

Financial Statements and Required
Supplementary Information

2021

City of Prospect, Kentucky

June 30, 2021



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Independent Auditors' Report

The Honorable Mayor and Members of the City Council
City of Prospect, Kentucky
Prospect, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Prospect, 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the City'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 City'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information, and the pension and other post-employment benefit liability and contribution information on pages 35 through 43 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting on compliance.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 30, 2021

Government-Wide Financial Statements

Statement of Net Position

City of Prospect, Kentucky

June 30, 2021

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,264,851
Restricted cash	80,007
Accounts receivable	279,509
Prepaid expenses	34,131
Capital assets:	
Nondepreciable capital assets	805,642
Capital assets, net of accumulated depreciation	<u>1,099,174</u>
Total Assets	5,563,314
Deferred Outflows of Resources	
Pension related	299,925
Other postemployment benefit related	<u>224,741</u>
Total Deferred Outflows of Resources	<u>524,666</u>
Total Assets and Deferred Outflows of Resources	\$ <u><u>6,087,980</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 124,671
Clean up deposits	18,570
Unearned revenue	34,227
Compensated absences	68,805
Net pension liability	1,692,374
Other postemployment benefit liability	<u>527,345</u>
Total Liabilities	2,465,992
Deferred Inflows of Resources	
Pension related	109,328
Other postemployment benefit related	<u>125,353</u>
Total Deferred Inflows of Resources	234,681
Net Position	
Net investment in capital assets	1,904,816
Restricted for road projects	78,013
Unrestricted	<u>1,404,478</u>
Total Net Position	<u><u>3,387,307</u></u>
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ <u><u>6,087,980</u></u>

See Accompanying Notes to the Financial Statements

Statement of Activities

City of Prospect, Kentucky

For the Year Ended June 30, 2021

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
General government	\$ 782,363	\$ 33,386	\$ 1,166	\$ (747,811)
Public safety	996,818	1,555	38,687	(956,576)
Public works	1,200,778		91,312	(1,109,466)
Sanitation	771,769			(771,769)
Community development	95,336			(95,336)
Total Governmental Activities	\$ 3,847,064	\$ 34,941	\$ 131,165	\$ (3,680,958)
				Governmental Activities
				Net Expense from Above
				\$ (3,680,958)
				General Revenues
				Taxes
				Property taxes 1,809,988
				Insurance taxes 1,282,884
				Utilities taxes 11,738
				Bank deposit taxes 82,647
				Cable franchise fees 21,228
				Interest income 772
				Coronavirus relief funds 460,874
				Other income 4,384
				Total General Revenues
				3,674,515
				Change in Net Position
				(6,443)
				Beginning Net Position
				3,393,750
				Ending Net Position
				\$ 3,387,307

See Accompanying Notes to the Financial Statements

Fund Financial Statements

Balance Sheet - Governmental Funds

City of Prospect, Kentucky

June 30, 2021

	General Fund	Road Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,264,851		\$ 3,264,851
Restricted cash		\$ 80,007	80,007
Accounts receivable	279,509		279,509
Due from other funds	1,994		1,994
Prepaid expenses	34,131		34,131
Total Assets	\$ 3,580,485	\$ 80,007	\$ 3,660,492
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 124,671		\$ 124,671
Due to other funds		\$ 1,994	1,994
Clean up deposits	18,570		18,570
Unearned revenue	34,227		34,227
Total Liabilities	177,468	1,994	179,462
Fund Balances			
Nonspendable	34,131		34,131
Restricted		78,013	78,013
Committed	2,464,719		2,464,719
Unassigned	904,167		904,167
Total Fund Balances	3,403,017	78,013	3,481,030
Total Liabilities and Fund Balances	\$ 3,580,485	\$ 80,007	\$ 3,660,492

See Accompanying Notes to the Financial Statements

to the Statement of Net Position

City of Prospect, Kentucky

June 30, 2021

Total Fund Balance - Governmental Funds \$ 3,481,030

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

Capital assets of \$5,246,578, net of accumulated depreciation, reported in the government-wide statement of net position used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet 1,904,816

Net difference between pension plan contributions reported as expenditures in the governmental funds and the pension plan expense recorded in the government-wide statement of activities 289,985

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet (2,288,524)

Net Position of Governmental Activities \$ 3,387,307

See Accompanying Notes to the Financial Statements

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

City of Prospect, Kentucky

For the Year Ended June 30, 2021

	General Fund	Road Fund	Totals Governmental Funds
Revenues			
Property taxes	\$ 1,809,988		\$ 1,809,988
Insurance tax	1,282,884		1,282,884
Bank deposit taxes	82,647		82,647
Utilities tax	11,738		11,738
Cable TV franchise fees	21,228		21,228
Intergovernmental revenues	38,687	\$ 91,312	129,999
Licenses and permits	30,776		30,776
Charges for services	4,165		4,165
Interest income	748	24	772
Coronavirus relief funds	460,874		460,874
Other income	4,384		4,384
Donations	1,166		1,166
Total Revenues	3,749,285	91,336	3,840,621
Expenditures			
General government	722,179		722,179
Public safety	898,822		898,822
Public works	716,557	276,088	992,645
Sanitation	771,769		771,769
Community development	95,336		95,336
Capital outlay	77,967		77,967
Total Expenditures	3,282,630	276,088	3,558,718
Net Change in Fund Balances	466,655	(184,752)	281,903
Beginning Fund Balances	2,936,362	262,765	3,199,127
Ending Fund Balances	\$ 3,403,017	\$ 78,013	\$ 3,481,030

