

CITY OF ELSMERE, KENTUCKY

June 30, 2018

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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**CITY OF ELSMERE, KENTUCKY
CITY OFFICIALS**

MAYOR

Marty Lenhof

COUNCIL MEMBERS

Nancy Bowman

Joanne Barnett-Smith

Bill Bradford

Aaron Moore

Gloria Grubbs

Alexis Tanner

CITY ADMINISTRATOR

Matt Dowling

LEGAL COUNSEL

Greg D. Voss

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
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 (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Managements' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2018, 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.

Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2017 have been restated for the correction of material misstatements as well as the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to those matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability, the schedule of the City's pension contributions, schedule of the City's proportionate share of the net OPEB liability, and the schedule of the City's OPEB contributions on pages 1 through 7 and 36 through 44, respectively, 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 managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elsmere, Kentucky's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 5, 2019, 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 the effectiveness of the City of Elsmere, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elsmere, Kentucky's internal control over financial reporting and compliance.

VonLehman & Company Inc.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED**

Our discussion and analysis of the City of Elsmere, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the City's basic financial statements that begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities on pages 8 and 9, respectively, provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 10. For government 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 most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2018 are as follows:

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11,843,335 (net position).
- The City's total net position increased by \$575,702.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$6,166,958, and increase of \$1,064,527. \$5,463,060 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,463,060 which exceeds total General Fund expenditures by 73%.
- The City's total debt decreased by \$245,130 (28.5%), including compensated absences but excluding net pension liability and net other postemployment benefit liability, during the current year.
- The City's cash and cash equivalents increased by \$1,091,197, from \$4,439,489 at June 30, 2017 to \$5,530,686 at June 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety, public works and streets, general services, planning and inspection, waste collection, and recreation. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds with exception of the FSA/HRA Fund, which is a fiduciary fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Tax Fund, Municipal Road Aid Fund, Citywide Rehabilitation Fund and Turkeyfoot Acres Fund. Fiduciary activities of the City are not included in these statements. The City adopts an annual budget for each of its funds. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for government-wide financial statements.

The basic fiduciary fund financial statements can be found on pages 14 and 15 of this report.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 35 of this report.

Government-Wide Financial Analysis

The perspective of the statement of net position is of the City as a whole. Table 1 provides a summary of the City's net position for 2018 compared to 2017 (2017 does not reflect the prior period adjustments).

**Table 1
Net Position**

	Governmental Activities	
	2018	2017
Assets		
Current Assets	\$ 6,491,056	\$ 5,403,905
Noncurrent Assets, Net	9,920,292	10,291,841
Total Assets	16,411,348	15,695,746
Deferred Outflows of Resources	2,003,182	751,419
Liabilities		
Current Liabilities	358,405	351,743
Noncurrent Liabilities	5,803,763	3,725,747
Total Liabilities	6,162,168	4,077,490
Deferred Inflows of Resources	409,027	-
Net Position		
Net Investment in Capital Assets	9,360,665	9,476,841
Restricted for		
Street Tax Fund Balance	300,082	189,476
Municipal Road Fund Balance	215,981	130,350
Turkeyfoot Acres Fund Balance	55,997	-
Unrestricted	1,910,610	2,573,008
Total Net Position	\$ 11,843,335	\$ 12,369,675

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by approximately \$11.8 million as of June 30, 2018.

A large portion of the City's net position (approximately \$9.4 million) reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

An additional portion of the City's net position (approximately \$572,000) represents resources that are subject to restrictions on how they may be used. Restricted assets are composed of funds held for the Street Tax Fund, Municipal Road Aid Fund, and Turkeyfoot Acres Fund.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following points explain the major changes impacting net position as shown on the previous page:

1. Cash and cash equivalents increased \$1,083,626 from the previous year primarily due to revenues that exceeded disbursements.
2. Accounts receivables increased \$142,586 from the previous year due to accretion in the insurance and payroll taxes. Additionally, the City assessed lien fees on outstanding balances, which were recorded as receivables.
3. Net capital assets decreased \$381,176. The City completed the Eastern Avenue Storm Water Project for approximately \$203,000, of which about \$101,000 was construction in progress for the year ended June 30, 2017. Additionally, the City purchased two new cruisers for approximately \$78,000. Other fixed asset additions were approximately \$44,000. Total depreciation expense in the current year was approximately \$374,000.
4. Deferred outflows of resources increased by \$1,251,763 largely due to recognizing ending deferred outflows of resources related to other postemployment benefits of \$560,127. Additionally, deferred outflows of resources related to pension saw an increase of \$691,636 largely due to changes in assumptions.
5. Noncurrent liabilities increased \$2,078,016 from the previous year primarily due to an increase in the net pension liability coupled with an increase in the OPEB liability due to the implementation of GASB Statement No. 75.
6. Deferred inflows of resources increased \$409,027 primarily due to an increase in deferred inflows of resources related to pension of \$319,061. This increase was largely due to the difference between projected and actual earnings on plan investments. Additionally, deferred inflows related to OPEB increase \$89,966 due to the implementation of GASB Statement No. 75.
7. Net investment in capital assets decreased \$116,176 due to the capital assets activity noted above and normal bond payments.
8. Restricted net assets increased \$252,234 – due to fewer road projects in the current year along with collected taxes.
9. The City has \$1,910,610 of unrestricted net position as of June 30, 2018.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Table 2 reflects the change in net position for fiscal years 2018 and 2017 (2017 does not reflect the prior period adjustments).

**Table 2
Change in Net Position**

	Governmental Activities	
	Years Ended June 30,	
	2018	2017
Revenues		
General Revenues		
Property Taxes	\$ 1,365,439	\$ 1,326,787
Payroll Taxes	1,737,189	1,651,096
Insurance Premium Taxes	1,080,069	1,012,292
Other Taxes	111,114	105,508
Licenses and Permits	42,135	6,391
Fines, Forfeitures, and Penalties	39,415	29,338
Rehabilitation Loan Interest Payments	404	-
Earnings on Deposits	62,032	21,681
Other Revenue	60,587	104,852
Total General Revenues	<u>4,498,384</u>	<u>4,257,945</u>
Program Revenues		
Charges for Service	-	51,665
Operating Grants and Contributions	298,463	242,393
Capital Grants and Contributions	-	-
Total Program Revenues	<u>298,463</u>	<u>294,058</u>
Total Revenues	<u>4,796,847</u>	<u>4,552,003</u>
Program Expenses		
General Government	622,270	632,842
Public Safety	1,279,542	1,562,370
Public Works and Street	721,635	699,732
Intergovernmental Expenses	220,632	267,390
Planning and Inspection	51,626	20,019
Waste Collection	2,028	65
Recreation	27,392	24,429
Miscellaneous	4,808	-
Interest Expense	25,600	32,750
Pension Expense	675,819	-
Other Postemployment Benefits Expense	215,699	-
Depreciation	374,094	363,122
Total Program Expenses	<u>4,221,145</u>	<u>3,602,719</u>
Change in Net Position	<u>\$ 575,702</u>	<u>\$ 949,284</u>

