances

Governmental funds classify fund balances in the following five components:

- *Non-spendable* — amounts that cannot be spent either because they are in non-spendable 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.

	Non-spendable	Restricted	Committed	Unassigned	Total
General	\$ 2,410	\$ 331,853	\$ -	\$ 2,960,717	\$ 3,294,980
Other	-	203,284	171,308	-	374,592
Total	\$ 2,410	\$ 535,137	\$ 171,308	\$ 2,960,717	\$ 3,669,572

M. 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.

N. 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates (Continued)

in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. 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.

The General fund had no expense accounts that exceeded budgetary limitations.

O. 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.

P. 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.

Q. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. New Pronouncements

For 2023, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government’s leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement had no cumulative effect adjustment to the beginning fund balance/net position and there is no effect of this change in the current period on changes in fund balance/net position. The effect of this statement is considered immaterial to the financial statements.

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.

NOTE 2 – CASH AND INVESTMENTS

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

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

The City categorized its fair value measurements with the fair value hierarchy by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investment assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The inputs or methodology for valuing securities are not an indication of risk associated with those securities. No changes have been made to the valuation of securities for the year ending June 30, 2023.

1. Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit investments in debt securities to the highest rated category by at least three nationally recognized rating agencies. As of June 30, 2023, the City's investment in the KLOCIP was unrated.
2. Concentration of credit risk: A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails to meet its obligations. The City places no limit on the amount the City may invest in any one issuer. One hundred percent of the City's investments are in the KLOCIP.
3. Interest rate risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates but mitigates the risk by investing only in the KLOCIP.
4. Custodial credit risk: Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure. The City does not have a custodial credit risk policy for investments.

The Federal Depository Insurance Corporation (FDIC) currently insures the first \$250,000 of the City's deposits at each financial institution. State statutes require that all deposits with financial institutions be secured by FDIC or by collateral held by the financial institution in the City's name.

As of June 30, 2023, the carrying amount of the City's deposits was \$5,136,531 and the bank balance of \$4,367,667 was categorized as follows:

Insured by the FDIC	\$ 500,000
Uninsured and collateralized with securities held by the pledging financial institution's agent but not in the name of the City.	3,867,667
Uninsured and uncollateralized	<u>0</u>
Total	<u>\$ 4,367,667</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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

A. Property Taxes

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed, and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2023, are as follows:

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

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

B. Mortgages Receivable

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

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

Mortgage loans - Mortgage loans totaling \$12,985 have been granted through June 30, 2023. 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 on June 30, 2023, was \$9,636 for loans made with funds from a grant for the Main Street project and \$3,350 for loans made with funds from a grant project for the Marion Street area.

C. Utility Receivable

The City maintains a utility fund for the billing and collecting of water, sewer, and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2023, the balance of the receivable account is \$172,348 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTES 4 - CONTINGENCIES

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

NOTE 5 – INTERFUND ACTIVITIES

Individual fund balances and activities at June 30, 2023 were as follows:

Fund	Interfund Receivable	Interfund Payable	Interfund Transfer in	Interfund Transfer out
General	\$ 75,313	\$ (44,585)	\$ 69,767	\$ (392,256)
KLEFPF	-	(3,764)	-	-
ABC	13,138	(71,085)	-	(67,321)
RLF	810	-	-	(750)
Perpetual Care	-	-	-	-
Water	-	(80,404)	7,200	-
Sewer	114,033	(968)	395,308	-
Solid Waste	9,178	-	-	-
Total	\$ 212,472	\$ (200,806)	\$ 472,275	\$ (460,327)

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

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 - CLAIMS AND JUDGEMENTS

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

NOTES TO 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. The lease does not constitute an exchange transaction therefore it has not been accounted for under GASB 87.