See Accompanying Notes to the Financial Statements

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

City of Prospect, Kentucky

For the Year Ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds		\$ 281,903
<p>Amounts reported for changes in net position in the Statement of Activities are different because of the following:</p>		
Pension and other postemployment benefit related expenses		(134,095)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	\$ 77,967	
Depreciation expense	<u>(234,233)</u>	(156,266)
Change in compensated absences		<u>2,015</u>
Change in Net Position of Governmental Activities		<u>\$ (6,443)</u>

See Accompanying Notes to the Financial Statements

Notes to the Financial Statements

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies

Financial Reporting Entity--The City of Prospect, Kentucky (the "City") is a home-rule city with a population in excess of 4,000 located in Jefferson County and a small part of Oldham County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: police, sanitation, street maintenance, and community development. Primary revenue sources are property taxes, insurance taxes, and bank deposit taxes. Those revenues susceptible to accrual are property taxes, insurance taxes, and municipal road aid.

All significant activities and organizations on which the City exercises oversight responsibility have been included in the City's financial statements for the year ended June 30, 2021. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the City management.

Based on the aforementioned oversight criteria, the reporting entity is confined solely to the operations of the City.

Basis of Reporting--The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental entities. The City applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

Government-Wide Financial Statements--The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the City as a whole excluding component units, if applicable. Interfund activity has been eliminated from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. *General revenues* include taxes and other items not specifically included among program revenues.

Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

Fund Financial Statements--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. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the City, or if total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the total for all governmental funds combined. In addition, any other fund that management feels have importance to the financial statement users may be reported. The general fund is always reported as a major fund. The following are the City's governmental funds:

- a. *General Fund*--The General Fund is a governmental fund that is used to account for the general operating funds of the City. It is used to account for all financial resources except those required to be accounted for in other funds.
- b. *Road Fund*--The Road Fund is a special revenue fund that is used to account for the proceeds of specific revenue sources that are legally restricted to specific purposes. The City maintains this special revenue fund for Municipal Road Aid funds.

Measurement Focus and Basis of Accounting--Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide financial statements of the City (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. The government-wide financial statements are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net position and the changes in net position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported in the statement of net position.

Governmental fund financial statements are reported using the current financial resources measurement focus. Only current financial assets and current liabilities are generally included on the balance sheet. The operating statement presents sources and uses of available spendable resources during a given period. These funds use fund balance as the measure of available spendable financial resources at the end of the period.

Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

Basis of Accounting:

The government-wide financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants are recognized in revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are susceptible to accrual and recognized in the financial statements when they are measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Property taxes are recognized in revenues in the year for which taxes have been levied provided they are collected within 60 days after the year-end. Insurance premium taxes, licenses and permits, fines and forfeitures, and miscellaneous revenues are recognized in revenue when received because they are generally not measurable or available until actually received. Investment earnings are recognized as earned. Revenues not considered available are recognized as unearned revenues. Expenditures and liabilities are generally recognized when the obligation is incurred, except noncurrent accrued compensated absences which are accounted for in the governmental funds balance sheet and recorded as expenditures in the period when used.

Reconciliation of Government-Wide Financial Statements to Fund Financial Statements--The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and the net position reported in the government-wide statement of financial position. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and the accrual basis of accounting. In addition, capital assets and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual basis of accounting used for governmental fund financial statements to the accrual basis of accounting used for the government-wide statement of activities. Capital outlay is replaced with depreciation expense.

Budgetary Accounting--The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Normally, prior to June 30, the Mayor submits to the City Council, a proposed operating budget for the General and Special Revenue for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Deficit budgets are contrary to state law. Public hearings are conducted to obtain citizen comments on the proposed budget and the budget is legally adopted through passage of an appropriation ordinance by City Council.

Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The City prepares its budget on a basis of accounting that conforms to GAAP.

Cash and Cash Equivalents--The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Restricted Assets--Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by grantors or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

The statement of net position and the governmental fund balance sheet show restricted cash in the Road Fund, which represents cash held for payment of road projects within the City.

Accounts Receivables--In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes and insurance taxes.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, insurance tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions, collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City considers all receivables to be fully collectible; therefore, an allowance for doubtful accounts is not recorded.

Prepaid Expenses--Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements under the consumption method.