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities increased the City's net position by \$575,702. Key elements of this increase are as follows:

- Tax revenues increased \$198,128 due to accretion within the City and business expansion.
- Operating grants and contributions increased \$56,070 largely due to the City receiving a 50/50 traffic grant with Sanitation District No.1 for \$51,272.
- The City recognized pension expenses of \$675,819 and other postemployment benefit expense of \$215,699.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,166,958, an increase of \$1,064,527, in comparison to the prior year. This total consists of: General Fund, \$5,463,060; Street Tax Fund, \$300,082; and all other non-major Funds, \$403,816

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,463,060. The total fund balance increased by \$859,044. A large portion of this increase is the result of accretion with property and payroll tax.

The Street Tax Fund balance increased by \$110,606. This increase was the result of an increase in property tax and the 50/50 traffic grant received with Sanitation District No.1.

All other fund balances increased \$94,877, largely as a result of receiving approximately \$170,000 in road aid in the Municipal Road Aid Fund.

Fiduciary Funds

The City has one fiduciary fund, the FSA/HRA Fund. This fund had an increase in net position of \$1,748 as a result of contributions exceeding benefits paid.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on the modified accrual basis of accounting. The General Fund beginning fund balance for the beginning of the fiscal year was \$4,604,016.

For the General Fund, actual revenues, in the amount of approximately \$4.0 million were higher than budgeted revenues of approximately \$3.3 million. Largely due to accretion in the City leading to increased tax revenue.

Expenditures were budgeted at approximately \$4.0 million while actual expenditures were approximately \$3.2 million. Actual expenditures were less than budgeted largely due to not having as much in payroll and payroll related expenses for Public Safety and not spending as much as anticipated in capital outlays.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2018, the City had approximately \$9.9 million in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2018 balances compared to fiscal year 2017.

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2018	2017 (As Restated)
Land	\$ 1,241,365	\$ 1,241,365
Construction in Progress	25,278	100,561
Buildings	684,504	712,768
Infrastructure	7,623,632	7,647,840
Equipment	107,128	127,655
Vehicles	228,758	230,521
	<u>\$ 9,910,665</u>	<u>\$ 10,060,710</u>

Long-Term Debt

At June 30, 2018, the City had a total of \$550,000 in outstanding bonds. The proceeds from this bond were used to finance various road and street construction projects. Additionally, the City had an obligation of approximately \$64,000 in unused vacation time for employees.

The following is a summary of the City's debt transactions during 2018:

Governmental Activities	June 30, 2017	Additions	Repayments	June 30, 2018
Bond Indebtedness	\$ 815,000	\$ -	\$ 265,000	\$ 550,000
Compensated Absences	44,471	19,870	-	64,341
	<u>\$ 859,471</u>	<u>\$ 19,870</u>	<u>\$ 265,000</u>	<u>\$ 614,341</u>

Economic Factors and Next Year's Budget

The City budgeted revenues of \$4,138,450 for the year ended June 30, 2019, which is a decrease of approximately \$640,000 from the June 30, 2018 actual revenue. The City budgeted expenses of \$5,188,600, which is an increase of approximately \$1.5 million from the June 30, 2018 actual expenses.

Requests for Information

This financial report is designed to provide a general overview of the City's financial condition for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 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, 2018

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	\$ 5,530,686
Accounts Receivable	
Taxes	806,414
Waste Collection	38,732
Other Receivables	107,321
Notes Receivable	7,903
Total Current Assets	6,491,056
Noncurrent Assets (Net of Current Portion)	
Notes Receivable	9,627
Capital Assets	
Land	1,241,365
Construction in Progress	25,278
Buildings	1,337,302
Infrastructure	9,614,314
Equipment	283,335
Furniture and Fixtures	32,095
Vehicles	702,277
Less Accumulated Depreciation	(3,325,301)
Total Capital Assets	9,910,665
Total Noncurrent Assets	9,920,292
Total Assets	16,411,348
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	1,443,055
Deferred Outflows Related to Other Postemployment Benefits	560,127
Total Deferred Outflows of Resources	2,003,182
Total Assets and Deferred Outflows of Resources	18,414,530
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Bond Indebtedness	270,000
Accounts Payable	11,307
Accrued Liabilities	67,288
Compensated Absences	9,810
Total Current Liabilities	358,405
Noncurrent Liabilities (Net of Current Portion)	
Bond Indebtedness	280,000
Compensated Absences	54,531
Net Pension Liability	4,014,877
Net Other Postemployment Benefit Liability	1,454,355
Total Noncurrent Liabilities	5,803,763
Total Liabilities	6,162,168
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	319,061
Deferred Inflows Related to Other Postemployment Benefits	89,966
Total Deferred Inflows of Resources	409,027
Total Liabilities and Deferred Inflows of Resources	6,571,195
Net Position	
Net Investment in Capital Assets	9,360,665
Restricted for	
Street Tax Fund Balance	300,082
Municipal Road Fund Aid Balance	215,981
Turkeyfoot Acres Fund Balance	55,997
Unrestricted	1,910,610
Total Net Position	\$ 11,843,335

