

Financial Statements and Required  
Supplementary Information and

2020

**City of Prospect, Kentucky**

June 30, 2020



Financial Statements and Required  
Supplementary Information

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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, 2020, 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.

## **Opinions**

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, 2020, 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 32 through 39 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 June 11, 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  
June 11, 2021

**Government-Wide Financial Statements**

Statement of Net Position

**City of Prospect, Kentucky**

June 30, 2020

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,708,992
Restricted cash	264,759
Investments	1,048,770
Accounts receivable	305,680
Prepaid expenses	34,429
Capital assets:	
Nondepreciable capital assets	805,642
Capital assets, net of accumulated depreciation	<u>1,255,440</u>
<b>Total Assets</b>	5,423,712
<b>Deferred Outflows of Resources</b>	
Pension related	345,818
Other postemployment benefit related	<u>156,383</u>
<b>Total Deferred Outflows of Resources</b>	<u>502,201</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 5,925,913</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 117,507
Clean up deposits	16,770
Unearned revenue	29,226
Compensated absences	70,820
Net pension liability	1,512,989
Other postemployment benefit liability	<u>378,831</u>
<b>Total Liabilities</b>	2,126,143
<b>Deferred Inflows of Resources</b>	
Pension related	223,594
Other postemployment benefit related	<u>182,426</u>
<b>Total Deferred Inflows of Resources</b>	406,020
<b>Net Position</b>	
Net investment in capital assets	2,061,082
Restricted for road projects	262,765
Unrestricted	<u>1,069,903</u>
<b>Total Net Position</b>	<u>3,393,750</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 5,925,913</u>

See Accompanying Notes to the Financial Statements

Statement of Activities

**City of Prospect, Kentucky**

For the Year Ended June 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Position</u>
<b>Governmental Activities</b>				
General government	\$ 732,501	\$ 25,720	\$ 1,300	\$ (705,481)
Public safety	976,293	1,228	38,549	(936,516)
Public works	682,648		93,515	(589,133)
Sanitation	771,564			(771,564)
Community development	61,972			(61,972)
<b>Total Governmental Activities</b>	<u>\$ 3,224,978</u>	<u>\$ 26,948</u>	<u>\$ 133,364</u>	<u>\$ (3,064,666)</u>
				<b><u>Governmental</u></b>
				<b><u>Activities</u></b>
				<b>Net Expense from Above</b>
				\$ (3,064,666)
				<b>General Revenues</b>
				Taxes
				Property taxes
				1,726,842
				Insurance taxes
				1,304,027
				Utilities taxes
				18,772
				Bank deposit taxes
				82,672
				Cable franchise fees
				36,164
				Interest income
				25,726
				Other income
				312
				<u>Total General Revenues</u>
				3,194,515
				<b>Change in Net Position</b>
				129,849
				<b>Beginning Net Position</b>
				3,263,901
				<b>Ending Net Position</b>
				<u>\$ 3,393,750</u>

See Accompanying Notes to the Financial Statements

**Fund Financial Statements**

Balance Sheet - Governmental Funds

**City of Prospect, Kentucky**

June 30, 2020

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash	\$ 1,708,992		\$ 1,973,751
Restricted cash		\$ 264,759	
Investments	1,048,770		1,048,770
Accounts receivable	305,680		305,680
Due from other funds	1,994		1,994
Prepaid expenses	34,429		34,429
	<u>34,429</u>		<u>34,429</u>
<b>Total Assets</b>	<u>\$ 3,099,865</u>	<u>\$ 264,759</u>	<u>\$ 3,364,624</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 117,507		\$ 117,507
Due to other funds		\$ 1,994	1,994
Clean up deposits	16,770		16,770
Unearned revenue	29,226		29,226
	<u>29,226</u>		<u>29,226</u>
<b>Total Liabilities</b>	163,503	1,994	165,497
<b>Fund Balances</b>			
Nonspendable	34,429		34,429
Restricted		262,765	262,765
Committed	2,065,320		2,065,320
Unassigned	836,613		836,613
	<u>836,613</u>		<u>836,613</u>
<b>Total Fund Balances</b>	<u>2,936,362</u>	<u>262,765</u>	<u>3,199,127</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,099,865</u>	<u>\$ 264,759</u>	<u>\$ 3,364,624</u>

See Accompanying Notes to the Financial Statements

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

**City of Prospect, Kentucky**

June 30, 2020

**Total Fund Balance - Governmental Funds** \$ 3,199,127

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

Capital assets of \$5,252,634, net of accumulated depreciation, reported in  
the government-wide financial statements used in governmental activities  
are not financial resources and therefore are not reported in the  
governmental funds 2,061,082