Capital Assets--Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from five to forty years, and is recorded in the government-wide statement of activities within each function/program. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are not capitalized and are reported as expenses/expenditures. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

Interfund Transactions--Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Accounts Receivable--Accounts receivable consist of all revenue accruals such as property tax, insurance tax, and grants and other revenues since they are both measurable and available. The City considers all accounts receivable to be fully collectible; therefore, an allowance for doubtful accounts is not recorded.

Unearned Revenue--The City reports unearned revenue to the extent that resources have been received before the applicable revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as unearned revenue in the financial statements. When the eligibility requirements are met, the liability for unearned revenue is removed from the financial statements and revenue is recognized.

Compensated Absences--In accordance with current accounting standards no liability for compensated absences is recorded in the fund financial statements, but a liability is recorded in the government-wide financial statements as a long-term liability. The City allows accumulation of vacation pay not to exceed 45 working days except upon completion of ten years of service at which point employees are allowed to accumulate up to 60 days which is payable on termination of employment or used by the employee. Sick pay can be accumulated and carried forward year to year. Employees who leave employment in good standing shall be compensated for unused sick leave as follows:

- Completed 5 years of service - 10% of unused sick leave, not to exceed 15 days.
- Completed 10 years of service - 25% of unused sick leave, not to exceed 25 days.

Pensions--For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System, Non-Hazardous and Hazardous ("CERS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by this pension plan. 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.

Postemployment Benefits Other Than Pensions ("OPEB")--For purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about the fiduciary net position of the CERS and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by this System. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

Net Position/Fund Balance

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted - Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. Committed - Amounts that can be used only for specific purposes determined by a formal action by the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council.
- d. Assigned - Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by City Council.
- e. Unassigned - All amounts not included in other spendable classification.

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note A--Summary of Significant Accounting Policies--Continued

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided for otherwise.

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

Expenses/Expenditures--Expenses are classified by function/program in the government-wide statement of activities. Expenditures are classified by function in the governmental fund financial statements. Indirect expenses are not allocated to functions in the statement of activities.

Property Tax Revenue--Property tax revenue is recognized when the bills become due and payable. Tax is assessed at a rate of .2125 per \$100 of assessed value for real property based on the assessment made by the Jefferson and Oldham County Property Valuation Administrators.

The City assesses property taxes each calendar year based upon an assessment date of January 1st. Bills are mailed in mid-August and are payable by September 30th of the same year. All bills paid after September 30th are considered late and are subject to a 10% penalty and interest to accrue at the rate of 1% per month.

Business License--The City imposes a business license on all businesses operating within the City on January 1st of a given year. The fee is based on the number of employees as follows:

0 to 5 employees -	\$ 50
6 to 10 employees -	\$100
More than 10 employees-	\$200

Insurance Tax--The City assess a tax on all insurance premiums other than life insurance on the residents of the City. The tax is 7% for all premiums except life insurance policies, which is 5%. The City receives payment of these taxes directly from the insurance carrier.

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

City of Prospect, Kentucky

June 30, 2021

Note B--Cash and Cash Equivalents

Deposits are carried at cost, which approximates market value. The City maintains deposit balances at Republic Bank & Trust Company. Accounts at broker/dealer institutions are insured by Securities Investor Protection Corporation up to \$500,000, and at each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000.

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

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

Custodial Credit Risk--Custodial credit risk for cash and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The City's policy dictates that all cash maintained in any financial institution be collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. At June 30, 2021, the balance of the City's sweep accounts was \$2,093,770 and the total market value of the collateral pledged was \$2,135,645.

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

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

Note C--Accounts Receivable

Accounts receivable at June 30, 2021 consisted of the following:

Property tax	\$	569
Insurance tax		273,802
KLEFPF		2,638
Payroll tax		256
Base Court (HB413)		2,244
Total Receivables	\$	279,509

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note D--Capital Assets

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

	Beginning Balance	Additions	Dispositions	Ending Balance
Government-Wide Activities				
Non-depreciable capital asset				
Land	\$ 805,642			\$ 805,642
Depreciable capital assets				
Police vehicles and equipment	350,037	\$ 77,967	\$ 84,022	343,982
Office furniture and fixtures	87,505			87,505
Buildings	212,559			212,559
City Hall	327,557			327,557
Equipment	182,564			182,564
Sprinkler	100,044			100,044
Drainage system	118,403			118,403
Infrastructure	1,993,248			1,993,248
City Hall additions	1,075,075			1,075,075
Total Depreciable Capital Assets	4,446,992	77,967	84,022	4,440,937
Total Capital Assets at Historical Cost	5,252,634	77,967	84,022	5,246,579
Accumulated Depreciation:				
Police vehicles and equipment	269,790	36,501	84,022	222,269
Office furniture and fixtures	80,627	1,449		82,076
Buildings	172,537	5,221		177,758
City Hall	307,280	2,975		310,255
Equipment	147,222	14,845		162,067
Sprinkler	100,044			100,044
Drainage system	101,672	4,174		105,846
Infrastructure	1,042,500	114,814		1,157,314
City Hall additions	969,880	54,254		1,024,134
Total Accumulated Depreciation	3,191,552	234,233	84,022	3,341,763
Government-Wide Activities Capital Assets, net	\$ 2,061,082	\$ (156,266)	\$	\$ 1,904,816