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>for</u>	<u>Grants and</u>	<u>and</u>	<u>Changes in</u>
		<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Primary</u>
					<u>Government</u>
					<u>Total</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary Government					
Governmental Activities					
General Government	\$ 622,270	\$ -	\$ 11,697	\$ -	\$ (610,573)
Public Safety	1,279,542	-	65,019	-	(1,214,523)
Public Works and Streets	721,635	-	221,747	-	(499,888)
Intergovernmental Expenses	220,632	-	-	-	(220,632)
Planning and Inspection	51,626	-	-	-	(51,626)
Waste Collection	2,028	-	-	-	(2,028)
Recreation	27,392	-	-	-	(27,392)
Miscellaneous	4,808	-	-	-	(4,808)
Interest Expense	25,600	-	-	-	(25,600)
Pension Expense	675,819	-	-	-	(675,819)
Other Postemployment Benefits Expense	215,699	-	-	-	(215,699)
Depreciation	374,094	-	-	-	(374,094)
Total Primary Government	\$ 4,221,145	\$ -	\$ 298,463	\$ -	(3,922,682)
General Revenues					
Property Taxes					1,365,439
Payroll Taxes					1,737,189
Insurance Premium Taxes					1,080,069
Other Taxes					111,114
Licenses and Permits					42,135
Fines, Forfeitures, and Penalties					39,415
Rehabilitation Loan Interest Payments					404
Earnings on Deposits					62,032
Other Revenue					60,587
Total General Revenues					<u>4,498,384</u>
Change in Net Position					575,702
Net Position as of July 1, 2017 (As Restated)					<u>11,267,633</u>
Net Position as of June 30, 2018					<u>\$ 11,843,335</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
TURKEYFOOT ACRES
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Earnings on Deposits	\$ 130	\$ 130	\$ 512	\$ 382
Expenditures				
General Government	<u>55,760</u>	<u>55,760</u>	<u>190</u>	<u>55,570</u>
(Deficit) Excess of Revenues Over Expenditures	(55,630)	(55,630)	322	55,952
Fund Balance July 1, 2017	<u>55,675</u>	<u>55,675</u>	<u>55,675</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 45</u>	<u>\$ 45</u>	<u>\$ 55,997</u>	<u>\$ 55,952</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Street Tax Fund	Other Funds	Total Govern- mental Funds
Assets				
Cash and Cash Equivalents	\$ 4,845,975	\$ 280,895	\$ 403,816	\$ 5,530,686
Accounts Receivable				
Taxes	772,625	33,789	-	806,414
Waste Collection	38,732	-	-	38,732
Other Receivables	107,321	-	-	107,321
Notes Receivable	-	-	17,530	17,530
Due from Other Funds	-	19,187	-	19,187
Total Assets	\$ 5,764,653	\$ 333,871	\$ 421,346	\$ 6,519,870
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 11,307	\$ -	\$ -	\$ 11,307
Other Accrued Expenses	67,288	-	-	67,288
Deferred Revenue	203,811	33,789	17,530	255,130
Due to Other Funds	19,187	-	-	19,187
Total Liabilities	301,593	33,789	17,530	352,912
Fund Balances				
Restricted for				
Street Tax Fund Balance	-	300,082	-	300,082
Municipal Road Fund Balance	-	-	215,981	215,981
Turkeyfoot Acres Fund Balance	-	-	55,997	55,997
Committed for				
Citywide Rehabilitation Fund Balance	-	-	131,838	131,838
Unassigned	5,463,060	-	-	5,463,060
Total Fund Balances	5,463,060	300,082	403,816	6,166,958
Total Liabilities and Fund Balances	\$ 5,764,653	\$ 333,871	\$ 421,346	\$ 6,519,870

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds \$ 6,166,958

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$	13,235,966	
Accumulated Depreciation		<u>(3,325,301)</u>	
			9,910,665

Other assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.			255,130
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Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.			(64,341)
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Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.

Deferred Outflows of Resources Related to Pension		1,443,055	
Deferred Outflows of Resources Related to Other Postemployment Benefits		560,127	
Deferred Inflows of Resources Related to Pension		(319,061)	
Deferred Inflows of Resources Related to Other Postemployment Benefits		<u>(89,966)</u>	
			1,594,155

Long-term liabilities, including net pension obligations, net other postemployment benefit obligations, and bond indebtedness, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds.

Bond Indebtedness		(550,000)	
Net Pension Liability		(4,014,877)	
Net Other Postemployment Benefit Liability		<u>(1,454,355)</u>	
			<u>(6,019,232)</u>

Net Assets of Governmental Activities in the Statement of Net Position			\$ <u>11,843,335</u>
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See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>Other Funds</u>	<u>Total Govern- mental Funds</u>
Revenues				
Property Taxes	\$ 820,276	\$ 516,160	\$ -	\$ 1,336,436
Payroll Taxes	1,737,189	-	-	1,737,189
Insurance Premium Taxes	1,080,069	-	-	1,080,069
Other Taxes	111,114	-	-	111,114
Waste Collection	2,266	-	-	2,266
Licenses and Permits	42,135	-	-	42,135
Fines, Forfeitures, and Penalties	39,415	-	-	39,415
Intergovernmental Revenue	76,716	51,272	170,475	298,463
Rehabilitation Loan Interest Payments	-	-	8,606	8,606
Earnings on Deposits	54,872	3,560	3,600	62,032
Other Revenue	60,587	-	-	60,587
	<u>4,024,639</u>	<u>570,992</u>	<u>182,681</u>	<u>4,778,312</u>
Expenditures				
Current				
General Government	649,746	-	190	649,936
Public Safety	1,478,859	-	-	1,478,859
Public Works and Streets	636,276	41,954	87,614	765,844
Intergovernmental Expenses	220,632	-	-	220,632
Planning and Inspection	51,626	-	-	51,626
Waste Collection	39	-	-	39
Recreation	27,392	-	-	27,392
Miscellaneous	4,808	-	-	4,808
Debt Service				
Principal	-	265,000	-	265,000
Interest	-	25,600	-	25,600
Capital Outlay	96,217	127,832	-	224,049
	<u>3,165,595</u>	<u>460,386</u>	<u>87,804</u>	<u>3,713,785</u>
Total Expenditures				
	<u>3,165,595</u>	<u>460,386</u>	<u>87,804</u>	<u>3,713,785</u>
Excess of Revenues Over Expenditures	859,044	110,606	94,877	1,064,527
Fund Balance July 1, 2017 (As Restated)	<u>4,604,016</u>	<u>189,476</u>	<u>308,939</u>	<u>5,102,431</u>
Fund Balance June 30, 2018	<u>\$ 5,463,060</u>	<u>\$ 300,082</u>	<u>\$ 403,816</u>	<u>\$ 6,166,958</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Change in Fund Balances - Total Governmental Funds \$ 1,064,527

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

Capital outlays to purchase or build capital assets are reported in governmental funds 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 depreciation expense exceeds capital outlays.

Depreciation Expense	\$	(374,094)	
Capital Outlays		<u>224,049</u>	(150,045)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 265,000

Compensated absences not expected to be paid within the next fiscal year are not reported as liabilities in the fund, but are reported as liabilities in the statement of net position. This is the net change in compensated absences for the year. (19,870)

Governmental funds report City other postemployment benefit contributions as expenditures. However, other postemployment benefit expense is reported in the statement of activities. This is the amount by which other postemployment benefit expense exceeded contributions.

