

City of Frankfort

Financial Statements

For the Year Ended June 30, 2021

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Independent Auditor's Report

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and pages 56 through 59 in addition to the pension and OPEB schedules on pages 60 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 63 through 70 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 75 through 77 is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2021

City of Frankfort, Kentucky
Management Discussion and Analysis
Year Ended June 30, 2021

As management of the City of Frankfort, Kentucky, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Frankfort, Kentucky for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Government-Wide Statements

The Government-Wide Statements report information about the City, as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all government's assets and liabilities. All current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-Wide statements (Statement of Net Position & Statement of Activities) report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

The Government-Wide financial statements of the City are divided into two categories:

Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works, streets, parks, recreation and historic sites, public transit, golf, planning and building codes, disaster and emergency services and general administration. Property taxes, occupational taxes, charges for services and other charges provide most of the funding.

Business-type activities – The City charges fees to customers to help it cover the costs of sewer services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three types of Funds –

Governmental Funds – Most of the City's basic services are included in Governmental Funds, which focus on how cash and other financial assets can readily be converted to cash flow in & out, and the balances left at year-end that are available for spending. The Governmental Funds Statements provide a detailed short-term view that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the City's programs.

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2021
Fund Financial Statements (Continued)

Proprietary Funds – Services for which the City charges customers fees are generally reported in Proprietary Funds. Proprietary funds like Government -Wide Statements provide both long-term and short-term financial information.

Fiduciary Fund – The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. These funds are excluded from the City’s government-wide financial statements because the City cannot use these assets to finance its operations. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

Financial Highlights

The Total Net Position of the City of Frankfort, Kentucky at the close of fiscal year 2021 was \$70,002,826. The Total Unrestricted (Deficit) Net Position at the end of fiscal year 2021 was (30,933,168). This is mainly due to the Pension Liability of CERS and OPEB Liability.

The Total Long-Term Debt of the Governmental Activities is discussed in other parts of this analysis.

The actual revenues of the General Fund of the City were approximately \$754,026 (not including the use of \$1,801,655 Fund Balance Reserves) more than budgeted revenues. Expenditures were approximately \$3,015,703 less than budgeted amounts.

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2021
Financial Overview

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Capital Assets | \$ 45,861,022 | \$ 46,132,502 | \$ 84,257,509 | \$ 84,612,631 | \$ 130,118,531 | \$ 130,745,133 |
| Other Assets | 33,243,591 | 35,688,546 | 33,287,305 | 31,268,649 | 66,530,896 | 66,957,195 |
| Total Assets | <u>\$ 79,104,613</u> | <u>\$ 81,821,048</u> | <u>\$ 117,544,814</u> | <u>\$ 115,881,280</u> | <u>\$ 196,649,427</u> | <u>\$ 197,702,328</u> |
| Deferred Outflows of Resources | <u>\$ 20,901,530</u> | <u>\$ 19,679,792</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,901,530</u> | <u>\$ 19,679,792</u> |
| Long-term Liabilities | \$ 92,135,303 | \$ 80,148,358 | \$ 35,323,630 | \$ 35,981,677 | \$ 127,458,933 | \$ 116,130,035 |
| Other Liabilities | 10,389,011 | 8,763,830 | 4,234,637 | 4,141,718 | 14,623,648 | 12,905,548 |
| Total Liabilities | <u>\$ 102,524,314</u> | <u>\$ 88,912,188</u> | <u>\$ 39,558,267</u> | <u>\$ 40,123,395</u> | <u>\$ 142,082,581</u> | <u>\$ 129,035,583</u> |
| Deferred Inflows of Resources | <u>\$ 5,465,550</u> | <u>\$ 8,610,353</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,465,550</u> | <u>\$ 8,610,353</u> |
| Invested in Capital Assets, Net of Related Debt | \$ 40,478,937 | \$ 40,070,495 | \$ 45,912,280 | \$ 45,803,733 | \$ 86,391,217 | \$ 85,874,228 |
| Restricted | 8,341,781 | 10,552,104 | 6,202,996 | 6,829,966 | 14,544,777 | 17,382,070 |
| Unrestricted | <u>(56,804,439)</u> | <u>(46,644,300)</u> | <u>25,871,271</u> | <u>23,124,186</u> | <u>(30,933,168)</u> | <u>(23,520,114)</u> |
| Total Net Position | <u>\$ (7,983,721)</u> | <u>\$ 3,978,299</u> | <u>\$ 77,986,547</u> | <u>\$ 75,757,885</u> | <u>\$ 70,002,826</u> | <u>\$ 79,736,184</u> |

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2021
Financial Overview (Continued)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Program Revenue | | | | | | |
| Charges for Services | \$ 7,067,916 | \$ 8,461,329 | \$ 13,408,689 | \$ 13,259,315 | \$ 20,476,605 | \$ 21,720,644 |
| Operating Grants & Contributions | 2,615,063 | - | 88,145 | 152,905 | 2,703,208 | 152,905 |
| Capital Grants & Contributions | 1,733,923 | 1,103,444 | - | - | 1,733,923 | 1,103,444 |
| General Revenue | | | | | | |
| Taxes | | | | | | |
| Property Taxes | 3,849,901 | 3,669,829 | - | - | 3,849,901 | 3,669,829 |
| Occupational Taxes | 22,955,666 | 24,470,943 | - | - | 22,955,666 | 24,470,943 |
| Interest & Investment Earnings | 144,373 | 439,656 | 177,146 | 511,009 | 321,519 | 950,665 |
| Gain(Loss) on Sale of Capital Assets | 70,415 | 43,832 | (9,498) | 7,644 | 60,917 | 51,476 |
| Transfers | 246,290 | 450,000 | (246,290) | (450,000) | - | - |
| Total Revenues | <u>38,683,547</u> | <u>38,639,033</u> | <u>13,418,192</u> | <u>13,480,873</u> | <u>52,101,739</u> | <u>52,119,906</u> |
| Expenditures | | | | | | |
| General Government | 4,713,511 | 2,982,008 | | | 4,713,511 | 2,982,008 |
| Finance | 726,889 | 568,521 | | | 726,889 | 568,521 |
| Insurance | 3,578,974 | 3,210,055 | | | 3,578,974 | 3,210,055 |
| Public Safety | 23,964,724 | 22,886,950 | | | 23,964,724 | 22,886,950 |
| Public Works | 12,806,278 | 11,349,537 | | | 12,806,278 | 11,349,537 |
| Parks & Recreation | 3,764,465 | 2,854,907 | | | 3,764,465 | 2,854,907 |
| Planning & Building Codes | 913,141 | 596,247 | | | 913,141 | 596,247 |
| Special Projects | - | 21,095 | | | - | 21,095 |
| Capital Outlay & Other Services | - | - | | | - | - |
| Interest on Long-Term Debt | 177,585 | 234,544 | | | 177,585 | 234,544 |
| Sewer | - | - | 11,189,530 | 10,397,613 | 11,189,530 | 10,397,613 |
| Total Expenditures | <u>50,645,567</u> | <u>44,703,864</u> | <u>11,189,530</u> | <u>10,397,613</u> | <u>61,835,097</u> | <u>55,101,477</u> |
| Change in Net Position | (11,962,020) | (6,064,831) | 2,228,662 | 3,083,260 | (9,733,358) | (2,981,571) |
| Net Position Beginning | <u>3,978,299</u> | <u>10,043,130</u> | <u>75,757,885</u> | <u>72,674,625</u> | <u>79,736,184</u> | <u>82,717,755</u> |
| Net Position Ending | <u>\$ (7,983,721)</u> | <u>\$ 3,978,299</u> | <u>\$ 77,986,547</u> | <u>\$ 75,757,885</u> | <u>\$ 70,002,826</u> | <u>\$ 79,736,184</u> |

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2021
Financial Overview (Continued)

The City has continued to provide a high level and quality of services to the Citizens of Frankfort while maintaining a structurally balanced budget. Additionally, the City’s Sewer division has continued to move forward with consent judgment projects to meet the deadlines established by the State. The Sewer Division will continue to monitor cash flow and funding capabilities to ensure that the projects are properly funded while continuing to keep a strong bond rating.

The City experienced a .64% increase in Governmental Funds revenues from the prior year. Governmental Funds Expenditures increased by 17.02% from the prior year.

Capital Assets and Debt Administration

Capital Assets

The City had significant activity in capital assets during the year ended June 30, 2021. Total Net Capital Assets as of year-end were \$130,118,531. Sewer fund plant and equipment make up the business-type capital assets. The total cost of all sewer capital assets as of June 30, 2021 is \$84,257,509. As of June 30, 2021, there was \$23,319,443 of construction in progress. These construction costs consist primarily of Sewer Consent Projects.

Debt Administration

The governmental activities of the City include two bonds with an estimated yearly debt service of approximately \$1,000,000 through June 30, 2022. The remaining bond debt of \$3,860,000 will be paid off in 2040-2041. The lease obligations of the City will be paid off over the next several years. The City’s average annual debt payment for leases is approximately \$15,000 over the next two years.

Business-type activities had \$38.3 million in bonds, notes and capitalized lease obligations outstanding as of June 30, 2021 compared to \$38.8 million the previous year.

The following long-term liabilities are currently outstanding and payable:

| | Governmental Activities | Business-Type Activities |
|-------------------------------|----------------------------|-----------------------------|
| Bonds Payable | \$ 4,778,918 | \$ 15,727,722 |
| Capitalized Lease Obligations | 34,830 | |
| KIA Notes Payable | 568,337 | 22,617,507 |
| Compensated Absences | 5,338,925 | 545,108 |
| Pension Liability | 67,106,067 | |
| OPEB Liability | 20,738,275 | - |
| | <u>\$ 98,565,352</u> | <u>\$ 38,890,337</u> |

**City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2021**

Analysis of Individual Funds

The City's Governmental Funds for the year ended June 30, 2021 reflect a combined ending fund balance of \$29,650,051 a decrease of \$4,399,097 from the prior year.

The total fund balance in the General Fund as of June 30, 2021 was \$25,852,791, which represents an decrease of \$878,130 from the prior year.

Analysis of Budget

Economic Factors and Next Year's Budget

The City of Frankfort, Kentucky's General Fund budget for the year ending June 30, 2022, increased approximately \$1,404,095 from the FY 2021 original budget. The budget is conservative but is adequate to continue delivering quality services to its citizenry and reflects actual spending for the general fund.

Contacting the City of Frankfort, Kentucky Financial Management

This financial report is designed to provide citizens, creditors or other users with an overview of the City of Frankfort's finances, fiscal practices and responsibility. If you have questions or need additional information, please contact the City of Frankfort, Kentucky at P.O. Box 697, Frankfort, KY 40602.

City of Frankfort
Statement of Net Position
June 30, 2021

| | Governmental Activities | Business-Type Activities | Total |
|---|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash and Cash Equivalents | \$ 5,912,900 | \$ 14,575,425 | \$ 20,488,325 |
| Investments | 19,594,796 | 12,807,663 | 32,402,459 |
| Receivables | | | |
| Accounts Receivable | 2,642,814 | 48,823 | 2,691,637 |
| Due from Other Funds | 382,362 | (382,362) | - |
| Accrued Interest | 11,050 | 34,760 | 45,810 |
| Prepaid Expenses | 70,783 | - | 70,783 |
| Restricted Assets | | | |
| Cash and Cash Equivalents | 4,580,263 | 2,177,915 | 6,758,178 |
| Investments | 48,623 | 4,011,897 | 4,060,520 |
| Accrued Interest | - | 13,184 | 13,184 |
| Capital Assets | | | |
| Nondepreciable Capital Assets | 7,036,828 | 24,315,451 | 31,352,279 |
| Depreciable Capital Assets, Net | <u>38,824,194</u> | <u>59,942,058</u> | <u>98,766,252</u> |
| Total Assets | <u>\$ 79,104,613</u> | <u>\$ 117,544,814</u> | <u>\$ 196,649,427</u> |
| Deferred Outflows of Resources - Pension & OPEB | <u>\$ 20,901,530</u> | <u>\$ -</u> | <u>\$ 20,901,530</u> |
| Liabilities | | | |
| Accounts Payable | \$ 2,262,755 | \$ 565,360 | \$ 2,828,115 |
| Accrued Expenses | 1,153,368 | 66,759 | 1,220,127 |
| Workers Compensation Reserve Liability | 338,971 | 21,637 | 360,608 |
| Health Care Liability | 203,874 | 14,174 | 218,048 |
| Compensated Absences | 5,338,925 | 545,108 | 5,884,033 |
| Capitalized Lease Obligations | | | |
| Due Within One Year | 26,433 | - | 26,433 |
| Due in More Than One Year | 8,397 | - | 8,397 |
| KIA Loans Payable | | | |
| Due Within One Year | 24,685 | 926,599 | 951,284 |
| Due in More Than One Year | 543,652 | 21,690,908 | 22,234,560 |
| Bonds Payable | | | |
| Due Within One Year | 1,040,000 | 2,095,000 | 3,135,000 |
| Due in More Than One Year | 3,738,918 | 13,632,722 | 17,371,640 |
| Net Pension Liability | 67,106,061 | - | 67,106,061 |
| Net OPEB Liability | <u>20,738,275</u> | <u>-</u> | <u>20,738,275</u> |
| Total Liabilities | <u>\$ 102,524,314</u> | <u>\$ 39,558,267</u> | <u>\$ 142,082,581</u> |
| Deferred Inflows of Resources - Pension & OPEB | <u>\$ 5,465,550</u> | <u>\$ -</u> | <u>\$ 5,465,550</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 40,478,937 | \$ 45,912,280 | \$ 86,391,217 |
| Restricted | 8,341,781 | 6,202,996 | 14,544,777 |
| Unrestricted(Deficit) | <u>(56,804,439)</u> | <u>25,871,271</u> | <u>(30,933,168)</u> |
| Total Net Position | <u>\$ (7,983,721)</u> | <u>\$ 77,986,547</u> | <u>\$ 70,002,826</u> |

See accompanying notes.