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note D--Capital Assets--Continued

Depreciation expense charged to government-wide activities is as follows:

General government	\$ 9,645
Public safety	36,501
Public works	183,913
Sanitation	<u>4,174</u>
Total Depreciation Expense	<u>\$ 234,233</u>

Note E--Clean Up Deposits

The City collects a deposit from each builder commencing a project with the City to cover the cost of cleanup in the event the builder fails to do so. If the builder cleans up the area satisfactorily, the deposit is refunded. Deposits for dumpster and POD permits are also recorded in this account. At June 30, 2021 the City has \$18,570 of such deposits shown as a liability in the financial statements.

Note F--Compensated Absences

Accrued compensated absences for the year ended June 30, 2021 are as follows:

<u>Balance June 30, 2020</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2021</u>
<u>\$ 70,820</u>	<u>\$ 84,639</u>	<u>\$ 86,654</u>	<u>\$ 68,805</u>

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note G--Fund Balances – Governmental Funds

Classifications of fund balances at June 30, 2021 are as follows:

<u>Classification</u>	<u>General Fund</u>	<u>Road Fund</u>
Nonspendable		
From prepaid items	\$ 34,131	
Restricted		
By enabling legislation for roads		\$ 78,013
Committed		
City Council for pension and postemployment benefits	2,219,719	
City Council for paving	245,000	
Unassigned	904,167	
	<u>904,167</u>	<u>78,013</u>
Total Fund Balances	<u><u>\$ 3,403,017</u></u>	<u><u>\$ 78,013</u></u>

Note H--Intergovernmental Revenue

Under the provisions of state law, the Commonwealth of Kentucky (the "Commonwealth") reimbursed the City \$31,600 for police training and other miscellaneous operating costs during the year ended June 30, 2021. The Commonwealth also provided \$91,312 for municipal road projects and \$7,087 for court fees.

Note I--Retirement Plan

Plan Description

Employees of the City contribute to the County Employees Retirement System ("CERS"), which is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publically available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov> or by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

Benefits Provided: Nonhazardous

	Tier 1 Nonhazardous Participation beginning prior to 9/1/2008	Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Nonhazardous Participation beginning on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceding retirement; Each year must contain 12 months	No final compensation factor
Benefit Factor:	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment ("COLA"):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service
Reduced Retirement Benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years service, whichever is smaller	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 and is younger than age 57, whichever is smaller	No reduced retirement benefit

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

Benefits Provided: Hazardous

	Tier 1 Hazardous Participation beginning prior to 9/1/2008	Tier 2 Hazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Hazardous Participation beginning on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 3 fiscal years (must contain at least 24 months and a minimum of 3 fiscal years)	Average of the highest 3 fiscal years; Each year must contain 12 months. Lump-sum compensation payments are not to be included in creditable compensation.	No final compensation factor
Benefit Factor:	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. 25 years and greater 2.50%	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment ("COLA"):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 60 months of service. Money Purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations
Reduced Retirement Benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 55 or has less than 20 years service, whichever is smaller	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 60 or has less than 25 years service, whichever is smaller	No reduced retirement benefit

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

Contributions

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

For the year ended June 30, 2021, employers contributed 30.06% of Hazardous employees' creditable compensation and 19.30% of each Nonhazardous employees' creditable compensation as set by KRS. For the year ended June 30, 2021, employer contributions for the City were \$99,758. By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

The City has met 100% of the pension contribution funding requirement for the fiscal years ended June 30, 2021, 2020 and 2019, which were \$99,758, \$99,859 and \$83,911, respectively.

Net Pension Liability--The City's net pension liability was \$1,692,374 (\$1,054,997 nonhazardous and \$637,377 hazardous) for its proportionate share of the CERS net pension liability measured as of June 30, 2020, based on an actuarial valuation date as of June 30, 2019. The City's portion of nonhazardous and hazardous net pension liability was 0.014% and 0.021%, respectively.

Actuarial Assumptions – Total Pension Liability

The total pension liability, net pension liability, and sensitivity information were based on an actuarial valuation date as of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using the following actuarial assumptions applied to all prior periods included in the measurement:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service, Nonhazardous; 3.55% to 19.05%, varies by service, Hazardous
Investment Rate of Return	6.25%

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

The mortality table used for active members was a PUB-2010 Generally Mortality table, for the Nonhazardous System and the Pub-2010 Public Safety Mortality table for the Hazardous System projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020.

For disabled members, the PUB-2010 Disabled Mortality Table with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Actuarial Assumptions--Contributions

The following were the actuarial methods and assumptions used for the actuarially determined contributions:

Actuarial Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service, for Nonhazardous; 3.05% to 18.55%, varies by service for Hazardous
Investment Rate of Return	6.25%

The mortality table used for active members is RP 2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back one year for females).