City Other Postemployment Benefit Contributions - June 30, 2017	(90,526)		
City Other Postemployment Benefit Contributions - June 30, 2018	81,798		
Change in Other Postemployment Benefit Liability		<u>(125,173)</u>	(133,901)

Governmental funds report City pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

City Pension Contributions - June 30, 2017	(221,912)		
City Pension Contributions - June 30, 2018	209,264		
Cost of Benefits Earned Net of Employee Contributions		<u>(453,907)</u>	(466,555)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 16,546

Change in Net Position - Governmental Activities \$ 575,702

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	<u>FSA/HRA Fund</u>
Assets	
Cash and Cash Equivalents	\$ <u>9,319</u>
Total Assets	\$ <u><u>9,319</u></u>
Net Position	
Restricted for Other Employee Benefits	\$ <u>9,319</u>
Total Net Position	\$ <u><u>9,319</u></u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2018**

		<u>FSA/HRA Fund</u>
Additions		
Employee Contributions	\$	11,640
Interest Income		<u>88</u>
Total Additions		11,728
Deductions		
Benefits Paid		<u>9,980</u>
Changes in Net Position		1,748
Net Position July 1, 2017		<u>7,571</u>
Total Net Position June 30, 2018	\$	<u><u>9,319</u></u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Kentucky Revised Statutes and Ordinances of the City Council of the City of Elsmere, Kentucky (the City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund, Street Tax Fund, Municipal Road Aid Fund, Citywide Rehabilitation Fund, Turkeyfoot Acres Fund, and the FSA/HRA Fund.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Elsmere, Kentucky.

The City of Elsmere, Kentucky is a municipal corporation governed by an elected Mayor and six-member City Council. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

Basis of Presentation and Measurement Focus

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. Fiduciary activities of the City are not included in these statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function, or program, of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department, and are; therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds, rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Governmental Fund Financial Statements*

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus. Accordingly, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a statement of net position and a statement of changes in net position. The City’s fiduciary funds include the FSA/HRA fund. Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. The fiduciary funds are accounted for on a spending or economic resources measurement focus.

The City has the following funds:

Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.
- (B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Street Tax Fund is a major special revenue fund of the City. The Municipal Road Aid Fund, Citywide Rehabilitation Fund, and Turkeyfoot Acres Fund are all non-major special revenue funds.

Fiduciary Fund Types

- (A) The Fiduciary Fund types consist of the FSA/HRA Fund in which is used to account for financial resources related to the Flexible Spending and Health Reimbursement Accounts for employee tax exempt benefits purposes. The FSA/HRA Fund is an other employee benefit trust fund.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds financial statements use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents

The City considers demand deposits and other investments with an original maturity of ninety days or less, to be cash equivalents.

Capital Assets

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	5 - 50 Years
Infrastructure	15 - 40 Years
Equipment	5 - 10 Years
Furniture and Fixtures	7 Years
Vehicles	5 Years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Deferred Outflows and Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period, and therefore deferred until that time. The City recognized deferred outflows of resources related to pensions and other postemployment benefits.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. The City recognizes deferred inflows of resources related to pensions and other postemployment benefits.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay specified amounts when employees separate from service with the City. 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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Non-Spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can only be used pursuant to constraints imposed by external sources; such as federal or state restrictions or funds restricted by the will of City voters. These include residual balances from the Street Tax Fund, Municipal Road Aid Fund, and Turkeyfoot Acres Fund.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. These include residual balances from the Citywide Rehabilitation Fund.
- Assigned – Amounts that are designated by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, designated fund balances, revenues and expenditures. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results could differ from estimated amounts.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

Property Taxes

Property taxes include amounts levied on real property. Property taxes are levied as of November 1 and property values were assessed on January 1st. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**New Accounting Pronouncements**

In January, 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this statement is to improve guidance regarding the identification of fiduciary activity for accounting and financial reporting purposes and how those activities should be reported. The requirements for this Statement are effective for reporting periods beginning after December 15, 2018. The City has elected to implement for the year ended June 30, 2018.

For the year ended June 30, 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See footnote 10 for more information regarding this.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- a) In accordance with City ordinance, prior to June 1, the Mayor submits to the City Council, a proposed operating budget on the modified accrual basis of accounting 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.
- b) A public meeting is conducted to obtain citizen comment.
- c) By July 1, the budget is legally enacted through passage of an ordinance.
- d) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- e) Appropriations continue in effect until a new budget is adopted.
- f) The Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council.

NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal, while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investments of public funds.

The City is authorized to invest in:

- a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that, delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- c) Obligations of any corporation of the United States government.
- d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk – deposits – For deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2018, the City’s deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City’s behalf and the FDIC insurance.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,241,365	\$ -	\$ -	\$ 1,241,365
Construction in Progress	100,561	25,278	100,561	25,278
	<u>1,341,926</u>	<u>25,278</u>	<u>100,561</u>	<u>1,266,643</u>
Total Capital Assets Not Being Depreciated				
	<u>1,341,926</u>	<u>25,278</u>	<u>100,561</u>	<u>1,266,643</u>
Depreciable Capital Assets				
Buildings	1,337,302	-	-	1,337,302
Infrastructure	10,192,838	211,276	789,800	9,614,314
Equipment	673,725	10,532	400,922	283,335
Furniture and Fixtures	32,095	-	-	32,095
Vehicles	1,024,788	77,524	400,035	702,277
	<u>13,260,748</u>	<u>299,332</u>	<u>1,590,757</u>	<u>11,969,323</u>
Total Depreciable Capital Assets				
	<u>13,260,748</u>	<u>299,332</u>	<u>1,590,757</u>	<u>11,969,323</u>
Total Capital Assets at Historical Cost				
	<u>14,602,674</u>	<u>324,610</u>	<u>1,691,318</u>	<u>13,235,966</u>
Less Accumulated Depreciation				
Buildings	624,534	28,264	-	652,798
Infrastructure	2,544,998	235,484	789,800	1,990,682
Equipment	546,070	31,059	400,922	176,207
Furniture and Fixtures	32,095	-	-	32,095
Vehicles	794,267	79,287	400,035	473,519
	<u>4,541,964</u>	<u>374,094</u>	<u>1,590,757</u>	<u>3,325,301</u>
Total Accumulated Depreciation				
	<u>4,541,964</u>	<u>374,094</u>	<u>1,590,757</u>	<u>3,325,301</u>
Depreciable Capital Assets, Net	<u>8,718,784</u>	<u>(74,762)</u>	<u>-</u>	<u>8,644,022</u>
Governmental Activities Capital Assets - Net	<u>\$ 10,060,710</u>	<u>\$ (49,484)</u>	<u>\$ 100,561</u>	<u>\$ 9,910,665</u>

NOTE 5 - LONG-TERM LIABILITIES

Bonds

Revenue Bond, 2010 Series A

In August, 2010 a bond in the total of \$2,560,000 was issued under the authority of applicable Kentucky Revised Statutes and in accordance with authorized bond resolutions duly passed and adopted by the Council of the City of Elsmere.

The proceeds for the sale of the 2010 Series A Bond, together with other available funds were used to provide funds to meet certain capital construction costs related to road reconstruction in the City.

