

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2017

CITY OF ELSMERE, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

CONTENTS

	<u>Page</u>
City Officials.....	1
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-8
Basic Financial Statements	
Government Wide Statements	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	14
Notes to Financial Statements.....	15-28
Required Supplemental Information	
Budgetary Comparison Schedules - Budget to Actual:	
General Fund.....	29
Street Tax Fund.....	30
Municipal Road Fund.....	31
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosures.....	32-33
Supplementary Information	
Combining Balance Sheet - Non-Major Governmental Funds.....	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Governmental Funds.....	35
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 <i>Government Auditing Standards</i>	36-37

CITY OF ELSMERE, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2017

Mayor

Marty Lenhof

Commissioners

Nancy Bowman

Joanne Barnett-Smith

Bill Bradford

Aaron Moore

Gloria Grubbs

Alexis Tanner

City Administrator

Matt Dowling

Legal Counsel

Greg D. Voss



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, 2017, 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, 2017 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



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

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8, the budgetary comparison schedule on pages 29-31, and the pension disclosure information on pages 32-33 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 34-35 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, 2017 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, 2017

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017. 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:

Funds	FYE 2016 Amount	FYE 2017 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 16
General	\$ 4,151,702	\$ 4,777,236	15.07%	\$ 625,534
Street Tax	172,226	189,476	10.02%	17,250
Municipal Aid	115,722	130,350	12.64%	14,628
Other Funds	189,368	186,160	-1.69%	(3,208)
Total Fund Balance	<u>\$ 4,629,018</u>	<u>\$ 5,283,222</u>	14.13%	<u>\$ 654,204</u>

The General Fund experienced an excess of revenues over expenditures, and Street Tax and Municipal Aid Funds paid for road projects during the year with current year revenues. Overall there was an increase in fund balances of \$654,204. The revenues of the General Fund were significantly more than in the previous year primarily due to an increase in insurance premium 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, 2017 (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. FSA/HSA 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, 2017 and 2016, net position for all governmental activities changed as follows:

	Governmental Activities	
	2017	2016
Beginning Net Position	\$ 11,407,213	\$ 10,973,260
Increase in Net Position	949,284	555,996
Prior Period Adjustment - Pensions	13,178	(122,043)
Ending Net Position	\$ 12,369,675	\$ 11,407,213

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (Continued)**

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	2017	2016
Current Assets	\$ 5,403,905	\$ 4,770,727
Capital Assets, Net	10,291,841	10,090,977
Total Assets	15,695,746	14,861,704
Deferred Outflow of Resources	751,419	524,438
Total Assets and Deferred Outflows	16,447,165	15,386,142
Current Liabilities	351,743	396,042
Noncurrent Liabilities	3,725,747	3,533,524
Total Liabilities	4,077,490	3,929,566
Deferred Inflow of Resources	-	49,363
Total Liabilities and Deferred Inflows	4,077,490	3,978,929
Net Position	\$ 12,369,675	\$ 11,407,213

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, 2017, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2017 Amount	FYE 2016 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 16
Property tax	\$ 1,324,441	\$ 1,297,690	2.1%	\$ 26,751
Payroll tax	1,651,096	1,600,893	3.1%	50,203
Insurance premium tax	1,012,292	844,489	19.9%	167,803
Other taxes	105,508	109,404	-3.6%	(3,896)
Licenses and permits	6,391	27,576	-76.8%	(21,185)
Fines and forfeitures	29,338	30,852	-4.9%	(1,514)
Charges for services	1,373	2,608	-47.4%	(1,235)
Intergovernmental and grants	267,334	290,017	-7.8%	(22,683)
Rehabilitation loan payments	8,065	4,133	95.1%	3,932
Interest income	21,681	13,562	59.9%	8,119
Miscellaneous	104,852	41,487	152.7%	63,365
 Total Revenues	 \$ 4,532,371	 \$ 4,262,711	 6.3%	 \$ 269,660

Revenues overall show a 6.3% increase of \$269,660. Insurance premium tax revenue and miscellaneous revenue (sale of assets, new license fee charged to landlords) account for the increase.

