

**CITY OF ELSMERE, KENTUCKY**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**For the Year Ended June 30, 2016**

# CITY OF ELSMERE, KENTUCKY

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

Charles A. Van Gorder, CPA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the Council of the  
City of Elsmere, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

#### ***-Auditor's Responsibility***

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

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

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

#### ***-Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky as of June 30, 2016 and the respective





changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### ***-Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-7, the budgetary comparison schedule on pages 27-29, and the pension disclosure information on pages 30-31 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.

##### ***-Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major fund financial statements on pages 32-33 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016 on our consideration of the City of Elsmere, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elsmere, Kentucky's internal control over financial reporting and compliance.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker, & Co., Inc.  
Erlanger, Kentucky  
December 12, 2016

**CITY OF ELSMERE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of City of Elsmere, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's basic financial statements.

## **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's financially significant funds.

## **Financial Highlights**

As of the close of the current and prior fiscal years, the City's governmental funds reported fund balances as follows:

<u>Funds</u>	<u>FYE 2015 Amount</u>	<u>FYE 2016 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 15</u>
General	\$ 3,753,135	\$ 4,151,702	10.62%	\$ 398,567
Street Tax	296,595	172,226	-41.93%	(124,369)
Municipal Aid	474,989	115,722	-75.64%	(359,267)
Other Funds	201,224	189,368	-5.89%	(11,856)
Total Fund Balance	<u>\$ 4,725,943</u>	<u>\$ 4,629,018</u>	-2.05%	<u>\$ (96,925)</u>

The General Fund experienced an excess of revenues over expenditures, however significant road work was performed and paid from savings accrued in the Street Tax Fund and the Municipal Aid Road Fund, resulting in an excess of expenditures over revenues in these funds, and an overall decrease in fund balances of (\$739,799). The revenues of the General Fund were significantly more than in the previous year primarily due to an increase in tax revenue

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **Government-Wide Statement of Net Assets and Activities**

One of the most important questions asked about the City's finances is, "Is the City as a whole in a better or worse financial position as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets as the difference between assets, what the citizens own, and liabilities, what the citizens owe. This is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other factors also, such as changes in the City's property tax, gross receipts, payroll and insurance premium tax base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

**CITY OF ELSMERE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (Continued)**

In the Statement of Net Position and the Statement of Activities, we have listed the governmental activities:

- **Governmental activities:** All of the City's basic services are reported here, including general government, public safety, public works and streets, general services, planning and inspection, waste collection, and recreation. Property taxes, payroll taxes, insurance premium taxes, charges for services (waste collection, etc.) and government grants finance most of these activities.

**Fund Financial Statements**

The Governmental Fund financial statements provide detailed information about the City's funds. Some funds are required to be established by State Statute or Municipal Ordinance (Ex. Street Tax Fund). However, the City Council establishes a few other funds to help it control and manage money for particular purposes (Ex. Sewer Fund and Turkeyfoot Acres fund) or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Fund).

*Governmental funds:* All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the differences between the government wide net assets financial statements and the governmental fund financial statements in the reconciliations within the audited financial statements.

**Government-Wide Change in Net Position**

For the years ended June 30, 2016 and 2015, net position for all governmental activities changed as follows:

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
Beginning Net Position	\$ 10,973,260	\$ 12,602,576
Increase in Net Position	555,996	458,890
Prior Period Adjustment - Pensions	(122,043)	(2,088,206)
Ending Net Position	<u>\$ 11,407,213</u>	<u>\$ 10,973,260</u>

**CITY OF ELSMERE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (Continued)**

**Government-Wide Statement of Net Position Summary**

	<b>Governmental Activities</b>	
	<u>2016</u>	<u>2015</u>
Current Assets	\$ 4,770,727	\$ 4,802,804
Capital Assets, Net	10,090,977	9,619,289
Total Assets	14,861,704	14,422,093
Deferred Outflow of Resources	524,438	327,058
Total Assets and Deferred Outflows	15,386,142	14,749,151
Current Liabilities	396,042	344,817
Noncurrent Liabilities	3,533,524	3,212,994
Total Liabilities	3,929,566	3,557,811
Deferred Inflow of Resources	49,363	218,080
Total Liabilities and Deferred Inflows	3,978,929	3,775,891
Net Position	\$ 11,407,213	\$ 10,973,260

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

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

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2015, and the amount and percentage of increases and decreases in relation to the prior year.