For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
	<u>100.00%</u>	

Projected Cash Flows--The projection of cash flows used to determine the discount rate assumed that local employees would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long-Term Rate of Return--The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized in the table below. The current long term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

Discount Rate--For CERS Hazardous and Non-Hazardous, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Nonhazardous	\$ 1,301,041	\$ 1,054,997	\$ 851,263
Hazardous	787,707	637,377	514,668
	<u>\$ 2,088,748</u>	<u>\$ 1,692,374</u>	<u>\$ 1,365,931</u>

Pension Liabilities, Pension Expense 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 \$220,505 (\$178,160 for nonhazardous employees and \$42,345 for hazardous employees).

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 for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Difference between expected and actual experience	\$ 26,308	
Change of assumptions	41,196	
Net difference between projected and actual earnings on investments	26,400	
Changes in proportion and differences between employer contributions and proportionate share of contributions	38,185	\$ 23,679
Hazardous		
Difference between expected and actual experience	19,768	
Change of assumptions	24,173	
Net difference between projected and actual earnings on investments	24,137	9,778
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>75,871</u>	
	200,167	109,328
Contributions subsequent to the measurement date	<u>99,758</u>	
Total	<u>\$ 299,925</u>	<u>\$ 109,328</u>

Continued

City of Prospect, Kentucky

June 30, 2021

Note I--Retirement Plan--Continued

The \$99,758 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30:	
2021	\$ 20,886
2022	30,393
2023	22,676
2024	16,884
2025	-
	\$ 90,839

Note J--Other Post-Employment Benefits

The City’s employees are provided with a postemployment benefit plan other than pensions. The County Employees Retirement System, Hazardous and Non-hazardous (“CERS”) covers all employees of the City, except for employees that are already receiving pension benefits.

Plan Description

Kentucky Revised Statute (“KRS”) Section 61.645 requires CERS to provide post-employment healthcare benefits to eligible members and dependents. The CERS insurance funds are a cost-sharing multiple-employer defined Other Postemployment Benefits (“OPEB”) retiree healthcare plan for members that cover all regular full-time members employed in hazardous and nonhazardous duty positions at the City.

The plans provide for hospital and medical insurance benefits to eligible plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits Provided--Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. If a participating employee suffers a work-related death, CERS will provide a lump sum payment of \$10,000 plus a lifetime monthly payment of 75% of the member’s monthly average until the spouse’s death or remarriage. If a participating employee dies prior to retirement and the death is not work-related, the beneficiary may choose from a selection of actuarial calculated lump sum or annuity payments. Five years’ service is required for non-service-related disability benefits, and the disabled employee must be determined as disabled by a Medical Review Physicians panel.

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits

Contributions--To be eligible for medical benefits, the member must have retired either for service or disability. The CERS Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. For medical insurance purposes, employees are grouped into three tiers, based on hire date:

		Non-hazardous Members	Hazardous members
Tier 1	Participation before 7/1/2003	Based on years of service and type of service KRS pays a percentage of the monthly contribution rate	Based on years of service, it includes coverage for spouse & dependent insurance
	Participation after 7/1/2003	At least 10 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually	At least 10 years of service \$15 per month of each year of earned service; includes spouse and dependent coverage
Tier 2	Participation after 9/1/2008	At least 15 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted by 1.5% annually	At least 15 years of service \$15 per month for each year of earned service adjusted by 1.5% annually \$10 per month for each year for surviving spouse; includes coverage for spouse & dependents
Tier 3	Participation after 1/1/2015	At least 15 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted by 1.5% annually	At least 15 years of service \$15 per month for each year of earned service adjusted by 1.5% annually \$10 per month for each year for surviving spouse includes coverage for spouse & dependents

Funding Policy--KRS set the employer rate allocable to the health insurance benefits at 4.76% in 2021, 4.76% in 2020, and 5.26% in 2019 for nonhazardous employees. The rates for hazardous employees were 9.52% in 2021, 9.52% in 2020, and 10.47%, in 2019. The contribution rates are created by statute and were 100% funded during 2021, 2020, and 2019.

At the time of completion of these financial statements, KRS has not yet released their Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2021. The following information was extracted from the KRS CAFR for the fiscal year ended June 30, 2020.

The KRS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The KRS 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. The amount of contribution paid by the funds is based on years of service. The plan provides the following benefits based on the employees starting participation date:

Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits

Insurance Tier 1 - For members participating prior to July 1, 2003 and before September 1, 2018, the insurance fund contributes a percentage of a single monthly plan based on years of service as follows:

<u>Years of Service</u>	<u>Portion Paid by KRS Insurance Fund</u>
Less than 4 years	0%
4-9 years	25%
10-14 years	50%
15-19 years	75%
20+ years	100%

Health insurance benefits are not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The contribution requirements of employers and plan members are established and may be amended by the Board of Trustees. The City was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

The City's contributions to the CERS OPEB were \$27,245 (\$15,307 nonhazardous and \$11,939 hazardous) and \$25,787 (\$15,569 nonhazardous and \$10,218 hazardous) for the years ended June 30, 2021 and 2020, respectively. The OPEB contributions do not include the implicit subsidy amount.