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (Continued)**

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

Expenditures	FYE 2017 Amount	FYE 2016 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 16
General government	\$ 606,830	\$ 605,942	0.15%	\$ 888
Public safety	1,460,147	1,519,547	-3.91%	\$ (59,400)
Public works	655,729	805,111	-18.55%	\$ (149,382)
Planning and inspection	20,019	39,935	-49.87%	\$ (19,916)
Intergovernmental expenses	267,390	262,147	2.00%	\$ 5,243
Waste collection	65	239	-72.80%	\$ (174)
Recreation	24,429	37,635	-35.09%	\$ (13,206)
Capital outlay	563,986	800,079	-29.51%	\$ (236,093)
Debt service	292,750	289,000	1.30%	3,750
Total Expenditures	\$ 3,891,345	\$ 4,359,635	-10.74%	\$ (468,290)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2016	2017
Land	\$ 1,182,538	\$ 1,241,365
Construction in Progress	96,967	100,561
Buildings	1,337,302	1,337,302
Infrastructure	9,887,373	10,192,838
Vehicles	949,510	1,024,788
Equipment	626,579	673,725
Furniture and fixtures	32,095	32,095
Totals	\$ 14,112,364	\$ 14,602,674

This year's net increase of \$490,310 in capital assets included:

Streets and sidewalks projects	\$ 406,026
Released from CIP	(96,967)
Public works loader	120,822
Land improvements-Strategic Initiative	58,827
Police vehicles	75,278
Disposal of assets	(73,676)
	\$ 490,310

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (Continued)**

Debt

The City has \$815,000 in outstanding debt at June 30, 2017, compared to a \$1,075,000 debt at June 30, 2016, a 24.2% decrease from 2016 as detailed below:

	Governmental Activities	
	2017	2016
Road construction capital lease	\$ 815,000	\$ 1,075,000
Totals	\$ 815,000	\$ 1,075,000

GENERAL BUDGETARY HIGHLIGHTS

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

For actual resources, across all major funds, revenues exceeded budgeted amounts by \$526,749 due insurance premium tax revenues generated above the amount budgeted. Actual expenditures were under budget by \$863,985 due to tight management to budget in all departments of the General Fund. The City's major funds ended the year with actual revenues exceeding actual expenditures by \$644,234.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2018 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 2016 rate, which is set at 0.223 per hundred for the fiscal year ended June 30, 2017.

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, Matt Dowling, at (859) 342-7911 or at the city building at 318 Garvey Avenue, Elsmere, KY 41018.

CITY OF ELSMERE, KENTUCKY STATEMENT OF NET POSITION June 30, 2017
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Assets	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 4,447,060
Investments	121,232
Receivables	
Taxes	734,237
Waste collection	42,987
Other	32,657
Notes receivable	25,732
Total Current Assets	<u>5,403,905</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	1,341,925
Infrastructure	10,192,839
Buildings	1,337,302
Equipment	673,725
Vehicles	1,024,788
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(4,310,833)</u>
Net Capital Assets	<u>10,291,841</u>
Total Assets	<u>15,695,746</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	751,419
Total Assets and Deferred Outflows of Resources	<u>16,447,165</u>
Liabilities	
Current Liabilities	
Accounts payable	38,749
Accrued liabilities	3,523
Compensated absences	44,471
Current portion of leases payable	265,000
Total Current Liabilities	<u>351,743</u>
Noncurrent Liabilities	
Leases payable	550,000
Net pension liability	3,175,747
Total Noncurrent Liabilities	<u>3,725,747</u>
Total Liabilities	<u>4,077,490</u>
Deferred Inflow of Resources	
Deferred inflow of resources related to pensions	-
Total Liabilities and Deferred Inflow of Resources	<u>4,077,490</u>
Net Position	
Net investment in capital assets	9,476,841
Restricted for:	
Road projects	319,826
Unrestricted	2,573,008
Total Net Position	<u>\$ 12,369,675</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, 2017

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	\$ 647,547	\$ 26,334	\$ -	\$ -	\$ (621,213)
Public safety	1,617,959	22,319	64,721	-	(1,530,919)
Public works and street	990,507	1,639	177,672	-	(811,196)
Intergovernmental expenses	267,390	-	-	-	(267,390)
Planning and inspection	20,019	-	-	-	(20,019)
Waste collection	65	1,373	-	-	1,308
Recreation	26,482	-	-	-	(26,482)
Interest on long-term debt	32,750	-	-	-	(32,750)
Total Governmental Activities	\$ 3,602,719	\$ 51,665	\$ 242,393	\$ -	(3,308,661)