	FYE 2015	FYE 2016	Percentage	Increase (Decrease)
Revenues	Amount	Amount	Incr(Decr)	From FYE 15
Property tax	\$ 1,272,005	\$ 1,297,690	2.0%	\$ 25,685
Payroll tax	1,451,410	1,600,893	10.3%	149,483
Insurance premium tax	805,959	844,489	4.8%	38,530
Other taxes	106,593	109,404	2.6%	2,811
Licenses and permits	19,467	27,576	41.7%	8,109
Fines and forfeitures	46,321	30,852	-33.4%	(15,469)
Charges for services	8,260	2,608	-68.4%	(5,652)
Intergovernmental and grants	421,912	290,017	-31.3%	(131,895)
Rehabilitation loan payments	816	4,133	406.5%	3,317
Interest income	5,820	13,562	133.0%	7,742
Miscellaneous	49,470	41,487	-16.1%	(7,983)
Total Revenues	\$ 4,188,033	\$ 4,262,711	1.8%	\$ 74,678

**CITY OF ELSMERE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (Continued)**

The \$216,509 increase in taxes is offset by (\$131,895) decrease in intergovernmental funds received from Sanitation District No. 1 and Kentucky Department of Local Government. Revenues overall show a modest increase of \$74,678..

The City's significant decrease in expenditures is attributable to less capital outlay for road work.

Expenditures	FYE 2015 Amount	FYE 2016 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 15
General government	\$ 642,775	\$ 605,942	-5.73%	\$ (36,833)
Public safety	1,475,819	1,519,547	2.96%	43,728
Public works	874,277	805,111	-7.91%	(69,166)
Planning and inspection	57,461	39,935	-30.50%	(17,526)
Intergovernmental expenses	255,753	262,147	2.50%	6,394
Waste collection	734	239	-67.44%	(495)
Recreation	29,755	37,635	26.48%	7,880
Capital outlay	1,199,708	800,079	-33.31%	(399,629)
Debt service	294,625	289,000	-1.91%	(5,625)
Total Expenditures	<u>\$ 4,830,907</u>	<u>\$ 4,359,635</u>	-9.76%	<u>\$ (471,272)</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The capital assets were reported for the fiscal years ended as follows:

	<b>Governmental Activities</b>	
	2015	2016
Land	\$ 1,182,538	\$ 1,182,538
Construction in Progress	129,433	96,967
Buildings	1,337,302	1,337,302
Infrastructure	9,247,387	9,887,373
Vehicles	874,303	949,510
Equipment	629,644	626,579
Furniture and fixtures	32,095	32,095
Totals	<u>\$ 13,432,702</u>	<u>\$ 14,112,364</u>

This year's net increase of \$679,662 in capital assets included:

Streets and sidewalks projects	\$ 1,247,507
Purchase and demolition of blighted building	
Released from CIP	(639,987)
Public works vehicle	146,489
Public works equipment	6,950
Police vehicles	39,120
Disposal of assets	(120,417)
	<u>\$ 679,662</u>



**CITY OF ELSMERE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (Continued)**

**Debt**

The City has \$1,075,000 in outstanding debt at June 30, 2016, compared to a \$1,325,000 debt at June 30, 2015, a 18.9% decrease from 2015 as detailed below:

	<b>Governmental Activities</b>	
	<u>2016</u>	<u>2015</u>
Road construction capital lease	\$ 1,075,000	\$ 1,325,000
Totals	<u>\$ 1,075,000</u>	<u>\$ 1,325,000</u>

**GENERAL BUDGETARY HIGHLIGHTS**

Over the course of the year, the city council revised the budget three times.

For actual resources, across all major funds, revenues exceeded budgeted amounts by \$278,617 due property tax revenues generated above the amount budgeted. Actual expenditures were under budget by \$127,786 due to tight management to budget in all departments of the General Fund. The City's major funds ended the year with actual expenditures exceeding actual revenues by \$96,924.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's elected officials consider many factors when setting the fiscal year 2016 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

The City is allowed by law to set an ad valorem rate that will generate 4% more revenue than last year. This year the Council voted to keep the tax rate the same as the FY 2015 rate, which is set at 0.223 per hundred for the fiscal year ended June 30, 2016.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator, Alex Mattingly, at (859) 342-7911 or at the city building at 318 Garvey Avenue, Elsmere, KY 41018.