The original amount of the outstanding issue, the issue date, interest rates and outstanding balances at June 30, 2018 are summarized below:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Outstanding Balance at June 30, 2018</u>	<u>Outstanding Balance at June 30, 2017</u>
2010 Series A	\$ 2,560,000	1.00 - 3.00%	\$ <u>550,000</u>	\$ <u>815,000</u>

The minimum obligation of the City at June 30, 2018 for principal and interest is as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2019	\$ 270,000	\$ 15,825	\$ 285,825
2020	<u>280,000</u>	<u>8,400</u>	<u>288,400</u>
Total	\$ <u>550,000</u>	\$ <u>24,225</u>	\$ <u>574,225</u>

Summary of Long-Term Liabilities

The following is a summary of the City's long-term liability transactions for the year ended June 30, 2018.

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2018</u>	<u>Amounts Expected to be Paid Within One Year</u>
Bond Indebtedness	\$ 815,000	\$ -	\$ 265,000	\$ 550,000	\$ 270,000
Compensated Absences	<u>44,471</u>	<u>19,870</u>	<u>-</u>	<u>64,341</u>	<u>9,810</u>
Total	\$ <u>859,471</u>	\$ <u>19,870</u>	\$ <u>265,000</u>	\$ <u>614,341</u>	\$ <u>279,810</u>

NOTE 6 - PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

NOTE 6 - PENSION PLAN (Continued)

Benefits provided: These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Non-hazardous Plan:

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but Before 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None

Benefit Formula for Tiers 1 & 2

<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the five highest if participation began before 09/01/2008.		2.20% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		2.00% if:		
		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:		Member begins participating on or after 08/01/2004 but before 01/01/2014.

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

NOTE 6 - PENSION PLAN (Continued)

Benefit Formula for Tier 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned		
7.85%	4.00%	3.85%	2.89%	6.89%	\$ 2,565,000

Hazardous Plan:

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None

Benefit Formula for Tiers 1 & 2

Final Compensation	X	Benefit Factor	X	Years of Service
Average of the three highest if participation began before 09/01/2008.		2.50% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
Average of the three highest complete years if participation began on or after 09/01/2008.		Increasing percent based on service at retirement* if:		
				Member begins participating before 09/01/2008.
				Member begins participating on or after 09/01/2008 but before 01/01/2014.

* **Service (and Benefit Factor): 10 years or less (1.30%); 10 - 20 years (1.50%); 20 - 25 years (2.25%); 25 + years (2.50%)**

NOTE 6 - PENSION PLAN (Continued)

Benefit Formula for Tier 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D	Interest Rate Earned	Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned	(4% + Upside)	
8.07%	4.00%	4.07%	3.05%	7.05%	\$ 616,000

Non-hazardous and Hazardous Plans:

For Tier 3 member begins participating on or after January 1, 2014; each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 8.00% of creditable compensation respectively into a current account. This current account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75.00% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the current account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the higher of 20% for non-hazardous and 25% for hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% for non-hazardous and 25% for hazardous of the member's monthly final rate of pay or the annuitized account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments (COLAs). Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions: The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contributed 8%. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

NOTE 6 - PENSION PLAN (Continued)

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2018, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) for the non-hazardous system of each employee's creditable compensation and 31.55% (22.2% pension fund and 9.35% insurance fund) for the hazardous system. The actuarially determined rates set by the Board for the fiscal years were a percentage of each employee's creditable compensation. Contributions to the pension fund from the City was \$209,264 for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability of \$4,014,877 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2018, the City's proportion for the non-hazardous system was 0.019113% and for the hazardous system was 0.129449% an increase of 0.000752% and a decrease of 0.002940%, respectively.

For the year ended June 30, 2018, the City recognized pension expense of \$675,819. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	\$ 278,566	\$ 239,420
Difference Between Expected and Actual Experience	107,615	28,399
Changes of Assumptions	784,151	-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	63,459	51,242
Contributions After Measurement Date	<u>209,264</u>	<u>-</u>
Total	<u>\$ 1,443,055</u>	<u>\$ 319,061</u>

The \$209,264 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30,</u>	
2019	\$ 397,021
2020	405,846
2021	157,830
2022	<u>(45,967)</u>
	<u>\$ 914,730</u>

NOTE 6 - PENSION PLAN (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all 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
Remaining Amortization Period	28 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50% 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 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long Term Expected Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Credit	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	100.00 %	

NOTE 6 - PENSION PLAN (Continued)

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The single discount rate was based on the expected rate of return on pension plan investments for the system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the system. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the system contributes the actuarially determined contribution rate in all future years.

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 using the discount rate of 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 1,410,976	\$ 1,118,743	\$ 874,291
Hazardous	\$ 3,641,365	\$ 2,896,134	\$ 2,280,684

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total pension liability as of June 30, 2017 is determined using a 2.30% price inflation assumption for the systems, and the assumed rate of return is 6.25%.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTE 7 - OPEB PLAN

General Information About the OPEB Plan

Plan description: County Employees Retirement System consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

NOTE 7 - OPEB PLAN (Continued)

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

Contributions: The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended June 30, 2018, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) for the non-hazardous system and 31.55% (22.20% pension fund and 9.35% insurance fund) for the hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the insurance fund from the City were \$81,798 for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability of \$1,454,355 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The City's proportion of the net OPEB liability was based on the City's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2018, the City's proportion for the non-hazardous system was 0.019113% and for the hazardous system was 0.129449%.

NOTE 7 - OPEB PLAN (Continued)

For the year ended June 30, 2018, the City recognized OPEB expense of \$215,699. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ -	\$ 3,561
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	85,300
Changes in Assumptions	478,329	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	1,105
Commission Contributions Subsequent to the Measurement Date	<u>81,798</u>	<u>-</u>
Total	<u>\$ 560,127</u>	<u>\$ 89,966</u>

\$81,798 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending June 30,</u>	
2019	\$ 104,878
2020	104,878
2021	104,878
2022	53,938
2023	15,464
Thereafter	<u>4,327</u>
	<u>\$ 388,363</u>

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increases	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

NOTE 7 - OPEB PLAN (Continued)

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (make mortality rates are set back four years). 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 was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long Term Expected Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Credit	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	100.00 %	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

NOTE 7 - OPEB PLAN (Continued)

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate: The following present's the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for non-hazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Non-hazardous	\$ 488,920	\$ 384,237	\$ 297,124
Hazardous	\$ 1,434,105	\$ 1,070,118	\$ 772,317

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following present's the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Non-hazardous	\$ 294,729	\$ 384,237	\$ 500,591
Hazardous	\$ 757,520	\$ 1,070,118	\$ 1,457,005

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTE 8 - 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 risk 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.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2018 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 9 - CLAIMS AND JUDGEMENTS

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 10 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF ERRORS

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows for resources, deferred inflows of resources, and expenses/expenditures. For defined benefit other postemployment benefit plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. This Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the plans that are within its scope.