City of Frankfort
Statement of Activities
For The Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net(Expense) Revenue and Changes in Net Position | | |
|------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 4,713,511 | \$ 353,698 | \$ - | \$ - | \$ (4,359,813) | \$ - | \$ (4,359,813) |
| Finance | 726,889 | - | - | - | (726,889) | - | (726,889) |
| Insurance | 3,578,974 | - | - | - | (3,578,974) | - | (3,578,974) |
| Public Safety | 23,964,724 | 2,736,777 | 2,615,063 | 4,094 | (18,608,790) | - | (18,608,790) |
| Public Works | 12,806,278 | 3,299,894 | - | 1,230,854 | (8,275,530) | - | (8,275,530) |
| Parks and Recreation | 3,764,465 | 498,099 | - | 498,975 | (2,767,391) | - | (2,767,391) |
| Planning and Building Codes | 913,141 | 29,071 | - | - | (884,070) | - | (884,070) |
| Special Projects | - | 150,377 | - | - | 150,377 | - | 150,377 |
| Capital Outlay & Other Services | - | - | - | - | - | - | - |
| Interest on Long Term Debt | 177,585 | - | - | - | (177,585) | - | (177,585) |
| Total Governmental Activities | <u>50,645,567</u> | <u>7,067,916</u> | <u>2,615,063</u> | <u>1,733,923</u> | <u>(39,228,665)</u> | <u>-</u> | <u>(39,228,665)</u> |
| Business-Type Activities | | | | | | | |
| Sewer | 11,189,530 | 13,408,689 | 88,145 | - | - | 2,307,304 | 2,307,304 |
| Total Business-Type Activities | <u>11,189,530</u> | <u>13,408,689</u> | <u>88,145</u> | <u>-</u> | <u>-</u> | <u>2,307,304</u> | <u>2,307,304</u> |
| Total Primary Government | <u>\$ 61,835,097</u> | <u>\$ 20,476,605</u> | <u>\$ 2,703,208</u> | <u>\$ 1,733,923</u> | <u>(39,228,665)</u> | <u>2,307,304</u> | <u>(36,921,361)</u> |
| General Revenues | | | | | | | |
| Taxes | | | | | | | |
| Property Tax | | | | | | | |
| | | | | | \$ 3,849,901 | \$ - | \$ 3,849,901 |
| Occupational Tax | | | | | | | |
| | | | | | 22,955,666 | - | 22,955,666 |
| Interest and Investment Earnings | | | | | | | |
| | | | | | 144,373 | 177,146 | 321,519 |
| Gain (Loss) on Sale of Assets | | | | | | | |
| | | | | | 70,415 | (9,498) | 60,917 |
| Total General Revenues | | | | | | | |
| | | | | | 27,020,355 | 167,648 | 27,188,003 |
| Transfers | | | | | | | |
| | | | | | 246,290 | (246,290) | - |
| Total General Revenues & Transfers | | | | | | | |
| | | | | | <u>27,266,645</u> | <u>(78,642)</u> | <u>27,188,003</u> |
| Change in Net Position | | | | | | | |
| | | | | | (11,962,020) | 2,228,662 | (9,733,358) |
| Net Position - Beginning | | | | | | | |
| | | | | | 3,978,299 | 75,757,885 | 79,736,184 |
| Net Position - Ending | | | | | | | |
| | | | | | <u>\$ (7,983,721)</u> | <u>\$ 77,986,547</u> | <u>\$ 70,002,826</u> |

See accompanying notes.

City of Frankfort
Balance Sheet-Governmental Funds
June 30, 2021

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 3,856,121 | \$ 2,056,779 | \$ 5,912,900 |
| Investments | 17,871,667 | 1,723,129 | 19,594,796 |
| Accounts & Grants Receivable | 935,963 | 1,706,851 | 2,642,814 |
| Due To/From Other Funds | 607,372 | (225,010) | 382,362 |
| Accrued Interest | 10,759 | 291 | 11,050 |
| Prepaid Expenses | 70,783 | - | 70,783 |
| Restricted Assets | | | |
| Cash and Cash Equivalents | 4,580,263 | - | 4,580,263 |
| Investments | 48,623 | - | 48,623 |
| Total Assets | \$ 27,981,551 | \$ 5,262,040 | \$ 33,243,591 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$ 797,975 | \$ 1,464,780 | \$ 2,262,755 |
| Accrued Payroll Expenses | 1,153,368 | - | 1,153,368 |
| Health Care Liability | 177,417 | - | 177,417 |
| Total Liabilities | 2,128,760 | 1,464,780 | 3,593,540 |
| Fund Balances | | | |
| Unassigned Funds | \$ 17,574,742 | \$ 84,365 | \$ 17,659,107 |
| Restricted Funds | 4,628,886 | 3,712,895 | 8,341,781 |
| Assigned Funds | 3,578,380 | - | 3,578,380 |
| Non-Spendable Funds | 70,783 | - | 70,783 |
| Total Fund Balance | 25,852,791 | 3,797,260 | 29,650,051 |
| Total Liabilities and Fund Balances | \$ 27,981,551 | \$ 5,262,040 | \$ 33,243,591 |

See accompanying notes.

City of Frankfort
 Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position
 June 30, 2021

Total Fund Balances- Governmental Funds \$ 29,650,051

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds, net of accumulated
 depreciation of \$52,337,570 45,861,022

Certain liabilities are not due and payable in the current period and
 therefore are not reported in the funds:

| | |
|--|--------------|
| Workers Compensation Reserve Liability | (338,971) |
| Health Care Liability | (26,457) |
| Accrued Compensated Absences | (5,338,925) |
| Capitalized Lease Obligations | (34,830) |
| KIA Payable | (568,337) |
| General Obligation Bond Debt | (4,778,918) |
| Net Pension Liability | (67,106,061) |
| Net OPEB Liability | (20,738,275) |

Deferred Outflows and Inflows used in governmental activities and are not financial resources
 and therefore are not reported in the governmental funds:

| | |
|---|--------------------|
| Deferred Outflows Related to Pension and OPEB | 20,901,530 |
| Deferred Inflows Related to Pension and OPEB | <u>(5,465,550)</u> |

Net Position for Governmental Activities \$ (7,983,721)

See accompanying notes.

City of Frankfort
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2021

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$ 3,849,901 | \$ - | \$ 3,849,901 |
| Occupational Receipts | 22,955,666 | - | 22,955,666 |
| Licenses, Permits & Fines | 33,921 | - | 33,921 |
| Contributions | - | 1 | 1 |
| Fines and Forfeitures | 565 | 86,682 | 87,247 |
| Charges for Services | 3,163,926 | 419,831 | 3,583,757 |
| Intergovernmental | 4,609,697 | 2,722,657 | 7,332,354 |
| Interest Income | 88,571 | 55,802 | 144,373 |
| Recycling | 8,098 | - | 8,098 |
| Rental Income | 96,330 | 21,408 | 117,738 |
| Miscellaneous | 190,092 | 63,695 | 253,787 |
| Total Revenues | <u>34,996,767</u> | <u>3,370,076</u> | <u>38,366,843</u> |
| Expenditures | | | |
| Current | | | |
| General Government | 3,970,332 | 154,268 | 4,124,600 |
| Public Safety | 16,815,555 | 1,777,274 | 18,592,829 |
| Finance | 587,819 | | 587,819 |
| Insurance | 3,492,521 | | 3,492,521 |
| Public Works | 6,502,823 | 4,188,868 | 10,691,691 |
| Parks and Recreation | 2,719,858 | 1,176,868 | 3,896,726 |
| Planning and Building Codes | 559,601 | 244,377 | 803,978 |
| Special Projects | - | | - |
| Debt Service | | | |
| Principal Ret, Capitalized Lease Obligations | 1,283,233 | - | 1,283,233 |
| Interest and Fiscal Charges | 177,585 | - | 177,585 |
| Total Expenditures | <u>36,109,327</u> | <u>7,541,655</u> | <u>43,650,982</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(1,112,560)</u> | <u>(4,171,579)</u> | <u>(5,284,139)</u> |
| Other Financing Sources (Uses) | | | |
| KIA Payable Proceeds | - | 568,337 | 568,337 |
| Transfers In | 780,000 | 390,000 | 1,170,000 |
| Transfers Out | (593,710) | (330,000) | (923,710) |
| Proceeds from Sales of Capital Assets | 48,140 | 22,275 | 70,415 |
| Total Other Financing Sources (Uses) | <u>234,430</u> | <u>650,612</u> | <u>885,042</u> |
| Net Change in Fund Balances | (878,130) | (3,520,967) | (4,399,097) |
| Fund Balances, Beginning of Year | <u>26,730,921</u> | <u>7,318,227</u> | <u>34,049,148</u> |
| Fund Balances, End of Year | <u>\$ 25,852,791</u> | <u>\$ 3,797,260</u> | <u>\$ 29,650,051</u> |

See accompanying notes.

City of Frankfort
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 June 30, 2021

Net Change in Fund Balances - Total Governmental Funds \$ (4,399,097)

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

Governmental funds report capital outlays as expenditures;
 while governmental activities report depreciation expense to allocate
 these expenditures over the life of the assets:

| | |
|-----------------------------|-------------|
| Purchases of Capital Assets | 2,616,283 |
| Depreciation Expense | (2,774,080) |

The issuance of long term debt (bonds, leases) provides current financial resources
 to governmental funds while capitalized lease obligations payments are expensed
 in the Governmental Funds. These transactions, however, have no effect on net
 position:

| | |
|---|-----------|
| Capitalized Lease Obligation Principal Payments | 273,233 |
| General Obligation Debt Principal Payments | 1,010,000 |
| Proceeds of KIA Notes | (568,337) |
| Amortization of Bond Premiums/Discounts | (34,975) |

Some expenses reported in the Statement of Activities do not
 require the use of current financial resources and, therefore, are not
 reported as expenditures in governmental funds:

| | |
|--|----------------|
| Other Expenses | (113,683) |
| Change in Net Pension Deferred Outflows and Deferred Inflows | 882,122 |
| Change in Net OPEB Deferred Outflows and Deferred Inflows | 3,484,419 |
| Change in Net Pension Liability | (7,356,678) |
| Change in Net OPEB Liability | (5,274,779) |
| Change in Workers Compensation Reserve Liability | (74,200) |
| Change in Health Care Liability | (12,253) |
| Change in Compensated Absences | <u>380,005</u> |

Change in Net Position of Governmental Activities \$ (11,962,020)

See accompanying notes.

City of Frankfort
Statement of Net Position
Proprietary Funds - Sewer Fund
June 30, 2021

| | |
|---|------------------------------|
| Assets | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 14,575,425 |
| Investments | 12,807,663 |
| Accounts Recievable | 48,823 |
| Accrued Interest | 34,760 |
| Interfund Receivable/Payable | <u>(382,362)</u> |
| Total Current Assets | <u>27,084,309</u> |
| Noncurrent Assets | |
| Restricted Assets | |
| Cash and Cash Equivalents | 2,177,915 |
| Investments | 4,011,897 |
| Accrued Interest | 13,184 |
| Capital Assets | |
| Nondepreciable capital assets | 24,315,451 |
| Depreciable Capital Assets, Net | <u>59,942,058</u> |
| Total Noncurrent Assets | <u>90,460,505</u> |
| Total Assets | <u><u>\$ 117,544,814</u></u> |
| Liabilities | |
| Current Liabilities | |
| Accounts Payable | \$ 565,360 |
| Accrued Payroll Expenses | 66,759 |
| Workers Compensation Reserve Liability | 21,637 |
| Health Care Liability | 14,174 |
| KIA Loans Payable | 926,599 |
| Bonds Payable | <u>2,095,000</u> |
| Total Current Liabilities | <u>3,689,529</u> |
| Noncurrent Liabilities | |
| Bonds Payable | 13,632,722 |
| KIA Loans Payable | 21,690,908 |
| Accrued Compensated Absences | <u>545,108</u> |
| Total Noncurrent Liabilities | <u>35,868,738</u> |
| Total Liabilities | <u><u>39,558,267</u></u> |
| Net Position | |
| Invested in Capital Assets, Net of Related Debt | 45,912,280 |
| Restricted | 6,202,996 |
| Unrestricted | <u>25,871,271</u> |
| Total Net Position | <u><u>\$ 77,986,547</u></u> |

See accompanying notes.

City of Frankfort
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2021

| | |
|--|----------------------|
| Operating Revenues | |
| User Fees | \$ 10,795,828 |
| Dump Fees | 2,561,021 |
| Tap Fees | 51,513 |
| Inspection Fees | 250 |
| Back Billing Revenues | <u>77</u> |
| Total Operating Revenues | <u>13,408,689</u> |
| Operating Expenses | |
| Personnel Services | 1,999,121 |
| Employee Benefits | 1,006,653 |
| Heat, Light and Power | 703,753 |
| Insurance | 213,215 |
| Other Contracted Services | 710,102 |
| Drug and Lab Supplies | 739,266 |
| Shop Supplies | 358,471 |
| Other Expenses | 8,450 |
| Repairs and Maintenance and Other Non-Capitalizable Fixed Assets | 1,463,400 |
| Depreciation Expense | <u>2,846,458</u> |
| Total Operating Expenses | <u>10,048,889</u> |
| Operating Income/(Loss) | <u>3,359,800</u> |
| Non-Operating Revenues/(Expenses) | |
| Grants and Aid | 88,145 |
| Interest Expense | (1,128,611) |
| Bond Discount and Amortization | (12,030) |
| Investment Income | 177,146 |
| Gain/(Loss) on Disposal of Capital Assets | <u>(9,498)</u> |
| Total Non-Operating Revenues/(Expenses) | <u>(884,848)</u> |
| Net Transfers | <u>(246,290)</u> |
| Change in Net Position | 2,228,662 |
| Net Assets, Beginning of Year | <u>75,757,885</u> |
| Net Assets, End of Year | <u>\$ 77,986,547</u> |

See accompanying notes.