<b>CITY OF ELSMERE, KENTUCKY</b> <b>STATEMENT OF NET POSITION</b> <b>June 30, 2016</b>
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<b>Assets</b>	<b>Governmental Activities</b>
Current Assets	
Cash and cash equivalents	\$ 3,837,824
Investments	122,038
Receivables	
Taxes	752,820
Waste collection	29,428
Other	6,613
Notes receivable	22,004
Total Current Assets	<u>4,770,727</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	1,279,504
Infrastructure	9,887,374
Buildings	1,337,302
Equipment	626,579
Vehicles	949,510
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(4,021,387)</u>
Net Capital Assets	<u>10,090,977</u>
<b>Total Assets</b>	<u>14,861,704</u>
<b>Deferred Outflows of Resources</b>	
Pension contribution for fiscal year 2015	<u>524,438</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>15,386,142</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts payable	62,948
Accrued liabilities	19,982
Compensated absences	58,112
Current portion of leases payable	<u>255,000</u>
Total Current Liabilities	<u>396,042</u>
Noncurrent Liabilities	
Leases payable	820,000
Net pension liability	<u>2,713,524</u>
Total Noncurrent Liabilities	<u>3,533,524</u>
<b>Total Liabilities</b>	<u>3,929,566</u>
<b>Deferred Inflow of Resources</b>	
Deferred inflow of resources related to pensions	<u>49,363</u>
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>3,978,929</u>
<b>Net Position</b>	
Net investment in capital assets	9,015,977
Restricted for:	
Road projects	287,948
Unrestricted	<u>2,103,288</u>
<b>Total Net Position</b>	<u>\$ 11,407,213</u>

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

**CITY OF ELSMERE, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 643,243	\$ 18,690	\$ -	\$ -	\$ (624,553)
Public safety	1,627,168	15,379	54,641	-	(1,557,148)
Public works and street	1,077,643	1,988	216,816	-	(858,839)
Intergovernmental expenses	262,147	-	-	-	(262,147)
Planning and inspection	39,935	-	-	-	(39,935)
Waste collection	239	2,608	-	-	2,369
Recreation	39,688	-	-	-	(39,688)
Interest on long-term debt	39,000	-	-	-	(39,000)
Total Governmental Activities	<u>\$ 3,729,063</u>	<u>\$ 38,665</u>	<u>\$ 271,457</u>	<u>\$ -</u>	<u>(3,418,941)</u>

**General Revenues: Taxes**

Property taxes	1,310,313
Payroll tax	1,600,893
Insurance premium taxes	844,489
Other taxes	109,404
Licenses and permits	27,576
Fines and forfeitures	30,852
Interest income	13,562
Miscellaneous	41,487
Loss on disposal	(3,639)
Total general revenues	<u>3,974,937</u>
Change in net position	555,996
Net position, beginning	10,973,260
Prior period adjustment	(122,043)
Net position, ending	<u>\$ 11,407,213</u>

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

<b>CITY OF ELSMERE, KENTUCKY</b> <b>BALANCE SHEET - GOVERNMENTAL FUNDS</b> <b>June 30, 2016</b>
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	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 3,440,462	\$ 57,106	\$ 150,817	\$ 189,439	\$ 3,837,824
Investments		122,038	-	-	122,038
Receivables					
Taxes	721,547	31,273	-	-	752,820
Waste collection	29,428	-	-	-	29,428
Intergovernmental	-	-	-	-	-
Other	6,613	-	-	-	6,613
Notes receivable	-	-	-	22,004	22,004
Due from other funds	8,881	-	-	-	8,881
<b>Total Assets</b>	<b>\$ 4,206,931</b>	<b>\$ 210,417</b>	<b>\$ 150,817</b>	<b>\$ 211,443</b>	<b>\$ 4,779,608</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 27,782	\$ -	\$ 35,095	\$ 71	\$ 62,948
Accrued liabilities	19,982	-	-	-	19,982
Deferred revenue	5,502	31,273	-	22,004	58,779
Due to other funds	1,963	6,918	-	-	8,881
<b>Total Liabilities</b>	<b>55,229</b>	<b>38,191</b>	<b>35,095</b>	<b>22,075</b>	<b>150,590</b>
<b>Fund Balances</b>					
Restricted	-	172,226	115,722	-	287,948
Committed	-	-	-	189,368	189,368
Assigned	1,086,518	-	-	-	1,086,518
Unassigned	3,065,184	-	-	-	3,065,184
<b>Total Fund Balances</b>	<b>4,151,702</b>	<b>172,226</b>	<b>115,722</b>	<b>189,368</b>	<b>4,629,018</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,206,931</b>	<b>\$ 210,417</b>	<b>\$ 150,817</b>	<b>\$ 211,443</b>	<b>\$ 4,779,608</b>