For the year ended June 30, 2017, the City did not record an accrual for the employer portion of the CERS liability. Thus, the related expenses were not properly recorded as of June 30, 2017. As a result, the General Fund Balance and Net Position were overstated by \$27,518.

For the year ended June 30, 2017, the City did not record an accrual for payroll wages for the final payroll of the year which was paid after year end. The expenses related to accrued payroll were not properly recorded. Thus, the General Fund Balance and Net Position of the City was overstated by \$21,588.

For the year ended June 30, 2017, the City recorded tax receivables in the General Fund which were not properly deferred at year end. As a result, the General Fund Balance was overstated by \$124,114.

For the year ended June 30, 2017, the City did not record lien fees as a receivable and deferred revenue prior to year-end for the General Fund. For the government-wide financial statements the City did not record a receivable or related revenue for the lien fees. As a result, Net Position as of June 30, 2017 was understated by \$36,059.

For the year ended June 30, 2017, the City did not properly record accumulated depreciation in accordance with the City's fixed asset and depreciation schedule. Thus, Net Position was understated by \$231,131.

During the year ended June 30, 2017, the City included their FSA/HRA Fund in Governmental Funds to support the City programs. However, the FSA/HRA Fund is a Fiduciary Fund in which cannot be used to support government programs. Thus, the FSA/HRA Fund should have been reported as a separate fiduciary fund and resulted in an overstatement of the City's Net Position.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF ERRORS (Continued)

The items above had the following effects:

General Fund Balance, June 30, 2017	\$ 4,777,236
Recording of CERS Liability	(27,518)
Recording of Accrued Payroll	(21,588)
Deferred Revenue Not Recorded for General Fund Receivables	<u>(124,114)</u>
Restated General Fund Balance, June 30, 2017	<u><u>\$ 4,604,016</u></u>
 Net Position, June 30, 2017	 \$ 12,369,675
Recognition of OPEB Contributions After Measurement Date	90,526
Recognition of Net OPEB Liability	(940,819)
Recording of CERS liability	(27,518)
Recording Accrued Payroll	(21,588)
Recording of Lien Fees	36,059
Correction of Accumulated Depreciation	(231,131)
Restatement of Fiduciary Fund Balance	<u>(7,571)</u>
Restated Net Position, June 30, 2017	<u><u>\$ 11,267,633</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Total Taxes	\$ 3,105,800	\$ 3,105,800	\$ 3,748,648	\$ 642,848
Waste Collection	2,000	2,000	2,266	266
Licenses and Permits	10,200	10,200	42,135	31,935
Fines, Forfeitures, and Penalties	41,000	41,000	39,415	(1,585)
Intergovernmental Revenue	77,700	77,700	76,716	(984)
Earnings on Investments	5,500	5,500	54,872	49,372
Other Revenue	43,000	43,000	60,587	17,587
Total Revenues	<u>3,285,200</u>	<u>3,285,200</u>	<u>4,024,639</u>	<u>739,439</u>
Expenditures				
General Government	689,100	689,100	649,746	39,354
Public Safety	1,636,300	1,636,300	1,478,859	157,441
Public Works and Streets	630,400	630,400	636,276	(5,876)
Intergovernmental Expenses	272,800	272,800	220,632	52,168
Planning and Inspection	58,750	58,750	51,626	7,124
Waste Collection	2,500	2,500	39	2,461
Parks And Recreation	34,500	34,500	27,392	7,108
Miscellaneous Expense	400,000	400,000	4,808	395,192
Capital Outlay	273,500	273,500	96,217	177,283
Total Expenditures	<u>3,997,850</u>	<u>3,997,850</u>	<u>3,165,595</u>	<u>832,255</u>
(Deficit) Excess of Revenues Over Expenditures	(712,650)	(712,650)	859,044	1,571,694
Fund Balance July 1, 2017 (As Restated)	<u>4,604,016</u>	<u>4,604,016</u>	<u>4,604,016</u>	<u>-</u>
Fund Balance June 30, 2018	<u><u>\$ 3,891,366</u></u>	<u><u>\$ 3,891,366</u></u>	<u><u>\$ 5,463,060</u></u>	<u><u>\$ 1,571,694</u></u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
STREET TAX FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Items</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Total Taxes	\$ 500,000	\$ 500,000	\$ 516,160	\$ 16,160
Intergovernmental Revenue	66,770	66,770	51,272	(15,498)
Earnings on Investments	<u>150</u>	<u>150</u>	<u>3,560</u>	<u>3,410</u>
Total Revenues	<u>566,920</u>	<u>566,920</u>	<u>570,992</u>	<u>4,072</u>
Expenditures				
Public Works and Streets	-	-	41,954	(41,954)
Debt Service	295,000	295,000	290,600	4,400
Capital Projects	<u>322,000</u>	<u>322,000</u>	<u>127,832</u>	<u>194,168</u>
Total Expenditures	<u>617,000</u>	<u>617,000</u>	<u>460,386</u>	<u>156,614</u>
(Deficit) Excess of Revenues Over Expenditures	(50,080)	(50,080)	110,606	160,686
Fund Balance July 1, 2017	<u>189,476</u>	<u>189,476</u>	<u>189,476</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 139,396</u>	<u>\$ 139,396</u>	<u>\$ 300,082</u>	<u>\$ 160,686</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL ROAD AID FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Items</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental Revenue	\$ 166,950	\$ 166,950	\$ 170,475	\$ 3,525
Earnings on Investments	<u>150</u>	<u>150</u>	<u>2,770</u>	<u>2,620</u>
Total Revenues	<u>167,100</u>	<u>167,100</u>	<u>173,245</u>	<u>6,145</u>
Expenditures				
Miscellaneous Expenses	135,000	135,000	-	135,000
Capital Projects	<u>52,000</u>	<u>52,000</u>	<u>87,614</u>	<u>(35,614)</u>
Total Expenditures	<u>187,000</u>	<u>187,000</u>	<u>87,614</u>	<u>99,386</u>
(Deficit) Excess of Revenues Over Expenditures	(19,900)	(19,900)	85,631	105,531
Fund Balance July 1, 2017	<u>130,350</u>	<u>130,350</u>	<u>130,350</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 110,450</u>	<u>\$ 110,450</u>	<u>\$ 215,981</u>	<u>\$ 105,531</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CITYWIDE REHABILITATION FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Items</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 8,900	\$ 8,900	\$ 8,606	\$ (294)
Interest	<u>150</u>	<u>150</u>	<u>318</u>	<u>168</u>
Total Revenues	9,050	9,050	8,924	(126)
Expenditures				
Miscellaneous Expense	<u>28,000</u>	<u>28,000</u>	<u>-</u>	<u>28,000</u>
(Deficit) Excess of Revenues Over Expenditures	(18,950)	(18,950)	8,924	27,874
Fund Balance July 1, 2017	<u>122,914</u>	<u>122,914</u>	<u>122,914</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 103,964</u>	<u>\$ 103,964</u>	<u>\$ 131,838</u>	<u>\$ 27,874</u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability (Asset) - Non-hazardous	0.019113%	0.018360%	0.017508%	0.016995%
City's Proportion of the Net Pension Liability (Asset) - Hazardous	0.129449%	0.132390%	0.127730%	0.132432%
City's Proportionate Share of the Net Pension Liability (Asset) - Non-hazardous	\$ 1,118,743	\$ 905,036	\$ 752,754	\$ 551,393
City's Proportionate Share of the Net Pension Liability (Asset) - Hazardous	<u>2,896,134</u>	<u>2,271,711</u>	<u>1,960,770</u>	<u>1,591,600</u>
Total City's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 4,014,877</u>	<u>\$ 3,176,747</u>	<u>\$ 2,713,524</u>	<u>\$ 2,142,993</u>
City's Covered - Employee Payroll	\$ 1,219,996	\$ 1,120,604	\$ 1,119,827	\$ 1,076,478
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	329.09%	283.49%	242.32%	199.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-hazardous	53.32%	55.50%	59.97%	66.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous	49.78%	53.95%	57.52%	63.46%