General Revenues: Taxes

Property taxes	1,326,787
Payroll tax	1,651,096
Insurance premium taxes	1,012,292
Other taxes	105,508
Licenses and permits	6,391
Fines and forfeitures	29,338
Interest income	21,681
Miscellaneous	104,852
Total general revenues	4,257,945
Change in net position	949,284
Net position, beginning	11,407,213
Prior period adjustment	13,178
Net position, ending	\$ 12,369,675

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

CITY OF ELSMERE, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2017

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>Municipal Road Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 4,037,849	\$ 67,701	\$ 155,350	\$ 186,160	\$ 4,447,060
Investments	-	121,232	-	-	121,232
Receivables					
Taxes	700,618	33,619	-	-	734,237
Waste collection	42,987	-	-	-	42,987
Intergovernmental	-	-	-	-	-
Other	32,657	-	-	-	32,657
Notes receivable	-	-	-	25,732	25,732
Due from other funds	-	543	-	-	543
Total Assets	<u>\$ 4,814,111</u>	<u>\$ 223,095</u>	<u>\$ 155,350</u>	<u>\$ 211,892</u>	<u>\$ 5,404,448</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 13,749	\$ -	\$ 25,000	\$ -	\$ 38,749
Accrued liabilities	3,523	-	-	-	3,523
Deferred revenue	19,060	33,619	-	25,732	78,411
Due to other funds	543	-	-	-	543
Total Liabilities	<u>36,875</u>	<u>33,619</u>	<u>25,000</u>	<u>25,732</u>	<u>121,226</u>
Fund Balances					
Restricted	-	189,476	130,350	-	319,826
Committed	-	-	-	186,160	186,160
Assigned	1,097,374	-	-	-	1,097,374
Unassigned	3,679,862	-	-	-	3,679,862
Total Fund Balances	<u>4,777,236</u>	<u>189,476</u>	<u>130,350</u>	<u>186,160</u>	<u>5,283,222</u>
Total Liabilities and Fund Balances	<u>\$ 4,814,111</u>	<u>\$ 223,095</u>	<u>\$ 155,350</u>	<u>\$ 211,892</u>	<u>\$ 5,404,448</u>

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

<p>CITY OF ELSMERE, KENTUCKY RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2017</p>

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

Total fund balance per balance sheet	\$ 5,283,222
Capital assets of \$14,602,674, less accumulated depreciation of (\$4,310,833), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,291,841
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	751,419
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the balance in deferred items.	78,411
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	(815,000)
Net pension liability	(3,175,747)
Compensated absences	<u>(44,471)</u>
Net position of governmental activities	<u>\$ 12,369,675</u>

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

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 806,525	\$ 517,916	\$ -	\$ -	\$ 1,324,441
Payroll tax	1,651,096	-	-	-	1,651,096
Insurance premium tax	1,012,292	-	-	-	1,012,292
Other taxes	105,508	-	-	-	105,508
Licenses and permits	6,391	-	-	-	6,391
Fines, forfeitures, penalties	29,338	-	-	-	29,338
Charges for services	1,373	-	-	-	1,373
Intergovernmental	90,974	-	169,805	6,555	267,334
Rehabilitation loan payments	-	-	-	8,065	8,065
Interest income	19,919	583	677	502	21,681
Miscellaneous	104,852	-	-	-	104,852
Total Revenues	3,828,268	518,499	170,482	15,122	4,532,371
Expenditures					
Current Expenditures					
General government	597,520	-	-	7,754	605,274
Public safety	1,460,147	-	-	-	1,460,147
Public works and streets	589,860	-	55,293	10,576	655,729
Intergovernmental expenses	267,390	-	-	-	267,390
Planning and inspection	20,019	-	-	-	20,019
Waste collection	65	-	-	-	65
Recreation	24,429	-	-	-	24,429
Miscellaneous	1,556	-	-	-	1,556
Capital outlay	254,926	208,499	100,561	-	563,986
Debt service	-	292,750	-	-	292,750
Total Expenditures	3,215,912	501,249	155,854	18,330	3,891,345
Excess (Deficiency) of Revenues Over (Under) Expenditures	612,356	17,250	14,628	(3,208)	641,026
Fund Balance, beginning	4,151,702	172,226	115,722	189,368	4,629,018
Prior period adjustment	13,178	-	-	-	13,178
Fund Balance, ending	\$ 4,777,236	\$ 189,476	\$ 130,350	\$ 186,160	\$ 5,283,222