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

**CITY OF ELSMERE, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 4,629,018
Capital assets of \$14,112,364, less accumulated depreciation of (\$4,021,387), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,090,977
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds:	
Deferred outflow of resources	524,438
Deferred inflow of resources	(49,363)
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the balance in deferred items.	58,779
Long-term liabilities, including leases payable and compensated absences, may not be due and payable in the current period in the funds and therefore are not reported as liabilities in the governmental funds.	
Leases payable	(1,075,000)
Net pension liability	(2,713,524)
Compensated absences	(58,112)
Net position of governmental activities	<u>\$ 11,407,213</u>

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

<b>CITY OF ELSMERE, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -</b> <b>GOVERNMENTAL FUNDS</b> <b>For the Year Ended June 30, 2016</b>
--

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
<b>Revenues</b>					
Property tax	\$ 804,692	\$ 492,998	\$ -	\$ -	\$ 1,297,690
Payroll tax	1,600,893	-	-	-	1,600,893
Insurance premium tax	844,489	-	-	-	844,489
Other taxes	109,404	-	-	-	109,404
Licenses and permits	27,576	-	-	-	27,576
Fines, forfeitures, penalties	30,852	-	-	-	30,852
Charges for services	2,608	-	-	-	2,608
Intergovernmental	72,777	-	206,901	10,339	290,017
Rehabilitation loan payments	-	-	-	4,133	4,133
Interest income	12,496	277	307	482	13,562
Miscellaneous	41,487	-	-	-	41,487
<b>Total Revenues</b>	<u>3,547,274</u>	<u>493,275</u>	<u>207,208</u>	<u>14,954</u>	<u>4,262,711</u>
<b>Expenditures</b>					
Current Expenditures					
General government	596,963	-	-	8,979	605,942
Public safety	1,519,546	-	-	-	1,519,546
Public works and streets	499,683	105,320	182,279	17,831	805,113
Intergovernmental expenses	262,147	-	-	-	262,147
Planning and inspection	39,935	-	-	-	39,935
Waste collection	239	-	-	-	239
Recreation	37,635	-	-	-	37,635
Capital outlay	192,559	223,324	384,196	-	800,079
Debt service	-	289,000	-	-	289,000
<b>Total Expenditures</b>	<u>3,148,707</u>	<u>617,644</u>	<u>566,475</u>	<u>26,810</u>	<u>4,359,636</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>398,567</u>	<u>(124,369)</u>	<u>(359,267)</u>	<u>(11,856)</u>	<u>(96,925)</u>
<b>Fund Balance, beginning</b>	<u>3,753,135</u>	<u>296,595</u>	<u>474,989</u>	<u>201,224</u>	<u>4,725,943</u>
<b>Fund Balance, ending</b>	<u>\$ 4,151,702</u>	<u>\$ 172,226</u>	<u>\$ 115,722</u>	<u>\$ 189,368</u>	<u>\$ 4,629,018</u>

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



<b>CITY OF ELSMERE, KENTUCKY</b> <b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES</b> <b>AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS</b> <b>TO THE STATEMENT OF ACTIVITIES</b> <b>For the Year Ended June 30, 2016</b>
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Amounts reported for governmental activities in the statement of activities are different because:

<b>Net change in fund balance - total governmental funds</b>	<b>\$ (96,925)</b>
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Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 800,079	
Loss on disposal of assets	(3,639)	
Depreciation expense	<u>(324,752)</u>	471,688

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	25,987
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences.	(12,364)
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Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:	
City pension contributions	197,966
Costs of benefits earned	(280,356)

Repayment of leases payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	<u>250,000</u>
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<b>Change in net position of governmental activities</b>	<b><u>\$ 555,996</u></b>
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The accompanying notes are an integral part of the financial statements.

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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## **OVERVIEW OF ENTITY**

The financial statements of the City of Elsmere, Kentucky, have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

### *Reporting Entity*

The City of Elsmere is a municipal corporation governed by an elected Mayor and six-member City Council. As required by generally accepted accounting principles, these financial statements present all activities for which the City is considered to be financially accountable.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the City are reported as a reduction of the related liability, rather than as an expenditure.

### *Measurement focus, basis of accounting and financial statement presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, insurance taxes, payroll taxes, franchise taxes, waste collection assessments and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports on the following funds:

General Fund - The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents include demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City. The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Bankers' acceptances.
4. Commercial paper.
5. Bonds of other states or local governments.
6. Mutual funds.