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

OPEB Expense--The City's proportionate share of plan OPEB expense was \$77,848 (\$44,972 for nonhazardous and \$32,876 for hazardous).

At June 30, 2021, the City reported a net OPEB liability of \$527,345 (\$332,045 nonhazardous and \$195,300 hazardous) for its proportionate share of the CERS net OPEB liability.

Continued

Notes to Financial Statements--Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits--Continued

The net OPEB liability is calculated by KRS. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the City's proportionate share was 0.014 percent for Non-hazardous and 0.021 percent for Hazardous plan.

The deferred outflows and deferred inflows of resources related to OPEB for FY2021 from the following sources are reflected below:

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Nonhazardous		
Difference between expected and actual experience	\$ 55,478	\$ 55,521
Change of assumptions	57,756	351
Net difference between projected and actual earnings on investments	11,037	
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,927	13,952
Hazardous		
Difference between expected and actual experience	6,702	19,503
Change of assumptions	31,861	180
Net difference between projected and actual earnings on investments	8,669	
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u> </u>	<u>35,846</u>
	188,430	125,353
Contributions subsequent to the measurement date	27,244	
Implicit Subsidy	<u>9,067</u>	
Total	<u>\$ 224,741</u>	<u>\$ 125,353</u>

Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits--Continued

The \$27,244 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ended June 30, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30:	
2021	\$ 13,019
2022	12,590
2023	16,888
2024	19,972
2025	608
	\$ 63,077

Actuarial Assumptions--The total OPEB liability, net OPEB liability, and sensitivity information were based on the actuarial valuation date as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using the following actuarial assumptions applied in all periods included in the measurement:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, nonhazardous, varies by service 3.55% to 19.05%, hazardous, varies by service
Investment rate of return	6.25%
Healthcare Trend Rates (Pre – 65)	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Healthcare Trend Rates (Post – 65)	Initial trend starting at 2.90% at January 1, 2022 and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

The mortality table used for active members is PUB-2010 Generally Mortality table for the nonhazardous system, and the PUB-2010 Public Safety Mortality table for the hazardous systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For non-disabled retired members and beneficiaries, the system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

For disabled members, the PUB-2010 Disabled Mortality Table with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits--Continued

Actuarial Assumptions – Contributions

The following were the actuarial methods and assumptions used for the actuarially determined contributions:

Actuarial Valuation Date	June 30, 2019
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, hazardous, varies by service 3.05% to 18.55%, nonhazardous, varies by service
Investment Rate of Return	6.25%
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
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
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

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

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans that covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits--Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
	100.00%	

Discount Rate--For CERS Non-hazardous, the discount rate used to measure the total OPEB liability was 5.34% and 5.30% for Hazardous. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of CERS Proportionate Share of Net OPEB Liability to Changes in the Discount Rate--The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
Nonhazardous	\$ 426,580	\$ 332,045	\$ 254,400
	1% Decrease (4.30%)	Current Discount Rate (5.30%)	1% Increase (6.30%)
Hazardous	265,115	195,300	139,044
Total Net OPEB Liability	\$ 691,695	\$ 527,345	\$ 393,444

Continued

City of Prospect, Kentucky

June 30, 2021

Note J--Other Post-Employment Benefits--Continued

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

	<u>1% Decrease</u>	<u>Current Health Care Trend</u>	<u>1% Increase</u>
Nonhazardous	\$ 257,086	\$ 332,045	\$ 423,010
Hazardous	139,567	195,300	263,819
	<u>\$ 396,653</u>	<u>\$ 527,345</u>	<u>\$ 686,829</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--Litigation

The City is involved in various legal proceedings incidental to the normal course of business. City management is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecast with certainty, final disposition should not have a material effect on the financial position of the City.

Note L--Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

City of Prospect, Kentucky

June 30, 2021

Note M--Recent Events

In March 2020, the World Health Organization declared the spread of the Coronavirus Disease ("COVID-19") as a worldwide pandemic. The COVID-19 pandemic had significant effects on global markets, supply chains, businesses, and communities. Specific to the City, COVID-19 may impact various parts of its operations and financial results. Management believes the City is taking appropriate actions to mitigate the negative impact. However, the extent to which the full impact of COVID-19 is unknown and cannot be reasonably estimated.

Note N--Subsequent Event

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through November 30, 2021, the date the financial statements were available to be issued.

Note O--Recent GASB Pronouncements

Accounting Pronouncements that will become effective for FY 2022 and later as follows:

- GASB Statement No. 87, *Leases*, the objective of which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. (FY 2022)
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, 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. Thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. (FY 2022)

The City is currently evaluating the impact that will result from adopting these GASB standards and is therefore unable to disclose the impact that adopting these standards will have on the City's financial position and the results of its operations when the standards are adopted.