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 96,181

Long-term liabilities are not due and payable in  
the current period and therefore are not reported  
in the governmental funds (1,962,640)

**Net Position of Governmental Activities** \$ 3,393,750

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

**City of Prospect, Kentucky**

For the Year Ended June 30, 2020

	<b>General Fund</b>	<b>Road Fund</b>	<b>Totals Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 1,726,842		\$ 1,726,842
Insurance tax	1,304,027		1,304,027
Bank deposits tax	82,672		82,672
Utilities tax	18,772		18,772
Cable franchise fees	36,164		36,164
Intergovernmental	38,549	\$ 93,515	132,064
Licenses and permits	21,024		21,024
Charges for services	4,238		4,238
Interest income	23,197	2,529	25,726
Other income	312		312
Donations	2,986		2,986
<b>Total Revenues</b>	<b>3,258,783</b>	<b>96,044</b>	<b>3,354,827</b>
<b>Expenditures</b>			
General government	642,921		642,921
Public safety	850,565		850,565
Public works	546,186	78,643	624,829
Sanitation	771,564		771,564
Community development	61,972		61,972
Capital outlay	55,926		55,926
<b>Total Expenditures</b>	<b>2,929,134</b>	<b>78,643</b>	<b>3,007,777</b>
<b>Net Change in Fund Balances</b>	<b>329,649</b>	<b>17,401</b>	<b>347,050</b>
<b>Beginning Fund Balances</b>	<b>2,606,713</b>	<b>245,364</b>	<b>2,852,077</b>
<b>Ending Fund Balances</b>	<b>\$ 2,936,362</b>	<b>\$ 262,765</b>	<b>\$ 3,199,127</b>

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, 2020

Net Change in Fund Balances - Total Governmental Funds		\$	347,050
Amounts reported for governmental activities in the Statement of Activities are different because of the following:			
Unearned revenues added to the net position in the prior year are deducted in the current year			(15,618)
Pension and other postemployment benefit related expenses			(84,237)
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.			
Expenditures for capital assets	\$	141,841	
Depreciation expense		<u>(256,308)</u>	(114,467)
Change in compensated absences			<u>(2,879)</u>
<b>Change in Net Position of Governmental Activities</b>		\$	<u><u>129,849</u></u>

See Accompanying Notes to the Financial Statements

## **Notes to the Financial Statements**

**City of Prospect, Kentucky**

June 30, 2020

**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, 2020. 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.

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, 2020

**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, 2020

**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

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**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, 2020

**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. The liability was measured as of June 30, 2019.

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. The liability was measured at June 30, 2019.

Continued

**City of Prospect, Kentucky**

June 30, 2020

**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, 2020

**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 1<sup>st</sup>. Bills are mailed in mid-August and are payable by October 1<sup>st</sup> of the same year. All bills paid after October 1<sup>st</sup> 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 1<sup>st</sup> 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. Actual results could differ from those estimates.

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**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, 2020, the balance of the City's sweep accounts was \$1,736,020 and the total market value of the collateral pledged was \$1,770,740.

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, 2020 consisted of the following:

Property tax	\$	2,735
Insurance tax		295,808
Cable TV franchise tax		3,019
KLEFPF		2,638
Payroll tax		256
Base Court (HB413)		1,224
<b>Total Receivables</b>	<b>\$</b>	<b>305,680</b>

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note D--Capital Assets**

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Non-depreciable capital asset				
Land	\$ 805,642			\$ 805,642
Depreciable capital assets				
Police vehicles and equipment	335,519	\$ 42,875	\$ 28,357	350,037
Office furniture and fixtures	80,258	7,247		87,505
Buildings	212,559			212,559
City Hall	318,180	10,270	893	327,557
Equipment	177,926	4,638		182,564
Sprinkler	100,044			100,044
Drainage system	118,403			118,403
Infrastructure	1,916,437	76,811		1,993,248
City Hall additions	1,075,075			1,075,075
	<u>4,334,401</u>	<u>141,841</u>	<u>29,250</u>	<u>4,446,992</u>
<b>Total Depreciable Capital Assets</b>				
	5,140,043	141,841	29,250	5,252,634
<b>Total Capital Assets at Historical Cost</b>				
<b>Accumulated depreciation:</b>				
Police vehicles and equipment	266,169	31,978	28,357	269,790
Office furniture and fixtures	77,648	2,979		80,627
Buildings	165,717	6,820		172,537
City Hall	303,920	4,253	893	307,280
Equipment	137,670	9,552		147,222
Sprinkler	100,044			100,044
Drainage system	96,055	5,617		101,672
Infrastructure	901,397	141,103		1,042,500
City Hall additions	915,844	54,036		969,880
	<u>2,964,464</u>	<u>256,338</u>	<u>29,250</u>	<u>3,191,552</u>
<b>Total Accumulated Depreciation</b>				
	<u>\$ 2,175,579</u>	<u>\$ (114,497)</u>	<u>\$</u>	<u>\$ 2,061,082</u>
<b>Governmental Activities Capital Assets, net</b>				