Receivables

No allowance for doubtful accounts is required.

Property Taxes Receivable

Property taxes are levied as of November 1 on property values assessed on January 1. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Short-Term Inter-fund Receivables/Payables

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables."

**CITY OF ELSMERE, KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2016**

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

Capital Assets

Capital assets are reported in the governmental activities column of the government-wide Statement of Net Assets. The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets with an initial, individual cost of \$500 or more. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the Statement of Net Position. Infrastructure such as street, traffic signals and signs are capitalized. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense in the Statement of Activities, and accumulated depreciation is reported on the Statement of Net Position. The range of lives used for depreciation purposes for each fixed asset class is as follows:

Description	Governmental Activities
	Estimated Lives
Buildings	50 Years
Buildings improvements	Remaining life of building
Public domain infrastructure	40 Years
Light vehicles	5 Years
Furniture and fixtures	7 Years
Equipment	5 - 7 Years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay specified amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest reported as expenditures.

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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### Fund Equity

Net position is the difference between assets and liabilities. Amounts invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

*Non-spendable* fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be non-spendable.

*Restricted* fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as state government restrictions or the funds restricted by the will of the City's voters. These include residual balances from the Kentucky Municipal Aid Road Fund, and the Street Tax Fund.

*Committed* fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These include residual balances from the Citywide Rehabilitation Fund, and the Turkeyfoot Acres Fund.

*Assigned* fund balances consist of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. The City considers the amounts in its certificates of deposit as assigned fund balances.

*Unassigned* fund balances consist of all residual funds not included in non-spendable, restricted, committed, or assigned fund balances.

### Revenues, Expenditures and Expenses – Inter-fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

### 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 Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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## **NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with City ordinance, prior to June 1, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. A public meeting is conducted to obtain taxpayer comment.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
5. Appropriations continue in effect until a new budget is adopted.
6. The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would change revenues and expenditures of any fund must be approved by the City Council. During the year the City Council adopted three supplementary appropriations ordinance.

## **NOTE C – DEPOSITS AND INVESTMENTS**

Cash and Cash Equivalents – The carrying amount of the City's cash equivalents (bank deposits, money market accounts and certificates of deposit with less than 90 days maturity) with financial institutions was \$3,990,901 at June 30, 2016.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as a component of cash and certificates of deposit are insured by depository insurance or secured with collateral held by the financial institutions in the City's name.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2016.



<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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## NOTE D – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2015 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

## NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,182,538	\$ -	\$ -	\$ 1,182,538
Construction in progress	129,433	607,520	(639,987)	96,966
Total Capital Assets Not Being Depreciated	1,311,971	607,520	(639,987)	1,279,504
Depreciable Capital Assets				
Infrastructure	9,247,387	639,987	-	9,887,374
Buildings	1,337,302	-	-	1,337,302
Vehicles	842,684	185,609	(110,402)	917,891
Equipment	623,579	6,950	(10,015)	620,514
Furniture and fixtures	69,779	-	-	69,779
Total Depreciable Capital Assets	12,120,731	832,546	(120,417)	12,832,860
Total Capital Assets at Historical Cost	13,432,702	1,440,066	(760,404)	14,112,364
Less Accumulated Depreciation				
Infrastructure	(1,984,911)	(216,773)	-	(2,201,684)
Buildings	(528,391)	(32,563)	-	(560,954)
Vehicles	(703,980)	(62,397)	-	(766,377)
Equipment	(564,036)	(13,019)	6,376	(570,679)
Furniture and fixtures	(32,095)	-	110,402	78,307
Total Accumulated Depreciation	(3,813,413)	(324,752)	116,778	(4,021,387)
Depreciable Capital Assets, Net	8,307,318	507,794	(3,639)	8,811,473
Total Capital Assets, Net	\$ 9,619,289	\$ 1,115,314	\$ (643,626)	\$ 10,090,977

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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Depreciation was charged to functions as follows:

Governmental Activities	Amount
General government	\$ 14,706
Public safety	60,637
Public works	30,583
Public Works-Infrastructure	216,773
Recreation	2,053
Total Depreciation	<u>\$ 324,752</u>

## NOTE F – LONG-TERM DEBT

### Road Construction Capital Lease

In August 2010, the City signed a capital lease for \$2,560,000. The proceeds of this lease are to go to road reconstruction in the City. The City began paying principal and interest on this balance in September 2010. As of June 30, 2016, \$2,560,000 of these funds had been drawn. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2016 is \$1,325,000.