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increase FY 2023	Decrease FY 2023	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,580	\$ -	\$ 42,485	\$ 163,095
Capital Assets Being Depreciated:				
Buildings and Improvements	1,352,610	15,899	621,554	746,955
Park and Land Improvements	1,474,210	335,958	-	1,810,168
Equipment	752,351	-	22,063	730,288
Vehicles	739,433	135,770	121,991	753,212
 Total Capital Assets	 4,524,184	 487,627	 808,093	 4,203,718
Less Accumulated Depreciation:				
Buildings and Improvements	752,329	-	214,139	538,190
Park and Land Improvements	637,872	1,120	-	638,992
Equipment	675,971	-	22,063	653,908
Vehicles	443,602	2,263	98,484	347,381
 Total Accumulated Depreciation	 2,509,774	 3,383	 334,686	 2,178,471
 Governmental Activities Total Capital Assets - Net	 <u>\$ 2,014,410</u>	 <u>\$ 484,244</u>	 <u>\$ 473,407</u>	 <u>\$ 2,025,247</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2023, was as follows:

<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increase FY 2023</u>	<u>Decrease FY 2023</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Construction in Process	2,947,539	1,757,752	4,648,145	\$ 57,146
Capital Assets Being Depreciated:				
Plant and Lines	9,210,066	4,821,148	24,245	14,006,969
Equipment	868,829	40,135	-	908,964
Vehicles	151,127	-	-	151,127
Total Capital Assets	13,316,061	6,619,035	4,672,390	15,262,706
Less Accumulated Depreciation:				
Plant and Lines	4,600,833	215,172	24,245	4,791,760
Equipment	486,306	52,319	-	538,625
Vehicles	129,422	3,618	-	133,040
Total Accumulated Depreciation	5,216,561	271,109	24,245	5,463,425
Business-Type Activities Total Capital Assets - Net	<u>\$ 8,099,500</u>	<u>\$ 6,347,926</u>	<u>\$ 4,648,145</u>	<u>\$ 9,799,281</u>

NOTE 11 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation and sick pay, the City has accrued a current liability for pay, which has been earned but not taken by employees as of June 30, 2023. The City is currently liable for compensated absences of the following:

<u>Fund</u>	<u>June 30, 2023</u>
General	\$ 34,279
Water	5,192
Sewer	10,368
	<u>\$ 49,839</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – PENSION PLAN

General Information About the Pension Plan

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

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

Non-Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service-related disability benefits are provided after five years of service. Tier 2 members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's 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 years 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – PENSION PLAN (CONTINUED)

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. An 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, 2023, total employer contributions for the City were \$261,205 based on a rate of 26.79% for Non-Hazardous and 49.59% for Hazardous members through covered payroll. The contribution rate of 26.79% for Non-Hazardous comprised of contributions of \$202,981 of which 23.40% or \$177,296 was allocated for pension and 3.39% or \$25,685 was allocated for insurance. The contribution rate of 49.95% for Hazardous comprised contributions of \$58,224 of which 42.81% or \$50,264 was allocated for pension and 6.78% or \$7,960 was allocated for insurance.

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

Pension liability- At June 30, 2023, the City reported a liability of \$2,262,752 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, relative to the contributions of all members for the year ended June 30, 2022. At the June 30, 2022, measurement date, the City's proportion was 0.024%.

Pension expense- For the year ended June 30, 2023; the City recognized a pension expense of \$86,509.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows/ (Inflows)
Differences between expected and actual experience	\$ 298,064	\$ 209,824	\$ 88,240
Change in assumptions	-	-	-
Net difference between projected and actual earnings on plan investments	237,070	192,405	44,665
Changes in proportion and differences between employer contributions and proportionate share of contributions	59,171	1,903	57,268
Contributions subsequent to the measurement date	<u>227,559</u>	<u>-</u>	<u>227,559</u>
	<u>\$ 821,864</u>	<u>\$ 404,132</u>	<u>\$ 417,732</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – PENSION PLAN (CONTINUED)

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

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

Year Ended June 30	
2023	\$ 43,318
2024	10,069
2025	(14,641)
2026	49,493
2027	-
	<u>\$ 88,239</u>

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

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

Inflation	2.50%
Payroll growth rate	2.00%
Salary increases	3.00% - 7.50%
Investment rate of return	7.10%

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

The actuarial assumptions used in the June 30, 2021, valuation was 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 weighing 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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – PENSION PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

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

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

	1% Decrease <u>(5.25%)</u>	Current rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
City of Elkton's net pension liability			
Hazardous	\$ 648,352	\$ 520,487	\$ 416,349
Non-Hazardous	<u>2,177,615</u>	<u>1,742,265</u>	<u>1,382,194</u>
Total	<u>\$ 2,825,967</u>	<u>\$ 2,262,752</u>	<u>\$ 1,798,543</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

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.