Continued

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note D--Capital Assets--Continued**

Depreciation expense charged to governmental activities as follows:

General government	\$ 46,557
Public safety	35,590
Public works	168,574
Sanitation	<u>5,617</u>
<b>Total Depreciation Expense</b>	<b><u>\$ 256,338</u></b>

**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, 2020 the City has \$16,770 of such deposits shown as a liability in the financial statements.

**Note F--Compensated Absences**

Accrued compensated absences for the year ended June 30, 2020 are as follows:

<u>Balance June 30, 2019</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2020</u>
<u>\$ 67,941</u>	<u>\$ 81,631</u>	<u>\$ 78,752</u>	<u>\$ 70,820</u>

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note G--Fund Balances – Governmental Funds**

Classifications of fund balances at June 30, 2020 are as follows:

<u>Classification</u>	<u>General Fund</u>	<u>Road Fund</u>
Nonspendable		
From prepaid items	\$ 34,429	
Restricted		
By enabling legislation for roads		\$ 262,765
Committed		
City Council for pension and postemployment benefits	1,891,820	
City Council for paving next fiscal year	173,500	
Unassigned	836,613	
	<u>836,613</u>	<u>          </u>
<b>Total Fund Balances</b>	<u>\$ 2,936,362</u>	<u>\$ 262,765</u>

**Note H--Intergovernmental Revenue**

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City \$29,500 for police training and other miscellaneous operating costs during the year ended June 30, 2020.

**Note I--Retirement Plan**

Plan Description--Employees of the City are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the State 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>.

Continued

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note I--Retirement Plan-Continued**

Benefits Provided: Nonhazardous

	<b>Tier 1 Nonhazardous Participation beginning prior to 9/1/2008</b>	<b>Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013</b>	<b>Tier 3 Nonhazardous Participation beginning on or after 1/1/2014</b>
<b>Covered Employees:</b>	All full-time employees	All full-time employees	All full-time employees
<b>Benefit Formula:</b>	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
<b>Final Compensation:</b>	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
<b>Benefit Factor:</b>	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.
<b>Cost of Living Adjustment ("COLA"):</b>	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of service. Age 65 with 1 month 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
<b>Reduced Retirement Benefit:</b>	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military)	No reduced retirement benefit

Continued

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note I--Retirement Plan--Continued**

Benefits Provided: Hazardous

	<b>Tier 1 Hazardous Participation beginning prior to 9/1/2008</b>	<b>Tier 2 Hazardous Participation beginning 9/1/2008 through 12/31/2013</b>	<b>Tier 3 Hazardous Participation beginning on or after 1/1/2014</b>
<b>Covered Employees:</b>	All full-time employees	All full-time employees	All full-time employees
<b>Benefit Formula:</b>	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
<b>Final Compensation:</b>	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 of service credit	No final compensation factor
<b>Benefit Factor:</b>	2.50%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. Additional years above 25 = 2.50% (2.50% benefit factor only applies to service earned in excess of 25 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.
<b>Cost of Living Adjustment ("COLA"):</b>	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
<b>Unreduced Retirement Benefit:</b>	Any age with 20 years of service. Age 55 with 1 month of service	Any age with 25 years of service. Age 60 with 5 month of service	Any age with 25 years of service. Age 60 with 5 years of service
<b>Reduced Retirement Benefit:</b>	Age 50 with 15 years of service but less than 20 years of service	Age 50 with 15 years of service. Excludes purchased service (exception: refunds, omitted, free military)	No reduced retirement benefit

Continued

**City of Prospect, Kentucky**

June 30, 2020

**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, 2020, 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, 2020, employer contributions for the City were \$99,859. By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability--The City's net pension liability was \$1,512,989 measured as of June 30, 2019. The total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. At June 30, 2019, the City's portion of nonhazardous and hazardous net pension liability was 0.013% and 0.022%, respectively.

Actuarial Assumptions--The total pension liability as of June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

The mortality table used is the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females).