City of Frankfort
Statement of Cash Flows
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2021

| | |
|---|-----------------------------|
| Cash Flows from Operating Activities | |
| Receipts from Customers and Users | \$ 13,359,866 |
| Payments to Employees | (1,999,121) |
| Payments to Suppliers | <u>(5,304,769)</u> |
| Net Cash Provided by Operating Activities | <u>6,055,976</u> |
| | |
| Cash Flows from Noncapital Financing Activities | |
| Transfers In | <u>136,072</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>136,072</u> |
| | |
| Cash Flows from Capital and Related Financing Activities | |
| Grants and Aid | 88,145 |
| Purchase and Construction of Capital Assets | (2,500,832) |
| Interest Expense | (1,128,611) |
| Principal Paid on Bonds | (2,010,000) |
| Proceeds from KIA Loan | 2,620,969 |
| Principal Paid on KIA Loan | <u>(1,086,670)</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(4,016,999)</u> |
| | |
| Cash Flows from Investing Activities | |
| Investment Income Received | 403,537 |
| Proceeds from Sale of Investments | <u>604,547</u> |
| Net Cash Provided by Investing Activities | <u>1,008,084</u> |
| Net Increase in Cash and Cash Equivalents | 3,183,133 |
| | |
| Cash and Cash Equivalents, Beginning of Year | <u>13,570,207</u> |
| | |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 16,753,340</u></u> |
| | |
| Unrestricted Cash and Cash Equivalents | \$ 14,575,425 |
| Restricted Cash and Cash Equivalents | <u>2,177,915</u> |
| | <u><u>\$ 16,753,340</u></u> |

See accompanying notes.

City of Frankfort
Statement of Cash Flows
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2021

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

| | |
|--|--------------|
| Operating Income | \$ 3,359,800 |
| Adjustment to Reconcile Operating Income to | |
| Net Cash Provided by Operating Activities: | |
| Depreciation Expense & Amortization | 2,846,458 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (48,823) |
| Accounts Payable | (209,659) |
| Workers Compensation and Health Care Liability | 9,331 |
| Accrued Compensated Absences | 98,869 |
| Net Cash Provided by Operating Activities | \$ 6,055,976 |

See accompanying notes.

City of Frankfort
Statement of Fiduciary Net Position
June 30, 2021

| | Police and Fire Retirement Fund | Agency Funds |
|------------------------------------|--|------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 453,795 | \$ 26,921 |
| Investments | <u>3,273,769</u> | <u>-</u> |
| Total Assets | <u>\$ 3,727,564</u> | <u>\$ 26,921</u> |
| Liabilities | | |
| Due to Other Governments | - | (25,320) |
| Due to Depositors | <u>-</u> | <u>52,241</u> |
| Total Liabilities | <u>\$ -</u> | <u>\$ 26,921</u> |
| Net Position | | |
| Held in Trust for Pension Benefits | <u>\$ 3,727,564</u> | |

See accompanying notes.

City of Frankfort
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2021

| | Police and Fire Retirement Fund |
|----------------------------------|--|
| | |
| Additions | |
| Investment Earnings | |
| Interest and Dividends | \$ 83,781 |
| Increase in Investments | 93,579 |
| | |
| Total Additions | 177,360 |
| Deductions | |
| Retirement Claims Paid | 251,710 |
| Administrative Fees | 10,269 |
| | |
| Total Deductions | 261,979 |
| Change in Net Position | (84,619) |
| Net Position - Beginning of Year | 3,812,183 |
| Net Position - End of Year | \$ 3,727,564 |

See accompanying notes.

Note A – Summary of Significant Accounting Policies

The financial statements of the City of Frankfort, Kentucky (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting. The City applies all relevant GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

The City was incorporated in 1786 under the provisions of the Commonwealth of Kentucky. The City operates under a mayor and commission-manager form of government. The governing body consists of the Mayor and four elected commission members. The Mayor is elected to serve a four-year term, and commissioners are each elected to serve a two-year term. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

The accompanying financial statements present the City and its component units (traditionally separate reporting entities) for which the City is considered to be financially accountable. The City, (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Blended Component Unit

The City has included the financial operations of the City of Frankfort, Kentucky Police and Firefighters' Retirement Fund as a blended component unit. The entity is listed separately as a fiduciary fund. Policemen and Firefighters retired prior to August 1, 1988 participate in this plan. The City does not select the pension board nor does it have the ability to significantly influence operations. However, there would be financial interdependency because the City would be responsible for funding any deficit and any surplus in the fund would be returned to the City.

1. Government -Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the primary government (the City) including its blended component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double accounting of internal activities. These statements distinguish between the governmental and business-type activities of the City.

Note A – Summary of Significant Accounting Policies (Continued)

Governmental activities normally are supported through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants are capital-specific. Occupational license fees applied to gross wages and net profits, property taxes, interest and investment income and other revenues are reported as general revenues.

2. Fund Financial Statements

The fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The City has the following major funds:

Governmental Fund Types

A. The General Fund is the primary operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

Proprietary Fund Types

A. The Sewer Fund accounts for revenues received for sewer services for the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

Note A – Summary of Significant Accounting Policies (Continued)

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

A. Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the Police and Firefighters' Retirement Benefit Plan.

B. Agency Funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

3. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured).

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note A – Summary of Significant Accounting Policies (Continued)

4. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits. Legal requirements and the City's policies governing investments are discussed in Note C.

5. Restricted Assets

The City has certain assets that are restricted by terms of federal or state grants and programs, debt service, or other agreements and are segregated on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position. They include:

- A. Funds restricted in trust accounts for the payment of health and workers compensation claims as needed.
- B. The Sewer's Bond Depreciation and Reserve accounts funds that are required to be held in reserve until all outstanding bonds are retired.

6. Interfund Receivables and Payables

Interfund transactions that would be treated as revenues or expenditures/expenses, if they involved organizations external to the City, are similarly treated when involving funds of the City. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the reimbursed fund. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as interfund transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Note A – Summary of Significant Accounting Policies (Continued)

7. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trend and the periodic aging of accounts receivable. The City’s management considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible accounts receivable is required. Major receivable balances for the governmental funds consist of grant and interest receivables. Business-type activities report interest receivables as their major receivables.

8. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in the month of November and are due and payable at that time. All unpaid taxes levied in the month of November become delinquent January 1 of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are at least six months delinquent at June 30 and are not considered collectible.

Property taxes for the fiscal year ended June 30, 2021 were levied on September 30, 2020, on the assessed valuation of property located in the City as of the preceding January 1. The due date and collection periods for property taxes are as follows:

| Description | Per KRS 134.020 |
|---------------------------------|--------------------------------|
| Due date for payment of taxes | Upon Receipt |
| 2% discount period | By November 30th |
| Face value amount payment dates | December 1 through December 31 |
| 10% penalty after | December 31 |
| 6% interest per annum after | December 31 |

The City’s tax rate applicable to the 2021 fiscal year was \$.196 per \$100 of assessed valuation for real estate.

9. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental-activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

Note A – Summary of Significant Accounting Policies (Continued)

9. Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset’s life are not capitalized. Depreciation is computed using the straight-line method.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| <u>Asset</u> | <u>Threshold</u> | <u>Years</u> |
|--------------------------|------------------|--------------|
| Buildings & Improvements | \$ 25,000 | 5-40 |
| Computers & Electronics | 1,500 | 3-10 |
| Machinery & Equipment | 1,500 | 3-10 |
| Vehicles | 1,500 | 3-10 |
| Furniture & Fixtures | 1,500 | 3-10 |
| Infrastructure | 25,000 | 20-100 |
| Inland/Marine | 1,500 | 3-10 |
| Pump Stations | 1,500 | 20 |

10. Accrued Compensated Absences and Sick Pay

Vacation and sick pay are accrued when incurred in the government-wide financial statements. Any employee whose employment with the City ends in retirement or with the employee giving proper notice and being in good standing shall be compensated for all unused vacation. Liabilities are calculated using the employee’s current rate of pay and the total hours of accumulated leave. In governmental funds, such amounts are not accrued using the modified accrual basis of accounting but are reported as a liability in the government-wide financial statements.

11. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as “other financing sources” while discounts and issuance costs on bond issuances are reported as “other financing uses.”

Note A – Summary of Significant Accounting Policies (Continued)

12. Fund Reserves and Designations

The Board of Commissioners is the City’s highest level of decision-making authority. Commitments of fund balance must be approved by the Commission in an open meeting by formal vote. Per the City’s policy, assigned fund balances are proposed by the City Manager or the Finance Director and approved by the Board of Commissioners and may include the following: (1) vital projects requiring use of current resources in future periods, (2) capital projects, (3) interim funding for operating costs during shortfalls or (4) contractual obligations including compensated absences and amounts encumbered for a specific purpose if the resources are not already reported as restricted. The City has not adopted a policy to govern the order of priority on use of fund balance when restricted or unrestricted amounts are both available. In the current year there are no committed fund balances. Assigned fund balances in the governmental funds consist of the following:

| | |
|----------------------|----------------------------|
| Encumbrances | \$ 231,718 |
| Compensated Absences | <u>3,346,662</u> |
| | <u><u>\$ 3,578,380</u></u> |

13. Budgetary Information

The City Commission approves, by ordinance, total budget appropriations only. The City manager is authorized to transfer budget amounts between departments within any fund; however, any revisions to the total appropriations of any fund must be approved by the City Commission. Therefore, the level of budgetary responsibility is by total appropriations, however, for report purposes this level has been expanded to a departmental basis.

Detailed annual budgets are adopted for the general fund and the sewer fund. The annual budget for those funds is prepared in accordance with the basis of accounting utilized by those funds. The City has adopted budgets for its special revenue and capital projects funds. However, these budgets are prepared using only total revenues and total expenditures.

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual presents comparisons of legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant entity and timing differences in excess (deficiency) of revenues over (under) expenditures are shown. Additionally, any purchase orders intended to be honored from the prior year are carried forward and reflected in the Final Budgeted amounts of the Statement.

Note A – Summary of Significant Accounting Policies (Continued)

Encumbrance accounting is utilized during the year to facilitate effective budgetary control. Encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Budgetary comparisons presented in this report are on this budgetary basis of accounting. Adjustments necessary to convert from budgetary basis to GAAP are provided on the face of the budgetary comparison statements. In governmental funds, encumbrances outstanding at year end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances do not lapse at the close of the fiscal year but are carried forward as assigned fund balance until liquidated.

14. Pensions

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

15. Deferred Inflows of Resources and Deferred Outflows of Resources

With the implementation of GASB Statements 65 and 68 and 75, the Government's Statement of Net Position includes deferred inflows (or deferred outflows) of resources when appropriate. Deferred outflows of resources represent consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period.

Deferred Outflows – include contributions to pension plans made subsequent to the City's measurement date of June 30, 2020 in addition to differences between projected and actual earnings on investments in pension plans.

Deferred Inflows – include differences between projected and actual earnings on investments in pension plans.

16. Use of Estimates

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

Note B – Deposits

The City maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a depository institution failure, the City’s deposits may not be returned. The City does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note C – Investments

The City follows state statutes pertaining to investments permitted by law. Governmental investments include assets held by fiscal agents for health care and workers compensation claims which are maintained in trust accounts and subject to different investment criteria than the general assets of the City. The general operating fund investments are in certificates of deposit which are held at cost which approximates fair value.

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

The City has the following recurring fair value measurements as of June 30, 2021:

| | |
|--|---------------|
| GASB 72 Disclosure | |
| Certificates of Deposit (Level 1 inputs) | \$ 9,756,421 |
| GNMA Bond Funds (Level 1 inputs) | 52,485 |
| Money Market Funds (Level 1 inputs) | 26,695,558 |
| | \$ 36,504,464 |

The City’s Police and Firefighters’ Retirement Fund is not subject to the same investment laws as the City. The City’s Police and Firefighters’ investments are all categorized as either insured or registered. The securities are held by the retirement fund, or by its agent, in the name of the Police and Firefighters’ Retirement Fund.

Note C – Investments (Continued)

The City’s Police and Firefighters’ Retirement Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fund has the following recurring fair value measurements:

| | | |
|--|-----------|-------------------------|
| Municipal Bonds (Level 1 inputs) | \$ | 125,169 |
| US Government & Other Agencies(Level 1 inputs) | | 452,494 |
| Equities (Level 1 inputs) | | 348,399 |
| Corporate Bonds (Level 1 inputs) | | 1,058,900 |
| Money Market Funds (Level 1 inputs) | | 1,288,807 |
| | | 3,273,769 |
| | \$ | <u>3,273,769</u> |

Interest Rate Risk – 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.

Credit Risk – State law limits the types of investments in which the City may invest its funds. The City’s investment policy specifies that governmental funds will be invested in obligations of the U.S. government and its agencies or certificates of deposit.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one investment. The City does have a policy whereby no financial institution shall be selected as a depository of City funds if the funds exceed 5% of the institution’s capital and surplus.

Note D – Receivables

Receivables – The primary receivables for the City include \$1,924,835 from federal agencies for various grants and \$312,042 from an overpayment of insurance.