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, 2023, total employer contributions for the City were \$261,205 based on a rate of 26.79% for Non-Hazardous and 49.59% for Hazardous members through covered payroll. The contribution rate of 26.79% for Non-Hazardous comprised of contributions of \$202,981 of which 23.40% or \$177,296 was allocated for pension and 3.39% or \$25,685 was allocated for insurance. The contribution rate of 49.59% for Hazardous comprised contributions of \$58,224 of which 42.81% or \$50,264 was allocated for pension and 6.78% or \$7,960 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Net OPEB Liability

On June 30, 2023, the City reported a net OPEB liability of \$367,713. The City's net OPEB liability was measured as of June 30, 2022, 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 2022. This method is expected to be reflective of the employers' long-term contribution effort. On June 30, 2023, the City's proportion was .0241%.

Actuarial assumptions. The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.50%
Payroll growth rate	2.75%
Salary increases	3.00% - 7.50%.
Investment rate of return	7.10%
Healthcare cost trend rates (Pre-65)	7.00% for FYE 2022, decreasing to 4.50% by FYE 2032
Healthcare cost trend rates (Post-65)	5.12% for FYE 2022, decreasing to 4.50% by FYE 2032

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
Large Cap US Equity	37.40%	4.20%
Small Cap US Equity	2.60%	4.70%
Developed International Equity	16.50%	5.30%
Emerging Markets Equity	5.50%	5.40%
Fixed Income	15.00%	(0.10%)
High Yield Bonds	2.00%	1.70%
Other Additional Categories	5.00%	2.20%
Real Estate	7.00%	4.00%
Private Equity	7.00%	6.90%
Cash	<u>2.00%</u>	(0.30%)
Total	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at actuarially required rates for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

	<u>1% Decrease (4.70%)</u>	<u>Current rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
City of Elkton's net liability Hazardous	\$ 636,562	\$476,169	\$ 343,578
City of Elkton's net liability Non-Hazardous	<u>202,029</u>	<u>145,400</u>	<u>99,407</u>
	<u>\$ 838,591</u>	<u>\$621,569</u>	<u>\$ 442,985</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

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		
	<u>1% Decrease</u>	<u>Trend Rates</u>	<u>1% Increase</u>
Hazardous	\$ 354,021	\$ 476,169	\$ 622,846
Non-Hazardous	<u>101,531</u>	<u>145,400</u>	<u>198,874</u>
Total	<u>\$ 455,552</u>	<u>\$ 621,569</u>	<u>\$ 821,720</u>

OPEB plan fiduciary net position- Detailed information about the OPEB plan’s fiduciary net position is available in a separately issued CERS financial report and can be found at www.kyret.ky.gov. The plans fiduciary net position has been determined on the same basis used by the OPEB plans. The aforementioned report discloses the plan’s 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, 2023, the City recognized OPEB expense of \$86,509. On June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows/ (Inflows)</u>
Differences between expected and actual experience	\$ 51,143	\$ 117,808	\$ (66,665)
Change in assumptions	99,581	87,073	12,508
Net difference between projected and actual earnings on plan investments	119,065	94,431	24,634
Changes in proportion and differences between employer contributions and proportionate share of contributions	67,448	35,439	32,009
Contributions subsequent to the measurement date	<u>33,645</u>	<u>-</u>	<u>33,645</u>
	<u>\$ 370,882</u>	<u>\$ 334,751</u>	<u>\$ 36,131</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

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

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

NOTE 14 – LONG-TERM OBLIGATIONS

Business-Type Activities	6/30/2022	Additions	Deletions	6/30/2023	Current
Revenue Bonds					
Revenue Bonds Issue \$325,000 - Refunding	\$ 305,834	\$ -	\$ 10,000	\$ 295,833	\$ 10,000
Less Amortization Discount	(6,719)	-	(294)	(6,497)	
Notes Payable					
KIA Loan \$80,233 - Water Meter Project	35,975	-	4,076	31,899	4,117
KiA Loan \$8098,000 - Sewer Plant Debt Retirement	390,533	-	26,933	363,600	26,933
KIA Loan \$136,761 - Sewer Extension Projects	64,927	-	6,930	57,998	6,999
KIA Loan \$346,246 - Water Separation and Goebel Extension	222,022	-	16,780	205,242	17,076
KIA Loan \$3,934,451 - Sewer Improvements Project	2,827,508	1,306,943	-	4,134,451	97,093
KIA Loan \$85,000 - Water Rehabilitation Project	78,394	-	2,666	75,727	2,679
	<u>\$ 3,918,474</u>	<u>\$ 1,306,943</u>	<u>\$ 67,091</u>	<u>\$5,158,253</u>	<u>\$ 164,897</u>