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

<p>CITY OF ELSMERE, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2017</p>

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

Net change in fund balance - total governmental funds	\$ 641,026
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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	\$ 563,985	
Depreciation expense	<u>(363,122)</u>	
		200,863

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.	19,632
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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.	13,642
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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:	
Costs of benefits earned	(185,879)

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>260,000</u>
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Change in net position of governmental activities	<u>\$ 949,284</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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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 incurred, as under accrual

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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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, 2017
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Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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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.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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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 \$4,447,060 at June 30, 2017.

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, 2017.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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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, 2017 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, 2017 was as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,182,538	\$ 58,827	\$ -	\$ 1,241,365
Construction in progress	96,966	309,059	(305,464)	100,561
Total Capital Assets Not Being Depreciated	<u>1,279,504</u>	<u>367,886</u>	<u>(305,464)</u>	<u>1,341,926</u>
Depreciable Capital Assets				
Infrastructure	9,887,374	305,464	-	10,192,838
Buildings	1,337,302	-	-	1,337,302
Vehicles	949,510	75,278	-	1,024,788
Equipment	626,579	120,822	(73,676)	673,725
Furniture and fixtures	32,095	-	-	32,095
Total Depreciable Capital Assets	<u>12,832,860</u>	<u>501,564</u>	<u>(73,676)</u>	<u>13,260,748</u>
Total Capital Assets at Historical Cost	<u>14,112,364</u>	<u>869,450</u>	<u>(379,140)</u>	<u>14,602,674</u>
Less Accumulated Depreciation				
Infrastructure	(2,201,684)	(234,314)	-	(2,435,998)
Buildings	(560,954)	(30,717)	-	(591,671)
Vehicles	(655,975)	(77,521)	-	(733,496)
Equipment	(570,679)	(20,570)	73,676	(517,573)
Furniture and fixtures	(32,095)	-	-	(32,095)
Total Accumulated Depreciation	<u>(4,021,387)</u>	<u>(363,122)</u>	<u>73,676</u>	<u>(4,310,833)</u>
Depreciable Capital Assets, Net	<u>8,811,473</u>	<u>138,442</u>	<u>-</u>	<u>8,949,915</u>
Total Capital Assets, Net	<u>\$ 10,090,977</u>	<u>\$ 506,328</u>	<u>\$ (305,464)</u>	<u>\$ 10,291,841</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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Depreciation was charged to functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General government	\$ 14,705
Public safety	55,589
Public works	56,461
Public Works-Infrastructure	234,314
Recreation	2,053
Total Depreciation	<u>\$ 363,122</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, 2017, \$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, 2017 is \$815,000.

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:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements/ Repayments</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>Within 1 Year</u>
Road construction lease	\$ 1,075,000	\$ -	\$ (260,000)	\$ 815,000	\$ 265,000
Total	<u>\$ 1,075,000</u>	<u>\$ -</u>	<u>\$ (260,000)</u>	<u>\$ 815,000</u>	<u>\$ 265,000</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:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Net</u> <u>Additions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>Within 1 Year</u>
Compensated absences	<u>\$ 58,113</u>	<u>\$ (13,642)</u>	<u>\$ 44,471</u>	<u>\$ 44,471</u>

NOTE H – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System (Plan)

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

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth

<p>CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017</p>

of Kentucky. Under the provisions of the Kentucky Revised Statute 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 years of service. For retirement purposes, non-hazardous and hazardous duty employees are grouped into three tiers, based on hire date:

Non-Hazardous duty employees:

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 for a non-hazardous duty employee 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 for a non-hazardous duty employee are based on factors of both of these components. Participating non-hazardous duty 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 non-hazardous duty 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 non-hazardous employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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Hazardous duty employees:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced Retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced Retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation Date	On or after January 1, 2014
	Unreduced Retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement for a hazardous duty employee is based on a factor of the number of years of service and hire date multiplied by the average of the highest three years' earnings. Reduced benefits are based on factors of both of these components. Participating hazardous duty 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. For hazardous duty members whose participation began before 1/1/2014 and have suffered a non-duty related death, death benefits are provided for any age in active employment with five years of service, or any age and not in active employment with at least 12 years of service. For hazardous duty members whose participation began on or after 1/1/2014, five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. Death benefits after retirement are \$5,000 in lump sum. 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 (waived if in the line of duty) of service is required for nonservice-related disability benefits.