Note E – Capital Assets

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

| | Balance <u>June 30, 2020</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>June 30, 2021</u> |
|-------------------------------------|---------------------------------|--------------------|---------------------|---------------------------------|
| Governmental activities: | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$ 7,021,578 | \$ 15,250 | \$ - | \$ 7,036,828 |
| Total Nondepreciable Capital Assets | <u>7,021,578</u> | <u>15,250</u> | <u>-</u> | <u>7,036,828</u> |
| Depreciable Capital Assets | | | | |
| Buildings and Improvements | 24,533,426 | 437,832 | (34,500) | 24,936,758 |
| Infrastructure | 38,824,191 | 365,000 | (125,180) | 39,064,011 |
| Inland Marine | 4,801,984 | 532,731 | (355,265) | 4,979,450 |
| Computers and Electronic Equipment | 809,095 | - | - | 809,095 |
| Machinery and Equipment | 1,351,755 | - | - | 1,351,755 |
| Furniture and Fixtures | 1,812,757 | 426,979 | - | 2,239,736 |
| Vehicles | <u>17,670,289</u> | <u>1,282,531</u> | <u>(1,171,861)</u> | <u>17,780,959</u> |
| Total Depreciable Capital Assets | <u>89,803,497</u> | <u>3,045,073</u> | <u>(1,686,806)</u> | <u>91,161,764</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (13,128,063) | (684,254) | 19,390 | (13,792,927) |
| Infrastructure | (18,071,787) | (669,009) | 104,335 | (18,636,461) |
| Inland Marine | (4,206,513) | (140,271) | 318,927 | (4,027,857) |
| Computers and Electronic Equipment | (728,979) | (6,976) | - | (735,955) |
| Machinery and Equipment | (979,268) | (106,454) | - | (1,085,722) |
| Furniture and Fixtures | (1,308,382) | (197,869) | - | (1,506,251) |
| Vehicles | <u>(12,269,581)</u> | <u>(969,247)</u> | <u>686,431</u> | <u>(12,552,397)</u> |
| Total Accumulated Depreciation | <u>(50,692,573)</u> | <u>(2,774,080)</u> | <u>1,129,083</u> | <u>(52,337,570)</u> |
| Total Depreciable Assets, Net | <u>39,110,924</u> | <u>270,993</u> | <u>(557,723)</u> | <u>38,824,194</u> |
| Total Capital Assets, Net | <u>\$ 46,132,502</u> | <u>\$ 286,243</u> | <u>\$ (557,723)</u> | <u>\$ 45,861,022</u> |

Note E – Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2021 was as follows:

| | Balance June 30, 2020 | Increases | Decreases | Balance June 30, 2021 |
|-------------------------------------|--------------------------|---------------------|-------------------|--------------------------|
| Business-Type Activities: | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$ 455,200 | \$ 540,808 | \$ - | \$ 996,008 |
| Construction in Progress | 21,452,013 | 1,867,430 | - | 23,319,443 |
| Total Nondepreciable Capital Assets | <u>21,907,213</u> | <u>2,408,238</u> | <u>-</u> | <u>24,315,451</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 14,713,284 | - | - | 14,713,284 |
| Machinery and Equipment | 2,134,309 | - | - | 2,134,309 |
| Furniture and Fixtures | 64,111 | - | - | 64,111 |
| Computers and Electronic Equipment | 210,321 | - | - | 210,321 |
| Inland Marine | 854,952 | 27,400 | (51,900) | 830,452 |
| Vehicles | 2,427,577 | 65,196 | (463,757) | 2,029,016 |
| Pump Stations | 18,456,265 | - | - | 18,456,265 |
| Infrastructure | 54,663,321 | - | - | 54,663,321 |
| Total Depreciable Capital Assets | <u>93,524,140</u> | <u>92,596</u> | <u>(515,657)</u> | <u>93,101,079</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | (8,838,085) | (409,868) | - | (9,247,953) |
| Infrastructure | (9,876,756) | (1,558,271) | - | (11,435,027) |
| Inland Marine | (686,547) | (7,126) | 51,900 | (641,773) |
| Pump Stations | (7,471,674) | (567,589) | - | (8,039,263) |
| Computers and Electronic Equipment | (197,394) | (1,681) | - | (199,075) |
| Machinery and Equipment | (1,887,369) | (173,922) | - | (2,061,291) |
| Furniture and Fixtures | (63,672) | - | - | (63,672) |
| Vehicles | (1,797,225) | (128,001) | 454,259 | (1,470,967) |
| Total Accumulated Depreciation | <u>(30,818,722)</u> | <u>(2,846,458)</u> | <u>506,159</u> | <u>(33,159,021)</u> |
| Total Depreciable Assets, Net | <u>62,705,418</u> | <u>(2,753,862)</u> | <u>(9,498)</u> | <u>59,942,058</u> |
| Total Capital Assets, Net | <u>\$ 84,612,631</u> | <u>\$ (345,624)</u> | <u>\$ (9,498)</u> | <u>\$ 84,257,509</u> |

Note E – Capital Assets (Continued)

Depreciation expense was charged to the functions/programs of the primary government as follows:

| Governmental activities | Business-Type Activities | |
|-------------------------|--------------------------|---------------------------|
| General Government | \$ 47,490 | Sewer <u>\$ 2,846,458</u> |
| Public Safety | 1,149,748 | |
| Public Works | 1,359,480 | |
| Parks & Recreation | <u>217,362</u> | |
| | <u>\$ 2,774,080</u> | |

Note F – Interfund Receivables, Payables and Transfers

Interfund receivables/payables exist between the following funds:

| Fund | Capital | | | | | Net Due From |
|----------------------|---------------------|---------------------|--------------------|-------------------|-------------------|------------------|
| | General Fund | Municipal Aid | Improve ments | Tiger Fund | Sewer Fund | |
| General Fund | \$ | \$(105,251) | \$(37,900) | \$ 750,523 | \$ | \$ 607,372 |
| Municipal Aid | 105,251 | | | | | 105,251 |
| Capital Improvements | 37,900 | | | | | 37,900 |
| Tiger Grant | (750,523) | | | | 382,362 | (368,161) |
| Sewer Fund | <u>-</u> | <u>-</u> | <u>-</u> | <u>(382,362)</u> | <u>-</u> | <u>(382,362)</u> |
| Net Due To | <u>\$ (607,372)</u> | <u>\$ (105,251)</u> | <u>\$ (37,900)</u> | <u>\$ 368,161</u> | <u>\$ 382,362</u> | <u>\$ -</u> |

During the year ended June 30, 2021, transfers between funds were as follows:

- a. \$330,000 was transferred from the E-911 to the General Fund
- b. \$390,000 was transferred from the General to the Capital Improvements
- c. \$450,000 was transferred from the Sewer Fund to the General Fund
- d. \$203,710 was transferred from the General Fund to the Sewer Fund (Restricted Funds for Self-Insurance and Workers Comp)

Note G – Long-Term Liabilities

The following is a summary of long-term liability activity for the City for the fiscal year ended June 30, 2021:

| | Beginning Balance | Additions | Reductions | Premiums Discounts | Ending Balance | Due Within One Year |
|--------------------------|----------------------|-------------------|-----------------------|-----------------------|----------------------|------------------------|
| Governmental Activities: | | | | | | |
| Bonds Payable | \$ 5,753,943 | \$ - | \$ (1,010,000) | \$ 34,977 | \$ 4,778,918 | \$ 1,040,000 |
| KIA Payable | | 568,337 | | | 568,337 | \$ 24,685 |
| Leases Payable | 308,064 | - | (273,234) | | 34,830 | 26,433 |
| Compensated Absences | 5,718,930 | - | (380,005) | - | 5,338,925 | - |
| Total | \$ 11,780,937 | \$ 568,337 | \$ (1,663,239) | \$ 34,977 | \$ 10,721,010 | \$ 1,091,118 |

| | Beginning Balance | Additions | Reductions | Discounts | Ending Balance | Due Within One Year |
|---------------------------|----------------------|--------------------|-----------------------|------------------|----------------------|------------------------|
| Business Type-Activities: | | | | | | |
| Bonds Payable | \$ 17,725,699 | \$ - | \$ (2,010,000) | \$ 12,023 | \$ 15,727,722 | \$2,095,000 |
| KIA Payable | 21,083,208 | 2,620,969 | (1,086,670) | - | 22,617,507 | 926,599 |
| Compensated Absences | 446,239 | 98,869 | - | - | 545,108 | - |
| Total | \$ 39,255,146 | \$2,719,838 | \$ (3,096,670) | \$ 12,023 | \$ 38,890,337 | \$3,021,599 |

For governmental activities, compensated absences are liquidated by the general fund.

1. Bonds Payable

General obligation and revenue bond issues reported as liabilities in the Statement of Net Position are as follows (amounts shown on Statement of Financial are shown net of premium/discounts):

| Governmental Activities | Purpose of Issue | Original Issue | Interest Rate | Final Maturity | Amount Outstanding |
|---------------------------------------|------------------|-------------------|------------------|-------------------|-----------------------|
| General Obligation Bonds | | | | | |
| 2016 General Obligation Refunding | Refunding Bonds | \$ 4,265,000 | 2-3% | 6/1/2022 | \$ 900,000 |
| 2014 General Obligation | Aquatic Center | 4,650,000 | 1%-4% | 12/1/2040 | 3,860,000 |
| Total General Obligation Bonds | | | | | \$ 4,760,000 |

Note G – Long-Term Liabilities (continued)

| | <u>Purpose of Issue</u> | <u>Original Issue</u> | <u>Interest Rate</u> | <u>Final Maturity</u> | <u>Amount Outstanding</u> |
|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|-------------------------------|
| Business-Type Activities | | | | | |
| Revenue Bonds | | | | | |
| 2007 Revenue Bonds | Sewer System Improvements | \$ 9,995,000 | 3.35%-4.00% | 12/1/2023 | \$ 2,470,000 |
| 2010 Revenue Bonds | Sewer System Improvements | 13,445,000 | 1.20%-4.55% | 12/1/2025 | 5,400,000 |
| 2013 Revenue Bonds | Sewer System Improvements | 9,995,000 | 1.00%-4.50% | 6/30/1939 | 7,915,000 |
| Total Revenue Bonds | | | | | <u>\$ 15,785,000</u> |

2. Capitalized Lease Obligations

Capitalized lease obligations reported as liabilities in the Statement of Net Position are as follows:

| | <u>Purpose of Issue</u> | <u>Original Issue</u> | <u>Interest Rate</u> | <u>Final Maturity</u> | <u>Amount Outstanding</u> |
|-------------------------------------|----------------------------|---------------------------|--------------------------|---------------------------|-------------------------------|
| Governmental Activities | | | | | |
| Capitalized Lease Obligations | | | | | |
| | PNC Mowing Equipment Lease | \$ 98,639 | 3.97% | 9/1/2022 | 23,061 |
| | PNC Equipment Lease | \$ 54,443 | 3.97% | 9/1/2022 | 11,769 |
| Total Capitalized Lease Obligations | | | | | <u>\$ 34,830</u> |

On December 31, 2009, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan of \$800,000 funded by the American Recovery and Reinvestment Act (ARRA). \$416,800 of the loan was forgiven. \$383,200 is being repaid with interest of 3% in semi-annual payments. This loan was paid off in the fiscal year ending June 30, 2021.

Note G – Long-Term Liabilities (Continued)

On August 1, 2013, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan to construct a 10-million gallon equalization basin for the City’s sanitary sewer system. The loan will be \$8,000,000 upon completion of the project and will be repaid with interest of 1.75%. The balance is to be repaid over 20 years. The balance as of June 30, 2021 is \$6,070,112.

During 2017-2018, the City received draws on five loans for additional Sewer Department Improvements to which part of the loans were federally funded from the Kentucky Infrastructure Authority. The loan balances as of June 30, 2021 were \$9,535,011. Complete amortization on one loan is not available as future draws will occur. For disclosure purposes, maturities were estimated based on anticipated completion date.

During 2019-2020, the City received three additional draws for additional Sewer Department Improvements to which part of the loans were federally funded from the Kentucky Infrastructure Authority. The loan balances of these loans as of June 30, 2021 were 4,643,913. Complete amortization of two loans is not available due to the plan for further draws. For disclosure purposes, maturities were estimated based on anticipated completion dates.

During 2020-2021, the City received two additional draws for additional Sewer Department Improvements to which part of the loans were federally funded from the Kentucky Infrastructure Authority. The loan balances of these loans as of June 30, 2021 were \$2,368,471. Amortization of one loan is not available due to the plan for further draws. For disclosure purposes, maturities were estimated based on anticipated completion dates.

4. Long-Term Debt Maturities

Debt service requirements (principal and interest) to maturity for the City’s bonds, leases and notes payable are as follows:

| Fiscal Year | Governmental Activities | | | | | |
|-------------|--------------------------|---------------------|-------------------|-------------------|-------------------------------|------------------|
| | General Obligation Bonds | | Notes | | Capitalized Lease Obligations | |
| | Interest | Principal | Interest | Principal | Interest | Principal |
| 2022 | 162,625 | 1,040,000 | 10,962 | 24,685 | 736 | 26,433 |
| 2023 | 132,825 | 140,000 | 10,479 | 25,118 | 55 | 8,397 |
| 2024 | 129,793 | 145,000 | 9,987 | 25,560 | - | - |
| 2025 | 125,912 | 150,000 | 9,486 | 26,009 | - | - |
| 2026 | 121,412 | 150,000 | 8,977 | 26,466 | - | - |
| 2027-2031 | 520,587 | 850,000 | 36,926 | 139,476 | - | - |
| 2032-2036 | 333,462 | 1,035,000 | 22,779 | 152,173 | - | - |
| 2037-2041 | 116,906 | 1,250,000 | 7,260 | 148,850 | - | - |
| | <u>\$ 1,643,522</u> | <u>\$ 4,760,000</u> | <u>\$ 116,856</u> | <u>\$ 568,337</u> | <u>\$ 791</u> | <u>\$ 34,830</u> |

Note G – Long-Term Liabilities (Continued)

| Fiscal Year | Business-Type Activities | | | |
|-------------|--------------------------|----------------------|---------------------|----------------------|
| | Revenue Bonds | | KIA Notes Payable | |
| | Interest | Principal | Interest | Principal |
| 2022 | \$ 614,773 | \$ 2,095,000 | \$ 306,194 | \$ 926,598 |
| 2023 | 528,082 | 2,180,000 | 289,908 | 942,884 |
| 2024 | 437,018 | 2,265,000 | 273,335 | 959,457 |
| 2025 | 359,382 | 1,475,000 | 256,471 | 976,321 |
| 2026 | 295,407 | 1,540,000 | 239,311 | 993,481 |
| 2027-2031 | 1,126,362 | 2,010,000 | 928,408 | 5,235,559 |
| 2032-2036 | 671,212 | 2,460,000 | 429,300 | 5,118,270 |
| 2037-2041 | 121,275 | 1,760,000 | 98,513 | 7,464,937 |
| | <u>\$ 4,153,511</u> | <u>\$ 15,785,000</u> | <u>\$ 2,821,440</u> | <u>\$ 22,617,507</u> |

Note H – Conduit Debt

In December 2009, the City authorized the Kentucky Economic Development Finance Authority to issue Industrial Revenue Bonds to finance an industrial building project within the City for Goodwill Industries.

The City is not obligated in any manner for repayment of the above debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

Note I – Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omission, injuries to employees, and natural disasters for which the City carries commercial insurance. Settled claims, relating to these exposures, have not exceeded insurance coverage in any of the past three years. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All general liability risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2021 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims.

Note I – Risk Management (Continued)

The City has elected to retain risk related to employees’ health insurance and workers’ compensation insurance. The City does maintain insurance coverage for health insurance claims in excess of \$100,000 per person per year (with specific exceptions for three participants layered at \$75,000, \$100,000 and \$250,000 separate individual specific deductibles, respectively) with an unlimited maximum per person per lifetime in anticipated claims. Claims expected to be paid using current resources are accrued in the modified accrual statements. Liabilities reported in the proprietary fund and in the government-wide statements include claims that have been incurred but not reported based on historical experience.