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 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, 2020

**Note I--Retirement Plan--Continued**

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%	4.30%
International Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	100.00%	

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

**City of Prospect, Kentucky**

June 30, 2020

**Note I--Retirement Plan--Continued**

Sensitivity Analysis--The following presents the net pension liability of the City 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Net pension liability - nonhazardous	\$ 1,147,835	\$ 917,742	\$ 725,962
Net pension liability - hazardous	\$ 744,192	\$ 595,247	\$ 473,133

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

Pension Expense--The City's proportionate share of pension plan expense was \$170,970 for nonhazardous and \$5,007 for hazardous service employees.

Deferred Outflows of Resources and Deferred Inflows of Resources--For the year ended June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>Nonhazardous</b>		
Difference between expected and actual experience	\$ 23,433	\$ 3,878
Change of assumptions	92,886	
Net difference between projected and actual earnings on investments	17,617	32,411
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,263	40,593
Contributions subsequent to the measurement date	32,263	
<b>Hazardous</b>		
Difference between expected and actual experience	25,291	
Change of assumptions	57,780	
Net difference between projected and actual earnings on investments	9,157	17,581
Changes in proportion and differences between employer contributions and proportionate share of contributions		129,131
Contributions subsequent to the measurement date	63,128	
Total	<u>\$ 345,818</u>	<u>\$ 223,594</u>

Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note I--Retirement Plan--Continued**

The \$95,391 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Measurement Year Ending June 30:</b>		
2021	\$	56,152
2022		(20,471)
2023		(10,435)
2024		1,587
2025		-

In the tables shown above, positive amounts will increase pension expense and negative amounts will decrease pension expense.

**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 Hazardous and Non-hazardous Insurance Funds is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits ("OPEB") plans for members that cover all regular full-time members employed of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide for health insurance benefits to 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, 2020

**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--For the 2019 measurement period, CERS' actuarially required contribution rate paid by the employers for funding the healthcare benefit was 4.76% for Non-hazardous employees and 9.52% for hazardous employees. In addition, the required contributions by the employees are based as follows, 0% for Tier 1, 1% of the Tier 2 and Tier 3 employees.

Continued

**City of Prospect, Kentucky**

June 30, 2020

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

**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 \$24,067 for nonhazardous and \$24,067 for hazardous service employees.

At June 30, 2020, the City reported a liability of \$378,831 for its proportionate share of the collective net OPEB liability that reflected a reduction for State OPEB support provided to the City. The collective net OPEB liability was measured as of June 30, 2019, 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, 2019, the City's proportion was 0.014 percent for Non-hazardous and 0.030 percent for Hazardous plan.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>Nonhazardous</b>		
Difference between expected and actual experience		\$ 66,206
Change of assumptions	\$ 64,931	434
Net difference between projected and actual earnings on investments	1,445	11,191
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,846	17,273
Contributions subsequent to the measurement date	15,569	
<b>Hazardous</b>		
Difference between expected and actual experience		29,654
Change of assumptions	48,171	302
Net difference between projected and actual earnings on investments	1,089	10,254
Changes in proportion and differences between employer contributions and proportionate share of contributions	114	47,112
Contributions subsequent to the measurement date	10,218	
Total	<u>\$ 156,383</u>	<u>\$ 182,426</u>

Continued

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

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

The \$25,787 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Measurement Year Ending June 30:</b>	
2021	\$ (6,519)
2022	(14,995)
2023	(15,688)
2024	(10,988)
2025	(2,014)
Thereafter	(1,626)

In the tables shown above, positive amounts will increase pension expense and negative amounts will decrease OPEB expense.

Actuarial Assumptions--The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>CERS Non-Hazardous</b>	<b>CERS Hazardous</b>
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:	26 Years, Closed	26 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 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
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 determined rate in accordance with HB 362 enacted in 2018.

Continued

**City of Prospect, Kentucky**

June 30, 2020

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

Discount Rate--For CERS Non-hazardous, the discount rate used to measure the total OPEB liability was 5.68% and 5.69% 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS Discount Rate - nonhazardous	4.68%	5.68%	6.68%
Net OPEB liability - nonhazardous	\$ 293,943	\$ 219,428	\$ 158,032
CERS Discount Rate - hazardous	4.69%	5.69%	6.69%
Net OPEB liability - hazardous	\$ 222,399	\$ 159,403	\$ 108,268

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>
Net OPEB liability - nonhazardous	\$ 163,190	\$ 219,428	\$ 287,623
Net OPEB liability - hazardous	\$ 110,915	\$ 159,403	\$ 218,555

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

**City of Prospect, Kentucky**

June 30, 2020

**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.

**Note M--Impact of COVID-19**

In March 2020, the World Health Organization declared the spread of the Coronavirus Disease ("COVID-19") as a worldwide pandemic. The COVID-19 pandemic is having 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 full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

**Note N--Subsequent Event**

The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") provides for payments to state and local governments to assist with the impact of the COVID-19 pandemic. Subsequent to year end, the City received \$464,472 of CARES Act funding through the Commonwealth of Kentucky.