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

	Required Contribution
Tier 1	8%
Tier 2	8% + 1% for insurance
Tier 3	8% + 1% for insurance

Contributions

For non-hazardous duty employees, the City contributed 18.68%, of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2017. For hazardous duty employees, the City contributed 31.06%, of which 21.71% was for the pension fund and 9.35% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2017.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$73,766 of which \$55,088 was for the pension fund and \$18,679 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, 2017 in the amount of \$238,673, of which \$166,825 was for the pension fund and \$71,848 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, 2017, the City reported a liability of \$3,175,747 (\$904,036– non-hazardous and \$2,271,711 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's non-hazardous employer allocation proportion was 0.01836% of the total CERS non-hazardous duty employees and 0.13239% of the total CERS hazardous duty employees. For the year ended June 30, 2017, the City recognized pension expense of \$185,879.

In FY 2017, \$751,419 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) changes in proportion e) contributions subsequent to the measurement date. \$0 was recognized as a net deferred inflow of resources resulting from changes in proportion deferred inflows of resources.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 3,947	\$ -	\$ 32,764	\$ -	\$ 36,711	\$ -
Net difference between projected and actual earnings on plan investments	84,989	-	191,639	-	276,628	-
Change of assumptions	47,891	-	130,360	-	178,251	-
Changes in proportion and differences between contributions and proportionate share of contributions	30,820	-	7,097	-	37,917	-
Contributions subsequent to the measurement date	55,087	-	166,825	-	221,912	-
Total	\$ 222,734	\$ -	\$ 528,685	\$ -	\$ 751,419	\$ -

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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The City's contributions subsequent to the measurement date of \$221,912 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	Net
June 30,	Deferral
2018	\$ 155,067
2019	138,245
2020	169,683
2021	66,512
	<u>\$ 529,507</u>

Actuarial Methods and Assumptions

The total pension liability for KRS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5% for all but 6.75% for KERS (Non-Hazardous), net of pension plan investment 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 (set back one 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. 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 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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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in future years.

Changes of Assumptions

The demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows for the 2015 measurement date year:

- The assumed investment rate of return 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:

<u>Asset Class</u>	<u>CERS Hazardous & Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
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	<u>100%</u>	

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.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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Sensitivity of the City’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 percent, 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 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability		
		Non-Hazardous	Hazardous	Total
1% decrease	6.5%	\$ 1,126,576	\$ 2,853,932	\$ 3,980,508
Current discount rate	7.5%	904,036	2,271,711	3,175,747
1% increase	8.5%	713,276	1,791,480	2,504,756

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 2017.

NOTE K – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

Statement No. 77 – *Tax Abatement Disclosures*

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

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2017
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Statement No. 80 – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

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

NOTE L – FUTURE ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – Implementation in FY 2018*

Statement No. 81 – *Irrevocable Split-Interest Agreements – Implementation in FY 2018*

Statement No. 83 – *Certain Asset Retirement Obligations – Implementation in FY 2019*

Statement No. 84 – *Fiduciary Activities – Implementation in FY 2020*

Statement No. 85 – *Omnibus 2017 – Implementation in FY 2018*

Statement No. 86 – *Certain Debt Extinguishment Issues – Implementation in FY 2018*

Statement No. 87 – *Leases – Implementation in FY 2021*

NOTE M – PRIOR PERIOD ADJUSTMENTS

The City has recorded a prior period adjustment to the beginning net position of \$13,178. This adjustment accounts for payroll liabilities that should have been expensed in prior years, but instead, were removed from the balance sheet in the current year.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated events through December 12, 2017 the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2017 through December 12, 2017 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, 2017