The City has elected to retain risk in its workers’ compensation and employers’ liability coverage and maintains insurance coverage for workers’ compensation, each accident in excess of \$650,000 to statutory limits. An accident may involve one or more employees. For Employers’ Liability, the City maintains coverage in excess of \$550,000 each accident to a limit of \$1,000,000. Workers’ compensation insurance claims reserve balance has been accrued as a liability in the governmental activities in the Statement of Net Position and the Sewer Fund.

The City pays the HealthSmart TPA (Health Plan) and HealthSmart Casualty Claims (Work Comp) a fee to administer the plans. The City has set up trust funds to use for workers’ compensation and health insurance claims as needed. These funds are restricted for use for only those purposes. All claims for health insurance coverage and workers’ compensation are paid out of the general fund and the sewer fund. The separate trust accounts are additional assets that have been provided if the general fund and proprietary fund appropriations are not sufficient to cover claims filed. Even though management believes there are sufficient assets to cover any claims filed, there is no guarantee that the assets available are adequate to cover all liabilities.

Changes in the balances of claims liabilities on the accrual basis during the past two years are as follows:

| | <u>Healthcare</u> | <u>Workers Compensation</u> |
|--|--------------------|---------------------------------|
| Liability at June 30, 2019 | \$ 155,891 | \$ 421,601 |
| Claims and Changes in Estimates in FY 2020 | 2,548,412 | 258,907 |
| Claims Paid in FY 2020 | <u>(2,634,353)</u> | <u>(332,934)</u> |
| Liability at June 30, 2020 | 69,950 | 347,574 |
| Claims and Changes in Estimates in FY 2021 | 3,013,636 | 341,606 |
| Claims Paid in FY 2021 | <u>(2,865,538)</u> | <u>(328,572)</u> |
| Liability at June 30, 2021 | <u>\$ 218,048</u> | <u>\$ 360,608</u> |

Note J – Retirement Plans (Continued)

1. Police and Firefighters’ Retirement Fund

The Police and Firefighters’ Retirement Fund is a single employer defined benefit plan administered by its own Board of Directors in accordance with KRS 95.851 to KRS 95.884. The Fund was established to provide retirement and disability benefits for retiring, disabled, or deceased personnel and their surviving spouse. On August 1, 1988, the Plan was closed to new entrants and current active-duty police and firemen of the City were given the choice of remaining in this plan or transferring into the County Employees Retirement System (CERS).

Summary of Significant Accounting Policies

Basis of Accounting

The preparation of the financial statements of the Police and Firefighters’ Retirement Fund (PFRF) conform to the provisions of GASB Statement No. 68. For purposes of measuring the net pension liability/(asset) deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the PFRF and additions to/deductions from the PFRF fiduciary net position have been determined on the same basis as they are reported by the PFRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are stated at fair value.

Funding Status and Progress

The present value of benefits on the actuarial report dated January 1, 2019, is a measure of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. An actuarial valuation is performed every three years. Significant actuarial assumptions used in determining the estimated benefits with no future cost-of-living adjustments include:

| | | January 1, 2019 Valuation | |
|------------------------------------|--------------|------------------------------|---|
| 1. Present Value of Benefits | | | 3. Total Present Value of |
| -- Active Employees | \$ - | | Benefits: (1) + (2d) \$2,056,080 |
| 2. Present Value of Benefits | | | 4. Present Value of Future Annual |
| -- Inactive Employees | | | Service Costs \$ - |
| a. Retiree's Benefits (including | | | 5. Accrued Liabilities: (3) - (4) \$2,056,080 |
| Contingent Survivor Benefits | \$ 1,424,035 | | 6. Valuation Assets \$3,865,586 |
| b. Current Beneficiaries' Benefits | \$ 632,045 | | 7. Unfunded Accrued Liability: (5) - (6) |
| c. Vested Terminations | \$ - | | (not less than zero) \$ - |
| d. Total -- Inactive Members | \$ 2,056,080 | | |

Note J – Retirement Plans (Continued)

Actuarially Determined Contribution Requirements and Contributions Made

The method of valuation employed is the “entry age normal” cost method. Under this method, an annual service cost is established for each employee. This annual service cost is the level annual percent of pay which should have been contributed each year from the date of a member’s employment until his retirement date in order to fully fund his benefits at retirement. The accrued liability represents the sum of money which would have been accumulated had these annual service costs been contributed for each year in the past for each employee currently with the City, and for all retired employees and beneficiaries. The remainder of the liabilities is for future contribution of annual service cost, which is zero for this plan since only inactive members remain in the plan.

Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded AAL | Funding Ratio | UAAL as a % of Covered Payroll |
|-----------------------------|---------------------------------|-----------------------------------|-----------------|------------------|--------------------------------------|
| January 1, 2010 | \$ 1,784,402 | \$2,800,356 | \$1,015,954 | 63.70% | N/A |
| January 1, 2013 | \$ 5,338,199 | \$2,791,663 | \$ - | 191.20% | N/A |
| January 1, 2016 | \$ 4,577,842 | \$2,762,773 | \$ - | 165.70% | N/A |
| January 1, 2019 | \$ 3,865,586 | \$2,056,080 | \$ - | 165.70% | N/A |

Contributions

The City did not have any required contributions for the year ended June 30, 2021 and for the previous three years.

Net Pension Liability

The Government’s net pension liability/(asset) was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. Additional information as of the latest actuarial valuation is presented in the following table.

| | Total Pension Liability | Plan Fiduciary Position | Net Pension Liabilty/ (Asset) |
|---------------------------|-------------------------------|-------------------------------|-------------------------------------|
| Balances at June 30, 2020 | \$2,056,080 | \$3,812,180 | \$(1,756,100) |
| Net Investment Income | | 177,358 | (177,358) |
| Benefit payments | | (251,710) | 251,710 |
| Administrative Expenses | - | (10,269) | 10,269 |
| Balances at June 30, 2021 | <u>\$2,056,080</u> | <u>\$3,727,559</u> | <u>\$(1,671,479)</u> |

Note J – Retirement Plans (Continued)

2. County Employees Retirement System

Plan description. Employees of the City of Frankfort are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the Kentucky Revised Statutes (KRS). The CERS pension plan has two categories: Non-Hazardous for general employees and Hazardous for sworn police and fire employees. 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. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute, 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 1/1/2014.

Benefits provided – Non-Hazardous. Tier 1 Non-Hazardous 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 Non-Hazardous 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 Non-Hazardous 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 KRS Board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Benefits provided – Hazardous. Tier 1 Hazardous 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 Hazardous 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 Hazardous 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.

Note J – Retirement Plans (Continued)

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

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 (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2021, total employer contributions for the City were \$5,388,566, excluding sick-payouts based on a rate of 24.06% for Non-Hazardous and 39.58% for Hazardous members through covered payroll. The contribution rate of 24.06% for Non-Hazardous is comprised of amounts for pension and insurance benefits, 16.22% was dedicated to pensions and 4.76% was allocated to insurance. The total contribution rate of 39.58% for Hazardous consists of 34.82% toward pension benefits and 4.76% for insurance benefits.

By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. Actuarial assumptions.

Note J – Retirement Plans (Continued)
Net Pension Liability(continued)

The total pension liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2018 and was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | CERS Non-Hazardous | CERS Hazardous |
|---------------------|---|---|
| Valuation Date | June 30, 2018 | June 30, 2018 |
| Actuarial Cost | | |
| Method | Entry Age Normal | Entry Age Normal |
| Asset Valuation | | |
| Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization | | |
| Method | Level Percent of Pay | Level Percent of Pay |
| Amortization Period | 25 Years Closed | 25 Years Closed |
| Payroll Growth | | |
| Rate | 2.00% | 2.00% |
| Investment Return | 6.25% | 6.25% |
| Inflation | 2.30% | 2.30% |
| Salary Increases | 3.30% to 11.55%, varies by service | 3.05% to 18.55%, varies by service |
| Mortality | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB(set back 1 year for females) | RP-2000 Combined Mortality Table, projected to Scale BB(set back 1 year for females) |

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

Note J – Retirement Plans (Continued)
Net Pension Liability(continued)

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

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

Discount rate. The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumed the 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 KRS financial report.

Note J – Retirement Plans (Continued)
Net Pension Liability(continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the City calculated using the discount rate of 6.25 percent, as well as the net pension liability (asset) if calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentagepoint higher (7.25 percent) than the current rate:

| | 1% Decrease (5.25%) | Current Discount Rate (6.25%) | 1% Increase (7.25%) |
|---------------------------------|------------------------|----------------------------------|------------------------|
| Nonhazardous | \$ 26,096,206 | \$ 21,161,071 | \$ 17,074,593 |
| Hazardous | 56,781,468 | 45,944,990 | 37,099,565 |
| CERS's Net Pension Liability | <u>\$ 82,877,674</u> | <u>\$ 67,106,061</u> | <u>\$ 54,174,158</u> |

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2021, the City recognized pension expense of \$5,697,933, which included sick-time payouts.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Liability Experience | \$ 1,952,623 | \$ - |
| Assumption Changes | 2,568,797 | - |
| Investment Experience | 2,657,144 | 1,092,581 |
| Change in Proportion & Differences | 1,260,949 | 692,255 |
| Contributions Subsequent to Measurement Date | <u>5,697,725</u> | <u>-</u> |
| Total | <u>\$ 14,137,238</u> | <u>\$ 1,784,836</u> |

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2020, will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Note J – Retirement Plans (Continued)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

| | | |
|------|-----------|------------------|
| 2021 | \$ | 2,645,505 |
| 2022 | | 1,955,181 |
| 2023 | | 1,236,191 |
| 2024 | | 817,800 |
| | <u>\$</u> | <u>6,654,677</u> |

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

3. Deferred Compensation Plan

The City has a deferred compensation trust plan created in accordance with the Internal Revenue Code Section 457 for its employees who elect to participate. The trust holds the assets for the exclusive benefit of plan participants and their beneficiaries. The City does not match any portion of the contributions.

Note K – Post-Employment Benefits Other Than Pensions (OPEB)

General Information about the OPEB 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.

Note K – Post-Employment Benefits Other Than Pensions (OPEB)(Continued)
General Information about the OPEB Plan

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

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2020. This method is expected to be reflective of the employers' long-term contribution effort. As of June 30, 2020, the City's proportion was 0.2758333% of the Non-hazardous plan and 1.523399% of the Hazardous plan.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability as of June 30, 2020 is based on an actuarial valuation dated June 30, 2018 and was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | CERS Non-Hazardous | CERS Hazardous |
|---------------------|---|---|
| Valuation Date | June 30, 2018 | June 30, 2018 |
| Actuarial Cost | | |
| Method | Entry Age Normal | Entry Age Normal |
| Asset Valuation | | |
| Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization Method | Level Percent of Pay | Level Percent of Pay |
| Amortization Period | 25 Years Closed | 25 Years Closed |

Note K – Post-Employment Benefits Other Than Pensions (OPEB)(Continued)
Net OPEB Liability

Actuarial assumptions (continued)

| | CERS Non-Hazardous | CERS Hazardous |
|---------------------|---|---|
| Payroll Growth Rate | 2.00% | 2.00% |
| Investment Return | 6.25% | 6.25% |
| Inflation | 2.30% | 2.30% |
| Salary Increases | 3.30% to 11.55%, varies by service | 3.30% to 18.55%, varies by service |
| Mortality | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB(set back 1 year for females) | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB(set back 1 year for females) |
| Healthcare Trend | | |
| Rates(Pre-65) | Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Healthcare Trend | | |
| Rates(Post-65) | Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Phase-in Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. | Board certified rate is phased into the actuarially in accordance with HB 362 enacted in 2018. |

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

Note K – Post-Employment Benefits Other Than Pensions (OPEB)(Continued)
Net OPEB Liability

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

Discount rate. The discount rate used to measure the total OPEB liability was 5.34% for Non-hazardous and 5.30% for Hazardous employees. Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan’s fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan’s projected fiduciary net position is not sufficient to pay benefits).

Note K – Post-Employment Benefits Other Than Pensions (OPEB)(Continued)
Net OPEB Liability (continued)

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 (4.34%) or 1-percentage-point higher (6.34.%) than the current discount rate:

| | Current Discount(5.34% Non Hazardous 5.30 Hazardous) | | |
|--------------|--|----------------------|----------------------|
| | 1% Decrease | Rate | 1% Increase |
| Nonhazardous | \$ 8,556,730 | \$ 6,660,456 | \$ 5,102,982 |
| Hazardous | 19,110,266 | 14,077,819 | 10,022,680 |
| | <u>\$ 27,666,996</u> | <u>\$ 20,738,275</u> | <u>\$ 15,125,662</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 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:

| | Healthcare Cost | | |
|--------------|----------------------|----------------------|----------------------|
| | Trend Rate | Discount | Trend Rate |
| | 1% Decrease | Rate | 1% Increase |
| Nonhazardous | \$ 5,102,982 | \$ 6,660,456 | \$ 8,485,108 |
| Hazardous | 10,060,420 | 14,077,819 | 19,016,857 |
| | <u>\$ 15,163,402</u> | <u>\$ 20,738,275</u> | <u>\$ 27,501,965</u> |

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

Note K – Post-Employment Benefits Other Than Pensions (OPEB)(Continued)
OPEB Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences Between Expected and Actual Results | \$ 1,595,917 | \$ 2,519,515 |
| Changes of Assumptions | 3,455,154 | 20,017 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 1,399,706 | 553,416 |
| Changes in Proportion and Differences Between City Contributions and Proportion Share of Contributions | 313,515 | 587,761 |
| Total | \$ 6,764,292 | \$ 3,680,709 |

The amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

| | | |
|------------|----|-----------|
| 2021 | \$ | 814,680 |
| 2022 | | 548,128 |
| 2023 | | 746,499 |
| 2024 | | 760,616 |
| 2025 | | 213,660 |
| Thereafter | | - |
| | \$ | 3,083,583 |

Note L – Concentrations

Approximately 26% of the revenue generated from the occupational tax is attributable to one entity as of June 30, 2021. Approximately 8% of the revenue generated from the insurance premiums is attributable to one entity as of June 30, 2021.