Required Supplementary Information

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

City of Prospect, Kentucky

For the Year Ended June 30, 2021

	Budget		Actual	Variance with Budget
	Original	Final		
Revenues				
Property taxes	\$ 1,785,000	\$ 1,785,000	\$ 1,809,988	\$ 24,988
Insurance tax	1,250,000	1,250,000	1,282,884	32,884
Coronavirus relief funds		354,500	460,874	106,374
Utilities tax	11,500	11,500	11,738	238
Cable TV franchise tax	35,000	35,000	21,228	(13,772)
Bank deposit taxes	76,000	76,000	82,647	6,647
Base court revenue	10,000	10,000	7,038	(2,962)
KLEFPF	31,650	31,650	31,648	(2)
Business license	7,500	7,500	9,050	1,550
Liqueur license	6,500	5,000	6,604	1,604
Permits	5,000	5,000	15,123	10,123
Police fingerprinting/reports	1,000	1,500	1,555	55
Tax records requests	2,500	2,500	2,610	110
Other income	250		4,384	4,384
Donations	5,500	4,500	1,166	(3,334)
Interest income	10,000	2,500	748	(1,752)
Total Revenues	3,237,400	3,582,150	3,749,285	167,135
Expenditures				
General government	747,129	860,272	722,179	138,093
Public safety	914,706	940,774	897,540	43,234
Public works	641,425	773,036	716,557	56,479
Sanitation	775,600	775,600	771,769	3,831
Community development	73,040	114,790	95,336	19,454
Capital outlay	85,500	112,750	79,249	33,501
Total Expenditures	3,237,400	3,577,222	3,282,630	294,592
Net Change in Fund Balance	\$ -	\$ 4,928	\$ 466,655	\$ 461,727

See Independent Auditors' Report

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

City of Prospect, Kentucky

For the Year Ended June 30, 2021

	Budget		Actual	Variance with Budget
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 85,000	\$ 96,044	\$ 91,312	\$ (4,732)
Interest income			24	24
Total Revenues	85,000	96,044	91,336	(4,708)
Expenditures				
Public works				
Road construction and maintenance	300,000	300,000	276,088	23,912
Total Expenditures	300,000	300,000	276,088	23,912
Net Change in Fund Balance	<u>\$ (215,000)</u>	<u>\$ (203,956)</u>	<u>\$ (184,752)</u>	<u>\$ 19,204</u>

See Independent Auditors' Report

Schedule of the City's Proportionate Share of the Net Pension Liability of the County Employees Retirement System

City of Prospect, Kentucky

Year Ended June 30, 2021

<u>Year Ended June 30th</u>	<u>City's Proportion of the Net Pension Liability</u>	<u>City's Proportionate Share of the Net Pension Liability</u>	<u>City's Covered Employee Payroll</u>	<u>City's Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
Non-Hazardous					
2021	0.013755%	\$ 1,054,997	\$ 321,853	327.79%	47.81%
2020	0.013049%	\$ 917,742	\$ 327,087	280.58%	50.45%
2019	0.014140%	\$ 861,169	\$ 329,158	261.63%	53.54%
2018	0.013184%	\$ 771,700	\$ 361,302	213.59%	53.32%
2017	0.012419%	\$ 611,487	\$ 455,908	134.13%	55.50%
2016	0.011109%	\$ 477,653	\$ 431,618	110.67%	59.97%
2015	0.014140%	\$ 335,680	\$ 277,479	120.97%	66.80%
Hazardous					
2021	0.021440%	\$ 637,377	\$ 125,392	508.31%	44.11%
2020	0.021549%	\$ 595,247	\$ 107,329	554.60%	46.63%
2019	0.029513%	\$ 713,759	\$ 122,725	581.59%	49.26%
2018	0.031376%	\$ 701,969	\$ 164,402	426.98%	49.78%
2017	0.033375%	\$ 572,704	\$ 172,236	332.51%	53.95%
2016	0.045129%	\$ 692,773	\$ 174,895	396.11%	57.52%
2015	0.061890%	\$ 743,814	\$ 329,672	225.62%	63.46%

Note 1--This schedule is presented to illustrate the requirement to show information for 10-years. However, until a full 10-year trend is compiled, the City is presenting information for those years for which information is available.