### Summary of General Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Retirements/ Repayments	Balance June 30, 2016	Amounts Due Within 1 Year
Road construction lease	\$ 1,325,000	\$ -	\$ (250,000)	\$ 1,075,000	\$ 255,000
Total	<u>\$ 1,325,000</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ 1,075,000</u>	<u>\$ 255,000</u>

## NOTE G – COMPENSATED ABSENCE LIABILITY

The City allows employees to save and bank their unused vacation time. If an employee leaves the City with banked vacation time available, the City will pay the employee the balance of the vacation time due. This liability is carried as Current Liability on the Statement of Net Assets. The following is a summary of the liability the City has to its current employees:

	Balance June 30, 2015	Net Additions	Balance June 30, 2016	Amounts Due Within 1 Year
Compensated absences	\$ 45,747	\$ 12,366	\$ 58,113	\$ 58,113

## NOTE H – COUNTY EMPLOYEE'S RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System.

### **General information about the County Employees Retirement System Non-Hazardous and Hazardous ("CERS")**

*Plan description* - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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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 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* - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five year's service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Contributions* - Required contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

## Contributions

For non-hazardous duty employees, the City contributed 17.06%, of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016. For hazardous duty employees, the City contributed 32.95%, of which 20.26% was for the pension fund and 12.69% was for the health

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$59,465, of which \$43,292 was for the pension fund and \$16,173 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$251,555, of which \$154,674 was for the pension fund and \$96,881 was for the health insurance fund.

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

At June 30, 2016, the City reported a liability of \$2,713,524 (\$752,754 – non-hazardous and \$1,960,770 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's non-hazardous employer allocation proportion was 0.017508% of the total CERS non-hazardous duty employees and 0.127729% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$82,391.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 48,843	\$ -
Net difference between projected and actual earnings on plan investments	19,062	-
Changes of assumptions	245,350	-
Changes in proportion and differences between City contributions and proportionate share of contributions	13,217	49,363
City contributions subsequent to the measurement date	197,966	-
Total	<u>\$ 524,438</u>	<u>\$ 49,363</u>

In FY 2016, \$524,438 was recognized as a net deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. Deferred inflows of resources totaled \$49,363.

The City's contributions subsequent to the measurement date of \$197,966 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized

**CITY OF ELSMERE, KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2016**

in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2017	\$ 71,290
2018	71,290
2019	52,670
2020	81,859
	<u>\$ 277,109</u>

### **Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

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 (1 year set-back 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.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. 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.

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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### Changes of Assumptions

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Hazardous & Non-Hazardous	Long Term
	Target Allocation	Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

### Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.



<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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### **Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.5%	\$ 960,984
Current discount rate	7.5%	752,754
1% increase	8.5%	574,424

### **Plan Fiduciary Net Position**

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

### **NOTE I – CLAIMS AND JUDGMENTS**

Amounts received, or receivable, from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

### **NOTE J – INTERFUND ACTIVITY**

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. There were no fund transfers in fiscal year 2016.

### **NOTE K – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

**Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

**Statement No. 72** – *Fair Value Measurement and Application*

**Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

**Statement No. 76** – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

**Statement No. 79** – *Certain External Investment Pools and Pool Participants*

<b>CITY OF ELSMERE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2016</b>
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**NOTE L – FUTURE ACCOUNTING STANDARDS**

**Statement No. 74** – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

**Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

**Statement No. 77** – *Tax Abatement Disclosures*

**Statement No. 78** – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

**Statement No. 80** – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

**Statement No. 81** – *Irrevocable Split-Interest Agreements*

**Statement No. 82** – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

**NOTE M – PRIOR PERIOD ADJUSTMENTS**

The City has recorded a prior period adjustment to the beginning net position of (\$122,043). This adjustment accounts for the health insurance fund portion of the pension contributions for 2015 which is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

**NOTE N – SUBSEQUENT EVENTS**

Management has evaluated events through December 12, 2016 the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2016 through December 12, 2016 to disclose.