Note M – Commitments and Contingent Liabilities

Litigation

The City is party to numerous legal proceedings, many of which normally occur in government operations and will not involve any potential liability to the City.

Note M – Commitments and Contingent Liabilities (Continued)

Contingencies

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable as of June 30, 2021 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Commitments

In 2008, the Commonwealth of Kentucky filed suit against the City of Frankfort, Kentucky for alleged violations of certain provisions of the Clean Water Act, including the provisions applicable to combined sewers and unpermitted sanitary sewer outfalls. The City entered into a Consent Judgment with the Commonwealth.

The City agreed to pay a fine of \$50,000 and to undertake substantial repairs to its sewer system to achieve compliance with the Clean Water Act and the applicable federal and state statutes and regulations. The City is proceeding to comply with the Consent Judgment. The improvements will take in excess of 10 years to complete.

The cost to implement the current projects necessary to remain in compliance with the Consent Judgment is anticipated to be \$30-\$50 million and the City is in substantial compliance to date.

Note N – Recent GASB Pronouncements

The GASB has issued several reporting standards that will become effective for FY 2022 and later year financial statements.

GASB Statement No. 87, Leases—The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a 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, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement for reporting periods beginning after December 15, 2019, or the

Note N – Recent GASB Pronouncements (continued)

2020-2021 fiscal year. This Pronouncement has been postponed by 18 months. The City has not determined the effect of this pronouncement.

GASB Statement No. 84, Fiduciary Activities—The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement for reporting periods beginning after December 15, 2018, or the 2019-2020 fiscal year. This Pronouncement has been postponed by 18 months. The City has not determined the effect of this pronouncement.

GASB Statement No. 91, Conduit Debt Obligations— The objective of this Statement is to clarify the existing definition of conduit debt obligation (CDO), establishes that a CDO is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with CDOs and improves note disclosures related to CDOs. The effective date for this pronouncement is the 2022-2023 fiscal year. This Pronouncement has been postponed by 18 months. The City has not determined the effect of this pronouncement.

GASB Statement No. 92, Omnibus 2020— The objective of this Statement is to address a variety of topics and includes specific provisions about the following: leases, intra-agency transfer of assets, pension plans, Postemployment benefit plans other than pension plans, fiduciary activities, asset retirement obligations and investments and derivative instruments. The effective date for this pronouncement is the 2021-2022 fiscal year. This Pronouncement has been postponed by 18 months. The City has not determined the effect of this pronouncement.

GASB Statement No. 93 Replacement of Interbank Offered Rates—The objective of this Statement provides exceptions for certain hedging derivative instruments when an interbank offered rate (IBOR) is replaced as the reference rate Clarifies the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, clarifies the uncertainty related to the continued availability of IBORs, does not by itself affect the assessment of whether the occurrence of a hedged expected transaction is probable, removes the London Interbank Offered Rate (LIBOR), replacing it with a secured overnight financing rate or the effective federal funds rate as an appropriate benchmark interest rate for qualitative evaluation of the effectiveness of an interest rate swap, clarifies the definition of reference rate and provides an exception to lease modification guidance in GASB 87 for certain lease contracts that are amended to solely replace an IBOR for the rate of variable payments. The effective date for this pronouncement is the 2021-2022 fiscal year. This Pronouncement has been postponed by 18 months. The City has not determined the effect of this pronouncement.

Note N – Recent GASB Pronouncements (continued)

GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period— The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Note O – The Single Audit Act

The U.S. Office of Management and Budget's Uniform Guidance for Audits of States, Local Governments and Non-Profit Organizations (the Circular) requires non-federal entities that expend \$750,000 or more a year in Federal awards to have an audit performed in accordance with the provisions of the Circular. A separate supplemental report will be issued on active grant programs of the City in accordance with applicable provisions of the Single Audit Act of 1984, P.L. 98-502 and the Single Audit Act Amendments of 1996, P.L. 104-156.

Note P – Subsequent Events

Management has evaluated subsequent events through December 15, 2021, the date the financial statements were available to be issued.

Required Supplementary Information

City of Frankfort
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2021

| | Budgeted Amounts | | Actual | Variance with Final Budget- |
|------------------------------|-------------------|-------------------|-------------------|--------------------------------|
| | Original | Final | | Positive (Negative) |
| Taxes | | | | |
| Prior Year Taxes | \$ 63,000 | \$ 63,000 | \$ 50,235 | \$ (12,765) |
| Current Year Taxes | 3,100,000 | 3,100,000 | 3,102,944 | 2,944 |
| Bank Shares | 250,000 | 250,000 | 337,112 | 87,112 |
| Franchises, etc. | 35,000 | 35,000 | 14,500 | (20,500) |
| Pen. Int & Disc | 20,000 | 20,000 | 39,466 | 19,466 |
| Collection Fee - MVT | 25,000 | 25,000 | - | (25,000) |
| Motor Vehicle Tax | 306,000 | 306,000 | 361,556 | 55,556 |
| Discount for Taxes | (60,000) | (60,000) | (55,912) | 4,088 |
| Total Taxes | <u>3,739,000</u> | <u>3,739,000</u> | <u>3,849,901</u> | <u>110,901</u> |
| Occupational Tax Receipts | | | | |
| Insurance Company | 3,300,000 | 3,300,000 | 3,926,515 | 626,515 |
| 1.95% Withholding | 15,700,000 | 15,700,000 | 15,826,227 | 126,227 |
| 1.95% Business | 2,000,000 | 2,000,000 | 3,056,684 | 1,056,684 |
| Regulatory Fees | 40,000 | 40,000 | 44,073 | 4,073 |
| Penalty, Interest, Atty Fees | 30,000 | 30,000 | 102,167 | 72,167 |
| Total Occ. Tax Receipts | <u>21,070,000</u> | <u>21,070,000</u> | <u>22,955,666</u> | <u>1,885,666</u> |
| Licenses, Permits & Fines | | | | |
| Parade Permits | 1,000 | 1,000 | 500 | (500) |
| Dumpster Permit Fee | 85,000 | 85,000 | 10,654 | (74,346) |
| Building Permits | 15,000 | 15,000 | 18,417 | 3,417 |
| Housing Inspections | 15,000 | 15,000 | 4,350 | (10,650) |
| Total Lic, Permits & Fines | <u>116,000</u> | <u>116,000</u> | <u>33,921</u> | <u>(82,079)</u> |
| Parking Violations | <u>7,500</u> | <u>7,500</u> | <u>565</u> | <u>(6,935)</u> |
| Charges for Services | | | | |
| Recreation Fee | 45,000 | 45,000 | 28,673 | (16,327) |
| Golf Course Receipts | 100,000 | 100,000 | 177,284 | 77,284 |
| Swimming Pool Receipts | 85,000 | 85,000 | 71,299 | (13,701) |
| Swimming Pool Concessions | 30,000 | 30,000 | 28,399 | (1,601) |
| Parking Garages | - | - | (16,830) | (16,830) |
| Ball Field Concessions | 8,500 | 8,500 | - | (8,500) |
| Golf Cart Rentals | 100,000 | 100,000 | 184,058 | 84,058 |
| Garbage Collection Fee | 30,000 | 30,000 | 55,968 | 25,968 |
| Total Charges for Services | <u>398,500</u> | <u>398,500</u> | <u>528,851</u> | <u>130,351</u> |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended June 30, 2021

| | Budgeted Amounts | | Actual | Variance with |
|---------------------------|----------------------|----------------------|----------------------|---|
| | Original | Final | | Final Budget- Positive (Negative) |
| Intergovernmental | | | | |
| Base Court Revenue | 35,000 | 35,000 | 22,198 | (12,802) |
| Plant Board Contributions | 109,000 | 109,000 | 109,000 | - |
| City and County Projects | 806,000 | 937,655 | 726,145 | (211,510) |
| State Participation | 195,000 | 195,000 | 195,744 | 744 |
| Grants and Aid | 2,615,200 | 3,442,965 | 2,818,282 | (624,683) |
| Police/Fire Incentive | 665,000 | 665,000 | 738,328 | 73,328 |
| Total Intergovernmental | <u>4,425,200</u> | <u>5,384,620</u> | <u>4,609,697</u> | <u>(774,923)</u> |
| Ambulance | <u>1,250,000</u> | <u>1,250,000</u> | <u>1,573,703</u> | <u>323,703</u> |
| Interest | <u>250,000</u> | <u>250,000</u> | <u>88,571</u> | <u>(161,429)</u> |
| Public Transit | | | | |
| Public Transit | <u>1,390,500</u> | <u>1,718,761</u> | <u>1,061,372</u> | <u>(657,389)</u> |
| Total Public Transit | <u>1,390,500</u> | <u>1,718,761</u> | <u>1,061,372</u> | <u>(657,389)</u> |
| Miscellaneous | 100,000 | 100,000 | 190,092 | 90,092 |
| Surplus Property | 100,000 | 100,000 | 48,140 | (51,860) |
| Recycling | 86,000 | 86,000 | 8,098 | (77,902) |
| Tower Rental | 60,000 | 60,000 | 81,180 | 21,180 |
| Building Rentals | 5,000 | 10,500 | 15,150 | 4,650 |
| Sewer Allocation | 450,000 | 450,000 | 450,000 | - |
| E-911 Communications | 330,000 | 330,000 | 330,000 | - |
| Fund Balance | <u>1,801,655</u> | <u>1,801,655</u> | <u>-</u> | <u>(1,801,655)</u> |
| Total Revenues | <u>\$ 35,579,355</u> | <u>\$ 36,872,536</u> | <u>\$ 35,824,907</u> | <u>\$ (1,047,629)</u> |

See Independent Auditor's Report

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Final Budget |
|--------------------------|-------------------|-------------------|-----------------------------------|------------------------|
| | Original | Final | | Positive (Negative) |
| Expenditures: | | | | |
| General Government | | | | |
| City Commission | \$ 1,242,924 | \$ 3,374,628 | \$ 2,082,950 | \$ 1,291,678 |
| City Manager | 1,295,831 | 1,376,210 | 1,321,410 | 54,800 |
| IT | 522,034 | 562,966 | 565,972 | (3,006) |
| Total General Government | <u>3,060,789</u> | <u>5,313,804</u> | <u>3,970,332</u> | <u>1,343,472</u> |
| Finance | <u>533,532</u> | <u>557,761</u> | <u>587,819</u> | <u>(30,058)</u> |
| Insurance | <u>3,400,000</u> | <u>3,410,843</u> | <u>3,492,521</u> | <u>(81,678)</u> |
| Public Safety | | | | |
| Disaster & Emergency Mgt | 857,438 | 1,012,921 | 726,558 | 286,363 |
| Emergency Medical Serv | 3,505,863 | 3,543,028 | 3,269,618 | 273,410 |
| Fire Department | 5,269,580 | 5,342,278 | 5,643,000 | (300,722) |
| Police Department | 6,279,159 | 6,355,354 | 6,293,604 | 61,750 |
| Communications | 1,134,134 | 1,173,763 | 1,025,621 | 148,142 |
| Total Public Safety | <u>17,046,174</u> | <u>17,427,344</u> | <u>16,958,401</u> | <u>468,943</u> |
| Public Works | | | | |
| Public Works Director | 450,442 | 456,161 | 429,427 | 26,734 |
| Street Department | 1,277,561 | 1,285,511 | 1,217,645 | 67,866 |
| Garage | 426,123 | 433,182 | 426,980 | 6,202 |
| Buildings | 506,802 | 517,789 | 455,251 | 62,538 |
| Sanitation | 1,451,048 | 1,735,703 | 2,015,515 | (279,812) |
| Floodwall | 746,957 | 766,801 | 707,817 | 58,984 |
| Public Transit | 1,472,138 | 1,493,078 | 1,281,923 | 211,155 |
| Total Public Works | <u>6,331,071</u> | <u>6,688,225</u> | <u>6,534,558</u> | <u>153,667</u> |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Final Budget |
|--|----------------------|----------------------|-----------------------------------|------------------------|
| | Original | Final | | Positive (Negative) |
| Parks and Recreation | | | | |
| Parks and Recreation | 796,626 | 804,570 | 808,457 | (3,887) |
| Juniper Hills Golf Course | 705,688 | 711,253 | 785,835 | (74,582) |
| Aquatic Center | 390,436 | 390,436 | 211,169 | 179,267 |
| Riverview Park | 219,766 | 220,758 | 188,978 | 31,780 |
| Lakeview Park | 40,369 | 40,609 | 32,787 | 7,822 |
| Fort Hill Museum St. Clair | 251,520 | 252,683 | 163,533 | 89,150 |
| Forestry | 90,000 | 90,000 | 34,726 | 55,274 |
| Sports | 253,046 | 253,046 | 161,221 | 91,825 |
| Cove Spring | 99,465 | 99,465 | 120,704 | (21,239) |
| Capital View Park | 166,360 | 166,360 | 153,973 | 12,387 |
| East Frankfort Park | 138,054 | 138,054 | 60,544 | 77,510 |
| Total Parks and Recreation | <u>3,151,330</u> | <u>3,167,234</u> | <u>2,721,927</u> | <u>445,307</u> |
| Planning and Building Codes | <u>656,484</u> | <u>669,844</u> | <u>559,601</u> | <u>110,243</u> |
| Capital Outlay, Debt Service & Transfers | <u>1,399,975</u> | <u>1,889,975</u> | <u>1,284,168</u> | <u>605,807</u> |
| Total Expenditures | <u>\$ 35,579,355</u> | <u>\$ 39,125,030</u> | <u>\$ 36,109,327</u> | <u>\$ 3,015,703</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | | | (284,420) | |
| Adjustments to Conform with Generally Accepted Accounting Principles | | | | |
| Transfers Out to Other Funds | | | <u>(593,710)</u> | |
| Excess of Revenues Over/(Under) | | | | |
| Expenditures (GAAP Governmental Fund Basis) | | | (878,130) | |
| Fund Balances, Beginning of Year | | | <u>26,730,921</u> | |
| Fund Balances, End of Year | | | <u>\$ 25,852,791</u> | |

See Independent Auditor's Report.