*Only four years of information available. Additional years' information will be displayed as it becomes available.

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

<u>Non-hazardous</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 65,615	\$ 55,087	\$ 44,359	\$ 44,692	\$ 44,939
Contributions in Relation to the Contractually Required Contribution	<u>(65,615)</u>	<u>(55,087)</u>	<u>(44,359)</u>	<u>(44,692)</u>	<u>(44,939)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
City's Covered-Employee Payroll	\$ 453,143	\$ 394,771	\$ 357,159	\$ 350,524	\$ 327,058
Contributions as a Percentage of Covered-Employee Payroll	14.48%	13.95%	12.42%	12.75%	13.74%
<u>Hazardous</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 143,649	\$ 166,825	154,674	\$ 176,555	\$ 163,149
Contributions in Relation to the Contractually Required Contribution	<u>(143,649)</u>	<u>(166,825)</u>	<u>(154,674)</u>	<u>(176,555)</u>	<u>(163,149)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
City's Covered-Employee Payroll	\$ 647,067	\$ 825,225	\$ 763,445	\$ 769,303	\$ 749,420
Contributions as a Percentage of Covered-Employee Payroll	22.20%	20.22%	20.26%	22.95%	21.77%

*Only five years of information available. Additional years' information will be displayed as it becomes available.

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

	2018
City's Proportion of the Net OPEB Liability (Asset) - Non-hazardous	0.019113%
City's Proportion of the Net OPEB Liability (Asset) - Hazardous	0.129449%
City's Proportionate Share of the Net OPEB Liability (Asset) - Non-hazardous	\$ 384,237
City's Proportionate Share of the Net OPEB Liability (Asset) - Hazardous	1,070,118
Total City's Proportionate Share of the Net OPEB Liability (Asset)	\$ 1,454,355
City's Covered - Employee Payroll	\$ 1,219,996
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	119.21%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-hazardous	52.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Hazardous	58.99%

**Only one year of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
June 30, 2018

County Employees Retirement System
Last 10 Fiscal Years*

Non-hazardous	2018	2017
Contractually Required Contribution	\$ 21,298	\$ 18,678
Contributions in Relation to the Contractually Required Contribution	<u>(21,298)</u>	<u>(18,678)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 453,143	\$ 394,771
Contributions as a Percentage of Covered-Employee Payroll	4.70%	4.73%
Hazardous	2018	2017
Contractually Required Contribution	\$ 60,500	\$ 71,848
Contributions in Relation to the Contractually Required Contribution	<u>(60,500)</u>	<u>(71,848)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 647,067	\$ 825,225
Contributions as a Percentage of Covered-Employee Payroll	9.35%	8.71%

**Only two years of information available. Additional years' information will be displayed as it becomes available.*

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF ELSMERE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>Municipal Road Fund</u>	<u>Citywide Rehabilitation Fund</u>	<u>Turkeyfoot Acres Fund</u>	<u>Total Non-Major Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$ 215,981	\$ 131,838	\$ 55,997	\$ 403,816
Notes Receivable	<u>-</u>	<u>17,530</u>	<u>-</u>	<u>17,530</u>
Total Assets	<u>\$ 215,981</u>	<u>\$ 149,368</u>	<u>\$ 55,997</u>	<u>\$ 421,346</u>
Liabilities and Fund Balances				
Liabilities				
Deferred Revenue	\$ -	\$ 17,530	\$ -	\$ 17,530
Fund Balances				
Restricted for				
Municipal Road Fund Balance	215,981	-		215,981
Turkeyfoot Acres Fund Balance	-	-	55,997	55,997
Committed for				
Citywide Rehabilitation Fund Balance	<u>-</u>	<u>131,838</u>	<u>-</u>	<u>131,838</u>
Total Fund Balances	<u>215,981</u>	<u>131,838</u>	<u>55,997</u>	<u>403,816</u>
Total Liabilities and Fund Balances	<u>\$ 215,981</u>	<u>\$ 149,368</u>	<u>\$ 55,997</u>	<u>\$ 421,346</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Municipal Road Fund</u>	<u>Citywide Rehabilitation Fund</u>	<u>Turkeyfoot Acres Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues				
Intergovernmental Revenue	\$ 170,475	\$ -	\$ -	\$ 170,475
Rehabilitation Loan Interest Payments	-	8,606	-	8,606
Earnings on Deposits	<u>2,770</u>	<u>318</u>	<u>512</u>	<u>3,600</u>
 Total Revenues	 <u>173,245</u>	 <u>8,924</u>	 <u>512</u>	 <u>182,681</u>
Expenditures				
Current				
General Government	-	-	190	190
Public Works and Streets	<u>87,614</u>	<u>-</u>	<u>-</u>	<u>87,614</u>
 Total Expenditures	 <u>87,614</u>	 <u>-</u>	 <u>190</u>	 <u>87,804</u>
 Excess of Revenues Over Expenditures	 85,631	 8,924	 322	 94,877
 Fund Balance July 1, 2017	 <u>130,350</u>	 <u>122,914</u>	 <u>55,675</u>	 <u>308,939</u>
 Fund Balance June 30, 2018	 <u>\$ 215,981</u>	 <u>\$ 131,838</u>	 <u>\$ 55,997</u>	 <u>\$ 403,816</u>

See accompanying notes.