**CITY OF ELSMERE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL (WITH VARIANCES) - GENERAL FUND**  
**For the Year Ended June 30, 2016**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Budgetary fund balance, July 1</b>	<u>\$ 3,753,135</u>	<u>\$ -</u>	<u>\$ 3,753,135</u>	<u>\$ 3,753,135</u>	<u>\$ -</u>
<b>Resources (inflows):</b>					
Taxes	2,927,500	137,350	3,064,850	3,359,478	294,628
Licenses and permits	18,700	7,145	25,845	27,576	1,731
Intergovernmental	66,350	9,050	75,400	72,777	(2,623)
Fines, forfeitures, penalties	44,000	(18,000)	26,000	30,852	4,852
Charges for services	10,000	(7,400)	2,600	2,608	8
Interest income	5,000	3,800	8,800	12,496	3,696
Miscellaneous	41,900	12,535	54,435	41,487	(12,948)
Total resources (inflows)	<u>3,113,450</u>	<u>144,480</u>	<u>3,257,930</u>	<u>3,547,274</u>	<u>289,344</u>
<b>Amounts available for appropriation</b>	<u>6,866,585</u>	<u>144,480</u>	<u>7,011,065</u>	<u>7,300,409</u>	<u>289,344</u>
<b>Charges to appropriations (outflows):</b>					
General government	628,610	(2,711)	625,899	596,963	28,936
Public safety	1,642,225	(43,875)	1,598,350	1,519,546	78,804
Public works	550,900	(15,300)	535,600	499,683	35,917
Intergovernmental expense	263,000	(800)	262,200	262,147	53
Planning and inspection	46,150	(4,590)	41,560	39,935	1,625
Waste collection	2,500	(2,200)	300	239	61
Recreation	32,140	(38)	32,102	37,635	(5,533)
Capital projects	215,500	(1,481)	214,019	192,559	21,460
<b>Total charges to appropriations</b>	<u>3,381,025</u>	<u>(70,995)</u>	<u>3,310,030</u>	<u>3,148,707</u>	<u>161,323</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 3,485,560</u>	<u>\$ 215,475</u>	<u>\$ 3,701,035</u>	<u>\$ 4,151,702</u>	<u>\$ 450,667</u>

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

<b>CITY OF ELSMERE, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -</b> <b>BUDGET AND ACTUAL (WITH VARIANCES) - STREET TAX FUND</b> <b>For the Year Ended June 30, 2016</b>
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	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Budgetary fund balance, July 1</b>	<u>\$ 246,840</u>	<u>\$ (68,760)</u>	<u>\$ 178,080</u>	<u>\$ 296,595</u>	<u>\$ 118,515</u>
<b>Resources (inflows):</b>					
Steet tax	480,000	25,000	505,000	492,998	(12,002)
Intergovernmental	-	19,305	19,305	-	(19,305)
Interest	150	95	245	277	32
Total resources (inflows)	<u>480,150</u>	<u>44,400</u>	<u>524,550</u>	<u>493,275</u>	<u>(31,275)</u>
<b>Amounts available for appropriation</b>	<u>726,990</u>	<u>(24,360)</u>	<u>702,630</u>	<u>789,870</u>	<u>87,240</u>
<b>Charges to appropriations (outflows):</b>					
Debt service payments	296,000	(7,000)	289,000	289,000	-
Street repair	64,926	(970)	63,956	105,320	(41,364)
Capital projects	223,324	-	223,324	223,324	-
Total expenses (outflows)	<u>584,250</u>	<u>(7,970)</u>	<u>576,280</u>	<u>617,644</u>	<u>(41,364)</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 142,740</u>	<u>\$ (16,390)</u>	<u>\$ 126,350</u>	<u>\$ 172,226</u>	<u>\$ 45,876</u>

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

<b>CITY OF ELSMERE, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-</b> <b>BUDGET AND ACTUAL (WITH VARIANCES) - MUNICIPAL ROAD FUND</b> <b>For the Year Ended June 30, 2016</b>
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	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Budgetary fund balance, July 1</b>	<u>\$ 163,900</u>	<u>\$ 338,100</u>	<u>\$ 502,000</u>	<u>\$ 474,989</u>	<u>\$ (27,011)</u>
<b>Resources (inflows):</b>					
Intergovernmental	186,600	(240)	186,360	206,901	20,541
Interest	150	150	300	307	7
Total resources (inflows)	<u>186,750</u>	<u>(90)</u>	<u>186,660</u>	<u>207,208</u>	<u>20,548</u>
<b>Amounts available for appropriation</b>	<u>350,650</u>	<u>338,010</u>	<u>688,660</u>	<u>682,197</u>	<u>(6,463)</u>
<b>Charges to appropriations (outflows):</b>					
Street repair	85,000	50,000	135,000	182,279	(47,279)
Capital street projects	<u>186,235</u>	<u>253,065</u>	<u>439,300</u>	<u>384,196</u>	<u>55,104</u>
	<u>271,235</u>	<u>303,065</u>	<u>574,300</u>	<u>566,475</u>	<u>7,825</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 79,415</u>	<u>\$ 34,945</u>	<u>\$ 114,360</u>	<u>\$ 115,722</u>	<u>\$ 1,362</u>