City of Frankfort, Kentucky
 Schedule of Proportionate Share of Net Pension Liability & Schedule of Contributions
 For the Year Ended June 30, 2021

Schedule of Proportionate Share of Net Pension Liability

| | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| City's proportion of the net pension liability | 1.504135% | 1.828580% | 1.810158% | 1.837445% | 1.781571% | 1.749667% | 1.799232% |
| City's proportionate share of the net pension liability | \$ 28,439,000 | \$ 67,106,061 | \$ 40,599,011 | \$ 52,137,253 | \$ 53,587,302 | \$ 59,749,383 | \$ 67,106,061 |
| City's covered-employee payroll | \$ 16,904,275 | \$ 16,903,522 | \$ 18,214,034 | \$ 15,637,234 | \$ 16,053,446 | \$ 17,001,279 | \$ 15,317,277 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 168.24% | 396.99% | 222.90% | 333.42% | 333.81% | 351.44% | 425.14% |
| Plan Fiduciary net position as a percentage of the total pension liability | 66.80% | 59.97% | 55.50% | 53.50% | 52.40% | 49.43% | 46.82% |

Schedule of Contributions

| | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 4,103,918 | \$ 3,849,061 | \$ 4,046,346 | \$ 4,042,106 | \$ 4,497,482 | \$ 5,337,668 | \$ 5,697,733 |
| Contribution in relation to the contractually required contribution | <u>(4,000,670)</u> | <u>(3,849,061)</u> | <u>(4,046,346)</u> | <u>(4,042,106)</u> | <u>(4,497,482)</u> | <u>(5,337,668)</u> | <u>(5,697,733)</u> |
| Contribution deficiency (excess) | <u>103,248</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| City's employee payroll | \$ 16,904,275 | \$ 18,214,034 | \$ 16,089,994 | \$ 15,637,234 | \$ 16,053,446 | \$ 17,001,279 | \$ 17,169,070 |
| Contributions as a percentage of covered-employee payroll | 17.67%, 34.31% | 17.06%, 32.95% | 18.68%, 31.06% | 19.18%, 31.55% | 21.48%, 35.34% | 24.06%, 39.58% | 24.06%, 39.58% |

See Independent Auditor's Report.

City of Frankfort, Kentucky
 Schedule of Proportionate Share of OPEB Liability & Schedule of Contributions
 For the Year Ended June 30, 2021

Schedule of Proportionate Share of Net Pension Liability

| | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
|--|---------------|---------------|---------------|---------------|
| City's proportion of the net pension liability | 1.837445% | 1.781571% | 1.749667% | 1.799232% |
| City's proportionate share of the net pension liability | \$ 18,799,700 | \$ 15,742,236 | \$ 15,463,496 | \$ 20,738,275 |
| City's covered-employee payroll | \$ 15,637,234 | \$ 16,053,446 | \$ 17,001,279 | \$ 15,317,277 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 120.2239% | 98.0614% | 90.9549% | 135.3914% |
| Plan Fiduciary net position as a percentage of the total pension liability | 53.50% | 59.76% | 61.75% | 55.26% |

Schedule of Contributions

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|--|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 734,950 | \$ 844,411 | \$ 809,261 | \$ 817,248 |
| Contribution in relation to the contractually required contribution | (189,979) | (844,411) | (254,073) | (817,248) |
| Contribution deficiency (excess) | - | - | - | - |
| City's employee payroll | \$ 15,637,234 | \$ 16,053,446 | \$ 17,001,279 | \$ 17,169,070 |
| OPEB Contributions as a percentage of covered- employee payroll | 4.70% | 5.26% | 4.76% | 4.76% |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Schedule of Changes in City's OPEB Liability
For the Year Ended June 30, 2021

| | |
|---|-----------------------------|
| Change in the Net OPEB Liability | |
| Total OPEB Liability | |
| Service Cost | \$ 1,084,884 |
| Interest | 2,418,425 |
| Benefit Changes | - |
| Difference Between Actual and Expected Experience | 1,976,549 |
| Assumption Changes | 880,979 |
| Benefit Payments | <u>(1,798,068)</u> |
| Net Change on Total OPEB Liability | 4,562,769 |
| Total OPEB Liability Beginning | <u>43,422,389</u> |
| Total OPEB Liability Ending | <u><u>\$ 47,985,158</u></u> |
| | |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 1,404,133 |
| Contributions - Member | 77,834 |
| Benefit Payments | (1,798,068) |
| Net Investment Income | 60,532 |
| Administrative Expens | (9,530) |
| Other | <u>-</u> |
| Net Change in Plan Fiduciary Net Position | (265,099) |
| Plan Fiduciary Net Position - Beginning | <u>27,511,982</u> |
| Plan Fiduciary Net Position - Ending | <u><u>\$ 27,246,883</u></u> |
| | |
| Net OPEB Liability Ending | 20,738,275 |
| | |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 56.78% |
| | |
| Covered Payroll | 17,169,070 |
| | |
| Net OPEB Liability as a Percentage of Covered Payroll | 120.79% |

See Independent Auditor's Report.

Supplementary Information

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue, sources (other than major funds) that are restricted by law, to be expended for specific purposes. Individual funds included in this fund type are as follows:

Municipal Aid Fund – accounts for Municipal Aid and Local Government Economic Assistance funds to be used for street resurfacing and similar projects.

Transportation Improvements – accounts for funds deposited to be used for capital expenditures and other miscellaneous expenses of the Public Transit System not budgeted in the General Fund, or for any other purpose so designated.

Transit Capital Sales—accounts for funds deposited from proceeds from sale of assets originally purchased with federal funds and required to be separately accounted for in a non-interest bearing account.

Tiger Grant – accounts for funds deposited to be used for capital expenditures for the Transportation Investment Generating Economic Recovery federal program.

E-911 Telephone – accounts for the 911 fees collected and received from the telephone company to be used for E-911 telephone system expenses.

Telecommunications Tax – accounts for funds deposited to be used for future use funded by the telecommunications tax received.

Tourism Center Building – accounts for rent collected from tenants of the Tourism Center Building to be used for expenses related to the building or for other projects so designated.

Asset Forfeiture Fund (U.S. Justice) – accounts for funds received from the federal government for forfeited assets. These funds are to be used for police department activities.

Lost and Found – accounts for funds received for items turned into the police department as lost and found.

Asset Forfeiture Fund (State) – accounts for funds received from the state government for forfeited assets. These funds are to be used for police department activities.

Safe Place – accounts for funds received from Safe Place to be used for Safe Place activities.

Frankfort/Franklin Co. LEPC – accounts for the Frankfort/Franklin Co. LEPC committee.

Capital Projects Funds

Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

Fort Hill Park Fund – accounts for accumulated funds used to construct and maintain the Fort Hill Park.

Stormwater Fund – accounts for accumulated funds used to maintain stormwater projects.

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Balance Sheet –
Nonmajor Governmental Funds
June 30, 2021

| | Combined Nonmajor Special Revenue Funds | Combined Nonmajor Capital Project Funds | Total Nonmajor Governmental Funds |
|------------------------------------|---|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash and Cash Equivalents | \$ 1,866,314 | \$ 190,465 | \$ 2,056,779 |
| Investments | 1,723,129 | | 1,723,129 |
| Due To/From Other Funds | (225,010) | | (225,010) |
| Receivables | | | |
| Grants | 1,706,851 | | 1,706,851 |
| Accounts | - | | - |
| Accrued Interest | 291 | - | 291 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 5,071,575</u> | <u>\$ 190,465</u> | <u>\$ 5,262,040</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$ 1,442,297 | \$ 22,483 | \$ 1,464,780 |
| Total Liabilities | <u>1,442,297</u> | <u>22,483</u> | <u>1,464,780</u> |
| Fund Balances | | | |
| Fund Balance, Unassigned | 84,365 | - | 84,365 |
| Fund Balance, Restricted | <u>3,544,913</u> | <u>167,982</u> | <u>3,712,895</u> |
| Total Fund Balance | <u>3,629,278</u> | <u>167,982</u> | <u>3,797,260</u> |
| Total Liabilities and Fund Balance | <u>\$ 5,071,575</u> | <u>\$ 190,465</u> | <u>\$ 5,262,040</u> |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Balance Sheet –
Nonmajor Special Revenue Funds
June 30, 2021

| | Municipal | Capital | Transit Capital | Tiger | | Telecommunications | Tourism | Asset Forfeiture- | Lost and | Asset Forfeiture | Frankfort/ Franklin Co | | Total |
|--|---------------------|---------------------|------------------|-------------------|------------------|--------------------|------------------|-------------------|-------------------|-------------------|---------------------------|---------------|---------------------|
| | Aid | Improvements | Sales | Grant | E-911 | Tax | Building | U.S. Justice | Found | -State | Safe Place | LEPC | |
| Assets | | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$ 384,892 | \$ 317,772 | \$ 22,275 | \$ 30,332 | \$320,932 | \$ 93,363 | \$ 86,535 | \$ 183,891 | \$ 318,752 | \$ 103,505 | \$ 3,110 | \$ 955 | \$ 1,866,314 |
| Investments | 1,023,129 | 600,000 | - | | 100,000 | | | | | | | | 1,723,129 |
| Due To/From Other Funds | 105,251 | 37,900 | - | (368,161) | | | | | - | - | | | (225,010) |
| Receivables | | | | | | | | | | | | | |
| Grants | 9,504 | 498,975 | - | 1,198,372 | | | | | | | | | 1,706,851 |
| Accounts | | | | | | | | | | | | | - |
| Accrued Interest | 270 | - | - | - | 21 | - | - | - | - | - | - | - | 291 |
| Total Assets | \$ 1,523,046 | \$ 1,454,647 | \$ 22,275 | \$ 860,543 | \$420,953 | \$ 93,363 | \$ 86,535 | \$ 183,891 | \$ 318,752 | \$ 103,505 | \$ 3,110 | \$ 955 | \$ 5,071,575 |
| Liabilities and Fund Balances | | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | | |
| Accounts Payable | \$ 342,875 | \$ 179,970 | \$ - | \$ 862,713 | \$ 56,007 | \$ - | \$ - | \$ - | \$ - | \$ 732 | \$ - | \$ - | \$ 1,442,297 |
| Total Liabilities | 342,875 | 179,970 | - | 862,713 | 56,007 | - | - | - | - | 732 | - | - | 1,442,297 |
| Fund Balances | | | | | | | | | | | | | |
| Fund Balance, Unassigned | | | | (2,170) | | | 86,535 | | | | | | 84,365 |
| Fund Balance, Restricted | 1,180,171 | 1,274,677 | 22,275 | - | 364,946 | 93,363 | - | 183,891 | 318,752 | 102,773 | 3,110 | 955 | 3,544,913 |
| Total Fund Balances | 1,180,171 | 1,274,677 | 22,275 | (2,170) | 364,946 | 93,363 | 86,535 | 183,891 | 318,752 | 102,773 | 3,110 | 955 | 3,629,278 |
| Total Liabilities and Fund Balances | \$ 1,523,046 | \$ 1,454,647 | \$ 22,275 | \$ 860,543 | \$420,953 | \$ 93,363 | \$ 86,535 | \$ 183,891 | \$ 318,752 | \$ 103,505 | \$ 3,110 | \$ 955 | \$ 5,071,575 |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
For the Year Ended June 30, 2021

| | Combined Nonmajor Special Revenue Funds | Combined Nonmajor Capital Project Funds | Total Nonmajor Governmental Funds |
|--|---|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Revenues | | | |
| Intergovernmental Revenues | \$ 2,722,657 | \$ - | \$ 2,722,657 |
| Interest Income | 54,834 | 968 | 55,802 |
| Charges for Services | 419,831 | | 419,831 |
| Contributions | 1 | | 1 |
| Fines and Forfeitures | 86,682 | | 86,682 |
| Rental Income | - | 21,408 | 21,408 |
| Miscellaneous | 63,695 | - | 63,695 |
| | <u>3,347,700</u> | <u>22,376</u> | <u>3,370,076</u> |
| Total Revenues | | | |
| Expenditures | | | |
| General Government | 154,268 | | 154,268 |
| Public Safety | 1,777,274 | | 1,777,274 |
| Public Works | 3,427,819 | 761,049 | 4,188,868 |
| Parks and Recreation | 1,130,427 | 46,441 | 1,176,868 |
| Planning and Building Codes | 244,377 | - | 244,377 |
| | <u>6,734,165</u> | <u>807,490</u> | <u>7,541,655</u> |
| Total Expenditures | | | |
| Excess(Deficiency) of Revenues over Expenditures | <u>(3,386,465)</u> | <u>(785,114)</u> | <u>(4,171,579)</u> |
| Other Financing Sources/(Uses) | | | |
| KIA Payable Proceeds | | 568,337 | 568,337 |
| Porceeds from Sale of Assets | 22,275 | | 22,275 |
| Operating Transfers In | 390,000 | - | 390,000 |
| Operating Transfers Out | <u>(330,000)</u> | <u>-</u> | <u>(330,000)</u> |
| Total Other Financing Sources/(Uses) | <u>82,275</u> | <u>568,337</u> | <u>650,612</u> |
| Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing | (3,304,190) | (216,777) | (3,520,967) |
| Fund Balances, Beginning of Year | <u>6,933,468</u> | <u>384,759</u> | <u>7,318,227</u> |
| Fund Balances, End of Year | <u>\$ 3,629,278</u> | <u>\$ 167,982</u> | <u>\$ 3,797,260</u> |