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 4,151,702	\$ 1,151,702
Resources (inflows):					
Taxes	3,105,800	-	3,105,800	3,575,421	469,621
Licenses and permits	18,200	-	18,200	6,391	(11,809)
Intergovernmental	77,700	-	77,700	90,974	13,274
Fines, forfeitures, penalties	41,000	-	41,000	29,338	(11,662)
Charges for services	5,000	-	5,000	1,373	(3,627)
Interest income	5,000	-	5,000	19,919	14,919
Miscellaneous	49,500	25,000	74,500	104,852	30,352
Total resources (inflows)	<u>3,302,200</u>	<u>25,000</u>	<u>3,327,200</u>	<u>3,828,268</u>	<u>501,068</u>
Amounts available for appropriation	<u>6,302,200</u>	<u>25,000</u>	<u>6,327,200</u>	<u>7,979,970</u>	<u>1,652,770</u>
Charges to appropriations (outflows):					
General government	648,160	-	648,160	597,520	50,640
Public safety	1,649,900	-	1,649,900	1,460,147	189,753
Public works	604,900	-	604,900	589,860	15,040
Intergovernmental expense	268,000	-	268,000	267,390	610
Planning and inspection	46,150	-	46,150	20,019	26,131
Waste collection	2,500	-	2,500	65	2,435
Recreation	32,140	-	32,140	24,429	7,711
Capital projects	279,450	122,000	401,450	254,926	146,524
Miscellaneous	-	400,000	400,000	1,556	398,444
Total charges to appropriations	<u>3,531,200</u>	<u>522,000</u>	<u>4,053,200</u>	<u>3,215,912</u>	<u>837,288</u>
Budgetary fund balance, June 30	<u>\$ 2,771,000</u>	<u>\$ (497,000)</u>	<u>\$ 2,274,000</u>	<u>\$ 4,764,058</u>	<u>\$ 2,490,058</u>

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

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (WITH VARIANCES) - STREET TAX FUND
For the Year Ended June 30, 2017

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 126,000</u>	<u>\$ -</u>	<u>\$ 126,000</u>	<u>\$ 172,226</u>	<u>\$ 46,226</u>
Resources (inflows):					
Steet tax	500,000	-	500,000	517,916	17,916
Intergovernmental	-	-	-	-	-
Interest	150	-	150	583	433
Total resources (inflows)	<u>500,150</u>	<u>-</u>	<u>500,150</u>	<u>518,499</u>	<u>18,349</u>
Amounts available for appropriation	<u>626,150</u>	<u>-</u>	<u>626,150</u>	<u>690,725</u>	<u>64,575</u>
Charges to appropriations (outflows):					
Debt service payments	295,000	-	295,000	292,750	2,250
Street repair	-	-	-	-	-
Capital projects	245,000	400	245,400	208,499	36,901
Total expenses (outflows)	<u>540,000</u>	<u>400</u>	<u>540,400</u>	<u>501,249</u>	<u>39,151</u>
Budgetary fund balance, June 30	<u>\$ 86,150</u>	<u>\$ (400)</u>	<u>\$ 85,750</u>	<u>\$ 189,476</u>	<u>\$ 103,726</u>

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

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL (WITH VARIANCES) - MUNICIPAL ROAD FUND
For the Year Ended June 30, 2017

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 114,000</u>	<u>\$ -</u>	<u>\$ 114,000</u>	<u>\$ 115,722</u>	<u>\$ 1,722</u>
Resources (inflows):					
Intergovernmental	163,000	-	163,000	169,805	6,805
Interest	<u>150</u>	<u>-</u>	<u>150</u>	<u>677</u>	<u>527</u>
Total resources (inflows)	<u>163,150</u>	<u>-</u>	<u>163,150</u>	<u>170,482</u>	<u>7,332</u>
Amounts available for appropriation	<u>277,150</u>	<u>-</u>	<u>277,150</u>	<u>286,204</u>	<u>9,054</u>
Charges to appropriations (outflows):					
Street repair	125,000	-	125,000	55,293	69,707
Capital street projects	<u>118,000</u>	<u>400</u>	<u>118,400</u>	<u>100,561</u>	<u>17,839</u>
	<u>243,000</u>	<u>400</u>	<u>243,400</u>	<u>155,854</u>	<u>87,546</u>
Budgetary fund balance, June 30	<u>\$ 34,150</u>	<u>\$ (400)</u>	<u>\$ 33,750</u>	<u>\$ 130,350</u>	<u>\$ 96,600</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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.018360%	0.017508%	0.016995%							
Proportionate share of the net pension liability (asset)	\$ 905,036	\$ 752,754	\$ 551,393							
Covered employee payroll in year of measurement	\$ 357,159	\$ 350,524	\$ 327,058							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	253.40%	214.75%	168.59%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 73,766	\$ 44,359	\$ 44,692	\$ 44,939						
Actual contribution	\$ (73,766)	\$ (44,359)	\$ (44,692)	\$ (44,939)						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered employee payroll	\$ 394,771	\$ 357,159	\$ 350,524	\$ 327,058						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