Note 2--The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

Schedule of the City's Contributions
to the County Employees Retirement System

City of Prospect, Kentucky

Year Ended June 30, 2021

	<u>Year Ended June 30th</u>	<u>Statutorily Required Contribution</u>	<u>Contribution Relative to Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Employee Payroll</u>	<u>Contribution as a Percentage of Covered Employee Payroll</u>
Non-Hazardous						
	2021	\$ 62,066	\$ 62,066	\$ -	\$ 321,853	19.28%
	2020	\$ 63,128	\$ 63,128	\$ -	\$ 327,087	19.30%
	2019	\$ 53,389	\$ 53,389	\$ -	\$ 329,158	16.22%
	2018	\$ 52,317	\$ 52,317	\$ -	\$ 361,302	14.48%
	2017	\$ 63,599	\$ 63,599	\$ -	\$ 455,908	13.95%
	2016	\$ 53,607	\$ 53,607	\$ -	\$ 431,618	12.42%
	2015	\$ 35,413	\$ 35,413	\$ -	\$ 277,749	12.75%
Hazardous						
	2021	\$ 37,693	\$ 37,693	\$ -	\$ 125,392	30.06%
	2020	\$ 32,263	\$ 32,263	\$ -	\$ 107,329	30.06%
	2019	\$ 30,522	\$ 30,522	\$ -	\$ 122,725	24.87%
	2018	\$ 36,497	\$ 36,497	\$ -	\$ 164,402	22.20%
	2017	\$ 37,393	\$ 37,393	\$ -	\$ 172,236	21.71%
	2016	\$ 35,434	\$ 35,434	\$ -	\$ 174,895	20.26%
	2015	\$ 68,341	\$ 68,341	\$ -	\$ 329,672	20.73%

Note 1--This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years for which information is available.

Note 2--The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

See Independent Auditors' Report

Notes to the Required Supplementary Information of Pension Reporting

City of Prospect, Kentucky

For the Year Ended June 30, 2021

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

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

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

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

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

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

Continued

Notes to the Required Supplementary Information of Pension Reporting--Continued

City of Prospect, Kentucky

For the Year Ended June 30, 2021

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

See Independent Auditors' Report

Schedule of the City's Proportionate Share of the Net OPEB
Liability of the County Employees Retirement System

City of Prospect, Kentucky

Year Ended June 30, 2021

	<u>Year Ended June 30th</u>	<u>City's Proportion of the Net OPEB Liability</u>	<u>City's Proportionate Share of the Net OPEB Liability</u>	<u>City's Covered Employee Payroll</u>	<u>City's Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
Non-Hazardous	2021	0.013751%	\$ 332,045	\$ 321,853	103.17%	51.67%
	2020	0.013046%	\$ 219,428	\$ 327,087	67.09%	60.44%
	2019	0.014140%	\$ 251,053	\$ 329,158	76.27%	57.62%
	2018	0.013184%	\$ 265,043	\$ 361,302	73.36%	52.39%
	2017	N/A	\$ 207,892	\$ 455,908	45.60%	N/A
Hazardous	2021	0.021134%	\$ 195,300	\$ 125,392	155.75%	58.84%
	2020	0.021545%	\$ 159,403	\$ 107,329	148.52%	64.44%
	2019	0.029515%	\$ 210,430	\$ 122,725	171.46%	64.24%
	2018	0.031376%	\$ 259,376	\$ 164,402	157.77%	58.99%
	2017	N/A	\$ 154,987	\$ 172,236	89.99%	N/A

This schedule is intended to present a 10-year trend. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the City's Insurance Contributions
to the County Employees Retirement System

City of Prospect, Kentucky

Year Ended June 30, 2021

	<u>Year Ended June 30th</u>	<u>Contractually Required Contribution</u>	<u>Contribution Relative to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Employee Payroll</u>	<u>Contribution as a Percentage of Covered Employee Payroll</u>
Non-Hazardous						
2021	\$ 15,307	\$ 15,307	\$ -	\$ 321,853	4.76%	
2020	\$ 15,569	\$ 15,569	\$ -	\$ 327,087	4.76%	
2019	\$ 17,314	\$ 17,314	\$ -	\$ 329,158	5.26%	
2018	\$ 16,981	\$ 16,981	\$ -	\$ 361,302	4.70%	
2017	\$ 21,565	\$ 21,565	\$ -	\$ 455,908	4.73%	
Hazardous						
2021	\$ 11,937	\$ 11,937	\$ -	\$ 125,392	9.52%	
2020	\$ 10,218	\$ 10,218	\$ -	\$ 107,329	9.52%	
2019	\$ 12,849	\$ 12,849	\$ -	\$ 122,725	10.47%	
2018	\$ 15,372	\$ 15,372	\$ -	\$ 164,402	9.35%	
2017	\$ 16,104	\$ 16,104	\$ -	\$ 172,236	9.35%	

This schedule is intended to present a 10-year trend. Additional years will be displayed as they become available.

See Independent Auditors' Report

Notes to the Required Supplementary Information on OPEB Reporting

City of Prospect, Kentucky

Year Ended June 30, 2021

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

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

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

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

List of City Officials

List of City Officials

City of Prospect, Kentucky

June 30, 2021

<u>Name</u>	<u>Position</u>
John Evans	Mayor
John S. Carter	City Clerk/ Administrator
Don Gibson	Council Member
Frank Fulcher	Council Member
Sandra Leonard	Council Member
Greg Huelsman	Council Member
Doug Farnsley	Council Member
Sarah O'Dell	Council Member