Debt service requirement on long-term obligations at June 30, 2023 are as follows:

	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 67,804	\$ 13,955
2025	68,229	5,164
2026	68,661	4,654
2027	69,099	4,138
2028	70,044	3,614
2029-2033	327,941	56,277
2034-2038	220,805	31,098
2039-2043	89,584	19,753
2044-2048	63,703	4,559
2049-2052	<u>3,953,984</u>	
Total long-term debt	4,999,854	<u>\$ 143,212</u>
Less: Unamortized Discount	<u>(6,497)</u>	
Net long-term debt total	<u>\$ 4,993,357</u>	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

Interest expense for the year ended June 30, 2023

Business-Type Activities	\$ 25,112
Total	<u>\$ 25,112</u>

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.

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, 2023, the reserve account was funded in compliance with the loan.

Kentucky Infrastructure Authority Loan

On December 1, 2009, the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account as of June 30, 2023, 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

with a 20-year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account as of June 30, 2022, was funded in compliance with the loan.

Kentucky Infrastructure Authority Loan

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

Kentucky Infrastructure Authority Loan

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

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, 2023, was funded in compliance with the loan.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – LONG-TERM OBLIGATIONS (CONTINUED)

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, 2023, the sinking fund balance was funded in compliance with the bond.

Interest, ranging between 2.00% and 2.75%, is to be paid each August 1 and February 1.

The bonds are to mature in annual installments in accordance with the schedule presented above as business-type activities.

NOTE 15 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

CITY OF ELKTON, KENTUCKY
Required Supplementary Information
Schedule of Proportionate Share of The Net Pension Liability
Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total net pension liability (asset) for Employee Retirement System	\$ 7,280,470,000	\$ 9,037,944,000	\$ 10,684,945,000	\$ 9,795,340,000	\$ 8,508,762,000	\$ 8,090,582,993	\$ 6,639,559,678	\$ 5,834,631,445	\$ 4,446,202,000
City's proportion of the net pension liability (asset)	0.0241%	0.0219%	0.0191%	0.0273%	0.0251%	0.0189%	0.0206%	0.0205%	0.0210%
City's proportionate share of the net pension liability (asset)	\$ 1,754,593	\$ 1,981,471	\$ 2,037,256	\$ 2,138,761	\$ 18,135,999	\$ 1,526,181	\$ 1,365,602	\$ 1,198,858	\$ 933,330
City's covered employee payroll	\$ 875,087	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173	\$ 624,684	\$ 593,902
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	200.51%	251.17%	288.16%	332.61%	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	52.42%	55.95%	53.18%	49.43%	52.40%	51.55%	54.73%	58.75%	65.13%

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

Notes:

There were no changes in benefit terms, size, or composition of the population covered by the benefit terms, or the assumptions used, in the last five fiscal years.

*The amounts presented for each fiscal year were measured as of the previous fiscal year.

CITY OF ELKTON, KENTUCKY
Required Supplementary Information
Schedule of Proportionate Share of The Other Postemployment Benefits Liability
Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018
Total net OPEB liability (asset) for Employees Retirement System	\$ 2,825,300,000	\$ 2,723,009,000	\$ 3,338,801,000	\$ 24,218,150,000	\$ 2,488,439,000	\$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	0.0241%	0.0219%	0.0191%	0.0217%	0.0213%	0.0189%
City's proportionate share of the net OPEB liability (asset)	\$ 680,897	\$ 596,457	\$ 638,382	\$ 596,457	\$ 530,205	\$ 535,063
City's covered-employee payroll	\$ 875,807	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	77.75%	77.41%	90.29%	92.78%	77.56%	81.46%
Total OPEB plan's fiduciary net position	\$ 4,602,655,000	\$ 4,874,625,000	\$ 3,902,703,000	\$ 3,910,225,000	\$ 3,695,108,000	\$ 3,401,537,049
Total OPEB plan's OPEB liability	\$ 7,427,955,000	\$ 7,597,634,000	\$ 7,241,531,000	\$ 6,332,040,000	\$ 6,183,547,000	\$ 628,550,680
Total OPEB plan's fiduciary net position as a percentage of the total OPEB liability	61.96%	64.16%	53.89%	61.75%	59.76%	54.52%

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

Notes:

There were no changes in benefit terms, size, or composition of the population covered by the benefit terms, or the assumptions used, in the last five fiscal years.