Notes to Required Supplementary Information
For the Year Ended June 30, 2017
Changes of Assumptions

The net pension liability as of June 30, 2017, is based on the June 30, 2016, 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
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - HAZARDOUS
Last Ten Fiscal Years

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.132390%	0.127730%	0.132432%							
Proportionate share of the net pension liability (asset)	\$ 2,271,711	\$ 1,960,770	\$ 1,591,600							
Covered employee payroll in year of measurement	\$ 763,445	\$ 769,303	\$ 749,420							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	297.56%	254.88%	212.38%							
Plan fiduciary net position as a percentage of total pension liability	53.95%	57.52%	63.46%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 238,673	\$ 154,674	\$ 176,555	\$ 163,149						
Actual contribution	\$ (238,673)	\$ (154,674)	\$ (176,555)	\$ (163,149)						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	\$ 825,225	\$ 763,445	\$ 769,303	\$ 749,420						
Contributions as a percentage of covered employee payroll	21.71%	20.26%	22.95%	21.77%						

Notes to Required Supplementary Information
For the Year Ended June 30, 2017
Changes of Assumptions

The net pension liability as of June 30, 2017, is based on the June 30, 2016, 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, 2017

	<u>Citywide Rehabilitation Fund</u>	<u>Turkeyfoot Acres Fund</u>	<u>FSA/HRA Fund</u>	<u>Total Non-Major Funds</u>
Assets				
Cash and cash equivalents	\$ 122,914	\$ 55,675	\$ 7,571	\$ 186,160
Accounts receivable	-	-	-	-
Note receivable	25,732	-	-	25,732
Total Assets	<u>\$ 148,646</u>	<u>\$ 55,675</u>	<u>\$ 7,571</u>	<u>\$ 211,892</u>
Liabilities and Fund Balances				
Liabilities				
Deferred revenue	\$ 25,732	\$ -	\$ -	\$ 25,732
Total Liabilities	<u>25,732</u>	<u>-</u>	<u>-</u>	<u>25,732</u>
Fund Balances				
Committed	122,914	55,675	7,571	186,160
Total Fund Balances	<u>122,914</u>	<u>55,675</u>	<u>7,571</u>	<u>186,160</u>
Total Liabilities and Fund Balances	<u>\$ 148,646</u>	<u>\$ 55,675</u>	<u>\$ 7,571</u>	<u>\$ 211,892</u>

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

CITY OF ELSMERE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
Revenues				
Loan repayments	\$ 8,065	\$ -	\$ -	\$ 8,065
FSA/HRA contributions	-	-	6,555	6,555
Interest	305	162	35	502
Total Revenues	<u>8,370</u>	<u>162</u>	<u>6,590</u>	<u>15,122</u>
Expenditures				
FSA/HRA reimbursements	-	-	7,754	7,754
City wide loan program	10,576	-	-	10,576
Total Expenditures	<u>10,576</u>	<u>-</u>	<u>7,754</u>	<u>18,330</u>
Excess (Deficit) of Revenues Over Expenditures	(2,206)	162	(1,164)	(3,208)
Fund Balance, beginning	125,120	55,513	8,735	189,368
Fund Balance, ending	<u>\$ 122,914</u>	<u>\$ 55,675</u>	<u>\$ 7,571</u>	<u>\$ 186,160</u>

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

**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, 2017 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, 2017.

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, 2017