**INDEPENDENT AUDITORS' 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**

Honorable Mayor and
Members of the City 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 and each major fund of the City of Elsmere, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Elsmere, Kentucky's basic financial statements, and have issued our report thereon dated February 5, 2019.

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.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned cost as item 2018-001 to be a material weaknesses.

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. We consider the deficiencies 2018-002 through 2018-005 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

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 audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did identify other matters which are described in our management recommendation letter.

City of Elsmere, Kentucky's Response to Findings

The City of Elsmere, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Elsmere, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance on 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.

VonLehman & Company Inc.

Fort Wright, Kentucky
February 5, 2019

**CITY OF ELSMERE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

Finding 2018-001 Material Prior Period Adjustments

Criteria: The Governmental Accounting Standards Board (GASB) requires that governmental organizations employ or contract to have an individual that has the necessary skills, knowledge and experience in order to report and understand governmental and accrual based accounting.

Condition: As a result of current year auditing procedures, there were several material prior period adjustments that were considered necessary to record during the current audit.

Cause: The City contracts with a third party accountant to reconcile their accounts and to prepare for the audit. The City relies on the third party accountant to be the individual with the skills, knowledge and experience to meet the criteria about. The necessary adjustments as noted above were not recorded in accordance with GASB.

Effect: The prior year audited financial statements were materially misstated.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend you communicate the material prior period audit adjustments to the third party accountant and set proper expectations of their role.

Views of Responsible Officials and Planned Corrective Actions: Management will be evaluating and reviewing the overall performance of the contracted third party accountant. Management will likely procure these services from a difference source moving forward.

Finding 2018-002 Review of Financial Information by City Council and Management

Criteria: The City Council and Management of City have a fiduciary responsibility regarding the finances and financial reporting of the City.

Condition: Currently, the City Administrator does not receive any documented financial information and only performs reviews of financial information at the desk of the Treasurer. The City Council only receives financial information on a quarterly basis for reviewing and that information is on a consolidated basis, i.e. a single line for administrative expenses, a single line for police, etc.

Cause: There is no policy regarding oversight and monitoring of financial reports and no required procedure.

Effect: There is no monitoring or proper internal controls regarding the review of financial information including financial information by a member of management or the City Council.

Repeat Finding: This is not a repeat finding.

Recommendation: The City Administrator on a monthly basis should receive detailed financial statements including but not limited to a balance sheet, profit and loss, budget vs. actual, bank reconciliations, etc. These documents should be comparative in nature and reviewed in detail with the City Treasurer. On a monthly basis, the City Council should also receive the same set of documentation and financial information. The budget vs. actual should have descriptions for any significant variations from budget.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will be providing council with additional financial documentation on a monthly basis. Currently the City Administrator continuously reviews all financial data on a weekly basis with the Finance Officer. The City Administrator will continue doing this but will also receive a monthly financial report from the Finance Officer with detailed financial statements and records.

**CITY OF ELSMERE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Finding 2018-003 Monitoring of Payroll

Criteria: Organizations should have proper internal controls, which also includes monitoring, regarding the processing and submission of payroll.

Condition: One City employee is responsible for updating employee information in the payroll system, submitting time in the system, processing payroll and recording payroll into the accounting software.

Cause: There is no proper monitoring regarding submitted payroll.

Effect: There is no monitoring or proper internal controls regarding the tracking and submission of payroll. The City would not be made aware of any ghost employees or improper payments if they were to occur.

Repeat Finding: This is not a repeat finding.

Recommendation: The City Administrator on a payroll by payroll basis should be reviewing the submitted payroll journal for verification of City employees, reasonable hours and rates, etc.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and will have the City Administrator review the payroll journal and the City Clerk will review the pay grid before payroll is submitted to insure accuracy.

Finding 2018-004 Segregation of Duties Surrounding Cash Disbursements

Criteria: Organizations should have proper internal controls, which also includes monitoring, regarding the processing of cash disbursements, access to online banking, checks, and recording of transactions.

Condition: One City employee is responsible (and another has access) for writing checks, signing checks, bank transfers, online banking access, recording of transactions in the accounting software, and mailing of checks.

Cause: There are no proper controls in place or monitoring.

Effect: There is a potential for misappropriation of funds to occur with one employee having control over the disbursement function.

Repeat Finding: This is not a repeat finding.

Recommendation: The City should strongly consider reviewing their policies regarding access, responsibilities of City employees, and the custody and flow of disbursements. These changes could include processes and policies such as (although not limited to):

- The individual writing checks and the individual responsible for posting transactions should not be an authorized signor on the bank accounts
- Bank reconciliations and statements (including check images) should be reviewed by a knowledgeable member of management or governance
- Signed checks should not be returned to those with check writing authority or accounting software access for mailing

Views of Responsible Officials and Planned Corrective Actions: Management will modify its current operations to remove the Finance Officer and City Clerk as check signers. The City Administrator will be the primary signer. In the City Administrators absence the Mayor will sign checks. All bank reconciliations and statements will be reviewed and initialed by the City Clerk. A copy of these documents will be included in the monthly finance report to the City Administrator.

**CITY OF ELSMERE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

Finding 2018-005 Segregation of Duties Surrounding Property Taxes and Cash Receipts

Criteria: Organizations should have proper internal controls, which also includes monitoring, regarding the processing of cash receipts and maintenance of property tax software.

Condition: One City employee is responsible for uploading property tax information into the software, sending property tax bills, receiving property tax payments and positing of receipts into the same software.

Cause: There are no proper controls in place or monitoring.

Effect: There is a potential for misappropriation of funds to occur with one employee having control over the property tax function.

Repeat Finding: This is not a repeat finding.

Recommendation: The City should strongly consider reviewing their policies regarding access, responsibilities of City employees, and the custody and flow of revenue and receipts. These changes could include processes and policies such as (although not limited to):

- The individual responsible for sending bills should not be the individual responsible for uploading into the software
- Checks received at the City Building should be stamped "For Deposit Only" as soon as received
- The individual responsible for writing off delinquent property taxes should not be responsible for posting receipts in the software
- On a periodic basis, the City Administrator should review the property tax write offs

Views of Responsible Officials and Planned Corrective Actions: Management will modify its current operations as follows: The Finance Officer will continue sending out all tax bills. Moving forward the City Clerk will begin uploading the payment data into the software. The Finance Officer will not be permitted to upload this data into the software. All checks received at the City Building will immediately be stamped "for Deposit only." The City Administrator and the Mayor will be the only individuals authorized to write off delinquent taxes. A report of all property tax write offs will be included in the monthly report to the City Administrator.

PRIOR YEAR - FINANCIAL STATEMENT FINDINGS

No matters were reported.