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

**CITY OF ELSMERE, KENTUCKY****MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - NON-HAZARDOUS****Last Ten Fiscal Years**

**Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.017508%	0.016995%								
Proportionate share of the net pension liability (asset)	\$ 752,754	\$ 551,393								
Covered employee payroll in year of measurement	\$ 357,159	\$ 350,524								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	210.76%	157.31%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								

**Schedule of the City's Pension Fund Contributions  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 43,292	\$ 45,538	\$ 48,162							
Actual contribution	\$ (43,292)	\$ (45,538)	\$ (48,162)							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered employee payroll	\$ 348,564	\$ 357,159	\$ 350,524							
Contributions as a percentage of covered employee payroll	12.42%	12.75%	13.74%							

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2016  
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.



<b>CITY OF ELSMERE, KENTUCKY</b> <b>MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - HAZARDOUS</b> <b>Last Ten Fiscal Years</b>
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**Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.163150%	0.132432%								
Proportionate share of the net pension liability (asset)	\$ 1,960,770	\$ 1,591,600								
Covered employee payroll in year of measurement	\$ 769,303	\$ 749,420								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	254.88%	212.38%								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

**Schedule of the City's Pension Fund Contributions  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 154,674	\$ 159,477	\$ 163,149							
Actual contribution	\$ (154,674)	\$ (159,477)	\$ (163,149)							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	\$ 763,445	\$ 769,303	\$ 749,420							
Contributions as a percentage of covered employee payroll	-20.26%	-20.73%	-21.77%							

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2016  
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

**CITY OF ELSMERE, KENTUCKY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<b>Citywide Rehabilitation Fund</b>	<b>Turkeyfoot Acres Fund</b>	<b>FSA/HRA Fund</b>	<b>Total Non-Major Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 125,120	\$ 55,513	\$ 8,806	\$ 189,439
Accounts receivable				
Note receivable	22,004	-	-	22,004
<b>Total Assets</b>	<u>\$ 147,124</u>	<u>\$ 55,513</u>	<u>\$ 8,806</u>	<u>\$ 211,443</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Deferred revenue	\$ 22,004	\$ -	\$ -	\$ 22,004
Accounts payable	-	-	71	71
<b>Total Liabilities</b>	<u>22,004</u>	<u>-</u>	<u>71</u>	<u>22,075</u>
<b>Fund Balances</b>				
Committed	125,120	55,513	8,735	189,368
<b>Total Fund Balances</b>	<u>125,120</u>	<u>55,513</u>	<u>8,735</u>	<u>189,368</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 147,124</u>	<u>\$ 55,513</u>	<u>\$ 8,806</u>	<u>\$ 211,443</u>

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

<b>CITY OF ELSMERE, KENTUCKY</b> <b>COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND</b> <b>BALANCE - NON-MAJOR GOVERNMENTAL FUNDS</b> <b>Last Ten Fiscal Years</b>
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	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
<b>Revenues</b>				
Loan repayments	\$ 4,133	\$ -	\$ -	\$ 4,133
FSA/HRA contributions	-	-	10,339	10,339
Interest	331	139	12	482
<b>Total Revenues</b>	<u>4,464</u>	<u>139</u>	<u>10,351</u>	<u>14,954</u>
<b>Expenditures</b>				
FSA/HRA reimbursements	-	-	8,979	8,979
City wide loan program	17,831	-	-	17,831
<b>Total Expenditures</b>	<u>17,831</u>	<u>-</u>	<u>8,979</u>	<u>26,810</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	(13,367)	139	1,372	(11,856)
<b>Fund Balance, beginning</b>	138,487	55,374	7,363	201,224
<b>Fund Balance, ending</b>	<u>\$ 125,120</u>	<u>\$ 55,513</u>	<u>\$ 8,735</u>	<u>\$ 189,368</u>

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



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

Charles A. Van Gorder, CPA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

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

**To the Honorable Mayor and  
Members of Council  
City of Elsmere, Kentucky**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the City of Elsmere, Kentucky, as of June 30, 2016 and the related notes to the financial statements which collectively comprise the City of Elsmere, Kentucky's financial statements, and have issued our report thereon dated December 12, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Elsmere, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
December 12, 2016