Contractually required employer contributions exclude the contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions that were allocated directly to the CERS pension fund.

*The amounts presented for each fiscal year were measured as of the previous fiscal year.

CITY OF ELKTON, KENTUCKY
Required Supplementary Information
Schedule of Pension Contributions
Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	227,559	177,093	149,947	131,301	120,767	139,083	87,084	88,665	83,429	89,356
Contribution in relation to the actuarially determined contribution	227,559	177,093	149,947	131,301	120,767	139,083	87,084	88,665	83,429	89,356
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 875,807	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173	\$ 624,684	\$ 593,902	\$ 590,037
Contribution as a percentage of covered-employee payroll	25.98%	22.98%	21.21%	20.42%	17.67%	21.17%	15.35%	14.19%	14.05%	15.14%

CITY OF ELKTON, KENTUCKY
Required Supplementary Information
Schedule of OPEB Contributions
Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 33,645	\$ 49,701	\$ 39,165	\$ 33,843	\$ 41,789	\$ 35,796	\$ 31,568
Contribution in relation to the actuarially determined contribution	33,645	49,701	39,165	33,843	41,789	35,796	31,568
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 875,807	\$ 770,500	\$ 706,999	\$ 642,901	\$ 683,619	\$ 656,835	\$ 567,173
Contribution as a percentage of covered-employee payroll	3.84%	6.45%	5.54%	5.26%	6.11%	5.45%	5.57%

CITY OF ELKTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	General Fund		
	Budgeted Amount	Actual Amount (Budgetary Basis)	Variance with Budget Positive (Negative)
REVENUES			
Taxes	\$ 1,513,900	\$ 1,494,937	\$ (18,963)
License and Permits	108,695	124,128	15,433
Intergovernmental Revenue	-	-	-
Charges for Services	38,200	41,026	2,826
Investment Income	6,000	6,528	528
Investment Gain (Loss)	6,000	10,262	4,262
Grants	351,000	359,816	8,816
Other Revenues	36,800	44,536	7,736
Interest Income	7,400	8,285	885
Total Revenues	<u>2,067,995</u>	<u>2,089,518</u>	<u>21,523</u>
EXPENDITURES			
General Government	465,250	423,522	41,728
Public Works	268,000	226,210	41,790
Public Safety	891,800	807,466	84,334
Cultural and Recreational	128,700	101,101	27,599
Capital Outlay	460,600	386,958	73,642
Total Expenditures	<u>2,214,350</u>	<u>1,945,257</u>	<u>269,093</u>
Revenues Over (Under) Expenditures	<u>(146,355)</u>	<u>144,261</u>	<u>(290,616)</u>
Other Financing Sources			
Sale of Fixed Assets	227,000	231,515	(4,515)
Operating Transfers In	65,650	69,767	(4,117)
Operating Transfers Out	(454,300)	(392,256)	(62,044)
Total Other Financing Sources	<u>(161,650)</u>	<u>(90,974)</u>	<u>(70,676)</u>
Net Changes in Fund Balance	(308,005)	53,287	(361,292)
Fund Balance - Beginning	<u>3,347,062</u>	<u>3,347,062</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 3,039,057</u>	<u>\$ 3,400,349</u>	<u>\$ (361,292)</u>

TICHENOR & ASSOCIATES, LLP

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Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditors' Report

To the Honorable Mayor Arthur Green 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 and the general fund of the City of Elkton, Kentucky (City) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise The City's basic financial statements, and have issued our report thereon dated June 6, 2024.

Internal Control Over Financial Reporting

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

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

Honorable Mayor Arthur Green and City Council
City of Elkton, Kentucky

Internal Control Over Financial Reporting (Continued)

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Officials And Planned Corrective Action

The views and planned corrective action for the finding identified in our audit are included in the accompanying Schedule of Finding and Response. The City's response was not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose Of This Report

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

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky
June 6, 20204

**CITY OF ELKTON, KENTUCKY
SCHEDULE OF FINDING AND RESPONSE
FOR THE YEAR ENDED JUNE 30, 2023**

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the City for fiscal year ended June 30, 2023.
2. No significant deficiencies in internal controls were disclosed during the audit.
3. No instances of noncompliance were disclosed during the audit.