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2021

| | Municipal Aid | Capital Improvements | Transit Capital Sales | Tiger Grant | E-911 | Tele- communications Tax | Tourism Building | Asset Forfeiture- U.S. Justice | Lost and Found | Asset Forfeiture- State | Safe Place | Frankfort/ Franklin Co LEPC | Total |
|---|---------------------|-------------------------|--------------------------|-------------------|-------------------|--------------------------------|---------------------|-----------------------------------|-------------------|-------------------------------|-----------------|-----------------------------------|---------------------|
| Revenues | | | | | | | | | | | | | |
| Intergovernmental Revenues | \$ 578,408 | \$ 581,380 | \$ - | \$ 1,530,704 | \$ - | \$ 32,165 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,722,657 |
| Interest Income | 51,130 | 1,335 | | 568 | 1,120 | 14 | 158 | 272 | 52 | 181 | 4 | | 54,834 |
| Charges for Services | | | | | 419,831 | | | | | | | | 419,831 |
| Contributions | | - | | | | | | | | | 1 | | 1 |
| Fines and Forfeitures | | | | | | | | 45,398 | | 41,284 | | | 86,682 |
| Miscellaneous | - | - | - | - | - | - | - | - | 61,818 | - | - | 1,877 | 63,695 |
| Total Revenues | 629,538 | 582,715 | - | 1,531,272 | 420,951 | 32,179 | 158 | 45,670 | 61,870 | 41,465 | 5 | 1,877 | 3,347,700 |
| Other Financing Sources | | | | | | | | | | | | | |
| Proceeds from Sale of Assets | | | 22,275 | | | | | | | | | | 22,275 |
| Operating Transfers In | - | 390,000 | - | - | - | - | - | - | - | - | - | - | 390,000 |
| Total Other Financing Sources | - | 390,000 | 22,275 | - | - | - | - | - | - | - | - | - | 412,275 |
| Total Rev & Other Financing Sources | 629,538 | 972,715 | 22,275 | 1,531,272 | 420,951 | 32,179 | 158 | 45,670 | 61,870 | 41,465 | 5 | 1,877 | 3,759,975 |
| Expenditures | | | | | | | | | | | | | |
| General Government | | 154,268 | | | | | | | | | | | 154,268 |
| Public Safety | | 1,402,855 | | | 337,177 | - | | 7,498 | | 29,744 | | | 1,777,274 |
| Public Works | 1,734,747 | 57,413 | - | 1,634,331 | | | - | | | | - | 1,328 | 3,427,819 |
| Parks and Recreation | | 1,130,427 | | | | | | | | | | | 1,130,427 |
| Planning and Building Codes | - | 207,493 | - | - | - | - | - | - | 36,884 | - | - | - | 244,377 |
| Total Expenditures | 1,734,747 | 2,952,456 | - | 1,634,331 | 337,177 | - | - | 7,498 | 36,884 | 29,744 | - | 1,328 | 6,734,165 |
| Other Financing Uses | | | | | | | | | | | | | |
| Operating Transfers (In)/Out | - | - | - | - | 330,000 | - | - | - | - | - | - | - | 330,000 |
| Total Expenditures and Other Financing Sources(Uses) | 1,734,747 | 2,952,456 | - | 1,634,331 | 667,177 | - | - | 7,498 | 36,884 | 29,744 | - | 1,328 | 7,064,165 |
| Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses | | | | | | | | | | | | | |
| | (1,105,209) | (1,979,741) | 22,275 | (103,059) | (246,226) | 32,179 | 158 | 38,172 | 24,986 | 11,721 | 5 | 549 | (3,304,190) |
| Fund Balances, July 1 | 2,285,380 | 3,254,418 | - | 100,889 | 611,172 | 61,184 | 86,377 | 145,719 | 293,766 | 91,052 | 3,105 | 406 | 6,933,468 |
| Fund Balances, June 30 | \$ 1,180,171 | \$ 1,274,677 | \$ 22,275 | \$ (2,170) | \$ 364,946 | \$ 93,363 | \$ 86,535 | \$ 183,891 | \$ 318,752 | \$ 102,773 | \$ 3,110 | \$ 955 | \$ 3,629,278 |

See Independent Auditor's Report.

City of Frankfort
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2021

| | Fort Hill Park | Stormwater | Total |
|------------------------------------|-------------------|------------|------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 52,990 | \$ 137,475 | \$ 190,465 |
| Total Assets | \$ 52,990 | \$ 137,475 | \$ 190,465 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$ - | \$ 22,483 | \$ 22,483 |
| Total Liabilities | - | 22,483 | 22,483 |
| Fund Balances | | | |
| Fund Balance, Restricted | 52,990 | 114,992 | 167,982 |
| Total Fund Balance | 52,990 | 114,992 | 167,982 |
| Total Liabilities and Fund Balance | \$ 52,990 | \$ 137,475 | \$ 190,465 |

See Independent Auditor's Report

City of Frankfort
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2021

| | Fort Hill Park | Stormwater | Total |
|---|-------------------|-------------------|-------------------|
| Revenues | | | |
| Interest Income | \$ 162 | \$ 806 | \$ 968 |
| Rental Income | 21,408 | - | 21,408 |
| Total Revenues | <u>21,570</u> | <u>806</u> | <u>22,376</u> |
| Expenditures | | | |
| Public Works | | 761,049 | 761,049 |
| Parks and Recreation | 46,441 | - | 46,441 |
| Total Expenditures | <u>46,441</u> | <u>761,049</u> | <u>807,490</u> |
| Other Financing Sources/(Uses) | | | |
| KIA Payable Proceeds | - | 568,337 | 568,337 |
| Total Other Financing Sources/(Uses) | <u>46,441</u> | <u>192,712</u> | <u>239,153</u> |
| Excess of Revenues Over/(Under) Expenditures and Other Financing Sources(Uses) | (24,871) | (191,906) | (216,777) |
| Fund Balances, Beginning of Year | <u>77,861</u> | <u>306,898</u> | <u>384,759</u> |
| Fund Balances, End of Year | <u>\$ 52,990</u> | <u>\$ 114,992</u> | <u>\$ 167,982</u> |

See Independent Auditor's Report

City of Frankfort, Kentucky
Combining Statement of Changes in Assets and Liabilities –
Agency Funds
June 30, 2021

| | | Balance | | | Balance |
|----------------------------------|----------------------------------|---------------|------------|------------|---------------|
| | | June 30, 2020 | Additions | Deductions | June 30, 2021 |
| <u>LETTER OF CREDIT</u> | | | | | |
| Assets | | | | | |
| | Cash | \$ 52,189 | \$ 52 | \$ - | \$ 52,241 |
| Liabilities | | | | | |
| | Due to Depositors | \$ 52,189 | \$ 52 | \$ - | \$ 52,241 |
| <u>TRANSIENT ROOM TAX</u> | | | | | |
| Assets | | | | | |
| | Cash & Rec/Pay | (45,511) | \$ 142,625 | \$ 122,434 | \$ (25,320) |
| Liabilities | | | | | |
| | Due to Other Government Agencies | \$ (45,511) | \$ 142,625 | \$ 122,434 | \$ (25,320) |
| <u>TOTALS - ALL AGENCY FUNDS</u> | | | | | |
| Assets | | | | | |
| | Cash | \$ 6,678 | \$ 142,677 | \$ 122,434 | \$ 26,921 |
| Liabilities | | | | | |
| | Due to Other Government Agencies | \$ (45,511) | \$ 142,625 | \$ 122,434 | \$ (25,320) |
| | Due to Depositors | 52,189 | 52 | - | 52,241 |
| | Total Liabilities | \$ 6,678 | \$ 142,677 | \$ 122,434 | \$ 26,921 |

See Independent Auditor's Report.



Partners
James E. Clouse, CPA
Greg Miklavcic, CPA
Ryan Moore, CPA

Charles T. Mitchell Company, PLLC
ctmcpa.com

Independent Auditor's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on An Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Frankfort, Kentucky's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Frankfort, Kentucky'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 of Frankfort, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frankfort, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 of Frankfort, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2021



Partners
James E. Clouse, CPA
Greg Miklavcic, CPA
Ryan Moore, CPA

Charles T. Mitchell Company, PLLC
ctmcpa.com

Independent Auditor's Report on Compliance for Each Major Program
And on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Frankfort, Kentucky's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Frankfort, Kentucky's major federal programs for the year ended June 30, 2021. The City of Frankfort, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Frankfort, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Frankfort, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Frankfort, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Frankfort, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the City of Frankfort, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Frankfort, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Frankfort, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2021

City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Disbursements |
|--|---------------------------|-------------------------------------|------------------|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Passed Through Kentucky Transportation Cabinet | | | |
| Formula Grants for Rural Areas-Operating | 20.509 | O110421300 | \$ 149,326 |
| Formula Grants for Rural Areas-Operating | 20.509 | O111120300 | <u>1,096,576</u> |
| | | | <u>1,245,902</u> |
| Formula Grants for Rural Areas-Capital Grant FY2018-21 | 20.526 | C392118114 | <u>44,484</u> |
| | | | <u>44,484</u> |
| Passed Through Department of Local Government | | | |
| Highway Planning & Construction Cluster | | | |
| Recreational Trail | 20.205 | PO2-628-1500002151 | <u>392,305</u> |
| Total Highway Safety Cluster | | | <u>392,305</u> |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION | | | <u>1,682,691</u> |
| FEDERAL HIGHWAY ADMINISTRATION | | | |
| Passed Through Kentucky Office of Highway Safety | | | |
| Highway Safety Cluster | | | |
| Distracted Driving-DUI Overtime | 20.600 | PO2625 2000000259 | 10,024 |
| Distracted Driving-DUI Overtime | 20.600 | SC625 2100000372 | <u>33,692</u> |
| Total Highway Safety Cluster | | | <u>43,716</u> |
| Passed Through Kentucky Office of Highway Safety | | | |
| TIGER Grant | 20.933 | T17HC010 | <u>1,640,339</u> |
| TOTAL FEDERAL HIGHWAY ADMINISTRATION | | | <u>1,684,055</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | |
| Passed Through Kentucky Division of Emergency Management | | | |
| Emergency Management Performance Grants - Emergency | 97.042 | FAIN #EMA-2020-EP-00014 2 | 26,580 |
| Disaster Recovery | 97.036 | DR-4595 PA-04-KY4594-PN-00187 | <u>7,616</u> |
| TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY | | | <u>34,196</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

| | Number | Number | Disbursements |
|---|--------|------------------------|---------------|
| U.S ENVIRONMENTAL PROTECTION AGENCY | | | |
| Passed Through Kentucky Infrastructure Authority | | | |
| Brownfields Assessment and Cleanup Cooperative Agreements | 66.818 | BF-01D11620 | 12,900 |
| TOTAL U.S ENVIRONMENTAL PROTECTION AGENCY | | | 12,900 |
| | | | |
| U.S. DEPARTMENT OF THE JUSTICE | | | |
| Byrne Grant | 16.738 | 2017-DJ-BX | 3,621 |
| Byrne Grant | 16.738 | 2019-DJ-BX | 11,862 |
| Body Worn Camera Pilot | 16.835 | 2019-BC-BX-0049 | 2,788 |
| Coronavirus Emergency Supplemental Fund | 16.034 | 2020-VD-BX-0834 | 45,977 |
| TOTAL U.S. DEPARTMENT OF THE JUSTICE | | | 64,248 |
| | | | |
| U.S. DEPARTMENT OF THE TREASURY | | | |
| Passed Through the Commonwealth of Kentucky | | | |
| COVID-19 Relief | 21.019 | FAP111-44-00 C253 | 1,990,298 |
| COVID-19 Relief | 21.019 | FAP111-44-00 C2-189 | 624,765 |
| CARES - Medical | 21.019 | COVID Medical Expenses | 557 |
| TOTAL U.S. DEPARTMENT OF THE TREASURY | | | 2,615,620 |
| | | | |
| U.S. DEPARTMENT OF THE INTERIOR | | | |
| Passed Through the Kentucky Heritage Council | | | |
| Historic Preservation Fund-Certified Local Gov-Workshop | 15.904 | 1900001422 KY-20-10016 | 3,000 |
| Land and Water Conservation Fund | 15.916 | LWCF-21-1559 | 106,671 |
| TOTAL U.S. DEPARTMENT OF THE INTERIOR | | | 109,671 |
| | | | |
| NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES | | | |
| Arts Master Plan | 45.024 | 1855701.42 | 25,000 |
| TOTAL NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES | | | 25,000 |
| | | | |
| TOTAL | | | \$ 6,228,381 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

The amounts received from the Environmental Protection Agency were used in sewer projects and are considered as federal expenditures. Below is the loan activity through the Kentucky Infrastructure Authority that administers the loan programs:

| | |
|-------------------|----------------------|
| Beginning Balance | \$ 21,083,208 |
| *Loan Proceeds | 3,189,306 |
| Payments | <u>(1,086,670)</u> |
| Ending Balance | <u>\$ 23,185,844</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Frankfort, Kentucky
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City. The City's reporting is defined in Note A to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule. Because the Schedule presents only a selected portion of the operations of the City of Frankfort, Kentucky, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Frankfort, Kentucky.

2. Basis of Presentation and Relationship to Basic Financial Statements

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*

3. The City of Frankfort did not provide federal awards to subrecipients.

4. The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

5. The City received loan proceeds for infrastructure improvements through the Kentucky Infrastructure Authority; a portion these proceeds are considered federal expenditures. The loan balance with the Kentucky Infrastructure Authority as of June 30, 2021 is \$23,185,844. The beginning balance as of July 1, 2020 was \$21,083,208.

Section I-Summary of Auditor's Results

Summary of Auditor's Results

Financial Statements

| | | |
|---|------------|--------------------|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weaknesses identified? | _____yes | ___ <u>X</u> ___no |
| Significant deficiency identified that are not considered to be material weaknesses? | _____yes | ___ <u>X</u> ___no |
| Noncompliance material to financial statements noted? | _____yes | ___ <u>X</u> ___no |

Federal Awards

| | | |
|--|----------|--------------------|
| Internal control over major programs: | | |
| Material weaknesses identified? | _____yes | ___ <u>X</u> ___no |
| Significant deficiency identified that are not considered to be material weaknesses | _____yes | ___ <u>X</u> ___no |

Type of auditor's report issued on compliance for
 major programs: Unmodified

| | | |
|--|----------|--------------------|
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance | _____yes | ___ <u>X</u> ___no |
|--|----------|--------------------|

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program of Cluster</u> |
|--------------------|---|
| 20.509 | Formula Grants for Rural Areas & Tribal Transit Program |
| 20.933 | National Infrastructure Investments |
| 21.019 | Coronavirus Relief Fund |

| | |
|--|----------------------------------|
| Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
| Auditee qualified as low-risk auditee? | ___ <u>X</u> ___yes _____no |

Findings Required to be Reported under Generally Accepted Government Auditing Standards

None.

Findings and Questioned Costs for Major Federal Award Programs

None.

Section II – Financial Statement Findings

None.

Section III – Federal Program Award Findings

None.

City of Frankfort, Kentucky
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2021

None.