In preparing these financial statements, management of the City has evaluated events and transactions for potential recognition or disclosure through June 11, 2021, the date the financial statements were available to be issued.

Notes to Financial Statements--Continued

**City of Prospect, Kentucky**

June 30, 2020

**Note O--Recent GASB Pronouncements**

Accounting Pronouncements That Will Become Effective for FY 2021 and Later

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. (FY 2021)

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, 2020

	<b>Budget</b>		<b>Actual</b>	<b>Variance with Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Property taxes	\$ 1,785,000	\$ 1,768,950	\$ 1,726,842	\$ (42,108)
Utilities tax	12,000	18,772	18,772	
Insurance tax	1,300,000	1,295,184	1,304,027	8,843
Cable TV franchise tax	35,000	36,153	36,164	11
Bank deposit taxes	76,000	82,672	82,672	
Base court revenue	10,000	10,305	8,607	(1,698)
KLEFPF	24,000	29,575	29,942	367
Business license	8,000	9,050	9,050	
Liqueur license	6,500	3,852	3,852	
Permits	5,000	8,122	8,122	
Police fingerprinting/reports	750	1,228	1,228	
Tax records requests	1,500	3,010	3,010	
Other income	250	312	312	
Donations	9,000	2,986	2,986	
Interest income	30,000	23,197	23,197	
<b>Total Revenues</b>	<b>3,303,000</b>	<b>3,293,368</b>	<b>3,258,783</b>	<b>(34,585)</b>
<b>Expenditures</b>				
General government	741,410	665,055	642,921	22,134
Public Safety	883,100	851,794	850,565	1,229
Public Works	647,525	549,721	546,186	3,535
Sanitation	764,000	768,874	771,564	(2,690)
Community development	103,800	61,985	61,972	13
Capital outlay	215,750	43,150	55,926	(12,776)
<b>Total Expenditures</b>	<b>3,355,585</b>	<b>2,940,579</b>	<b>2,929,134</b>	<b>11,445</b>
<b>Net Change in Fund Balance</b>	<b>\$ (52,585)</b>	<b>\$ 352,789</b>	<b>\$ 329,649</b>	<b>\$ (23,140)</b>

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, 2020

	<b>Budget</b>		<b>Actual</b>	<b>Variance with Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental revenue	\$ 95,000	\$ 96,044	\$ 93,515	\$ (2,529)
Interest income			2,529	2,529
<b>Total Revenues</b>	95,000	96,044	96,044	
<b>Expenditures</b>				
Public Works				
Road construction and maintenance	250,000	78,643	78,643	
<b>Total Expenditures</b>	250,000	78,643	78,643	
<b>Net Change in Fund Balance</b>	<u>\$ (155,000)</u>	<u>\$ 17,401</u>	<u>\$ 17,401</u>	<u>\$</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, 2020

	<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>
<b>Non-Hazardous</b>						
	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%	53.30%
	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%
<b>Hazardous</b>						
	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%

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 Contributions  
to the County Employees Retirement System

**City of Prospect, Kentucky**

Year Ended June 30, 2020

	<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>
<b>Non-Hazardous</b>						
	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%
<b>Hazardous</b>						
	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%

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 of Pension Reporting

**City of Prospect, Kentucky**

For the Year Ended June 30, 2020

**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%.

**Note: There were no changes from 2016 to 2017.**

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

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

See Independent Auditors' Report

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

**City of Prospect, Kentucky**

Year Ended June 30, 2020

	<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>
<b>Non-Hazardous</b>						
	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%	52.40%
	2017	N/A	\$ 207,892	\$ 455,908	45.60%	N/A
<b>Hazardous</b>						
	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%	59.00%
	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, 2020

	<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>
<b>Non-Hazardous</b>						
	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%
<b>Hazardous</b>						
	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.

Notes to Required Supplementary Information on OPEB Reporting

**City of Prospect, Kentucky**

Year Ended June 30, 2020

**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, 2020

<u>Name</u>	<u>Position</u>
John Evans	Mayor
Laura Taylor	City Clerk/ Administrator
Don Gibson	Council Member
Frank Fulcher	Council Member
Sandra Leonard	Council Member
Greg Huelsman	Council Member
Harold Schewe	Council Member
Rande Swann	Council Member