

**CITY OF ELSMERE, KENTUCKY**

**June 30, 2019**

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



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**CITY OF ELSMERE, KENTUCKY  
CITY OFFICIALS**

**MAYOR**

Marty Lenhof

**COUNCIL MEMBERS**

Nancy Bowman

Bill Bradford

Gloria Grubbs

Lisa Mitchell

Aaron Moore

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, 2019, 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, 2019, 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, 2018 have been restated for the correction of a misstatement. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major fund 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 38 through 43, 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 management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *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 and the non-major fund budgetary comparison information 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 and the non-major fund budgetary comparison information 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 January 7, 2020, 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, 2019  
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, 2019. 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 2019 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 \$12,680,226 (net position).
- The City's total net position increased by \$836,891.
- As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$6,057,822, an increase of \$73,848 from the prior year ending fund balance which was restated in the fiscal year. \$5,278,711 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 \$5,278,711 which exceeds total general fund expenditures by 27.3%.
- The City's total debt decreased by \$273,527 (44.5%), 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 and short-term investments increased by \$131,187, from \$5,530,686 at June 30, 2018 to \$5,661,873 at June 30, 2019.

**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, 2019  
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, 2019  
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 37 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 2019 compared to 2018:

**Table 1  
Net Position**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current Assets	\$ 6,618,875	\$ 6,491,056
Noncurrent Assets, Net	<u>10,784,050</u>	<u>9,920,292</u>
Total Assets	<u>17,402,925</u>	<u>16,411,348</u>
<b>Deferred Outflows of Resources</b>	<u>1,366,131</u>	<u>2,003,182</u>
<b>Liabilities</b>		
Current Liabilities	369,357	358,405
Noncurrent Liabilities	<u>5,128,542</u>	<u>5,803,763</u>
Total Liabilities	<u>5,497,899</u>	<u>6,162,168</u>
<b>Deferred Inflows of Resources</b>	<u>590,931</u>	<u>409,027</u>
<b>Net Position</b>		
Net Investment in Capital Assets	10,501,961	9,360,665
Restricted for		
Street Tax Fund Balance	345,659	300,082
Municipal Road Fund Balance	274,224	215,981
Turkeyfoot Acres Fund Balance	55,911	55,997
Unrestricted	<u>1,502,471</u>	<u>1,910,610</u>
<b>Total Net Position</b>	<b><u>\$ 12,680,226</u></b>	<b><u>\$ 11,843,335</u></b>

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 \$12.7 million as of June 30, 2019.

A large portion of the City's net position (approximately \$10.5 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, 2019**  
**UNAUDITED**  
**(Continued)**

An additional portion of the City's net position (approximately \$676,000) 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 and short-term investments increased \$131,187 from the previous year primarily due to revenues that exceeded disbursements.
2. Accounts receivables decreased \$3,888 from the previous year due to timing of payments received.
3. Net capital assets increased \$867,296. During the fiscal year, the City completed the Caldwell Drive Reconstruction, which included approximately \$233,000 of current year expenditures, and the City purchased land for approximately \$467,000. Additionally, the City purchased vehicles for approximately \$384,000, which included police cruisers and a dump truck. Other fixed asset additions were approximately \$256,000. Total depreciation expense in the current year was approximately \$447,000.
4. Deferred outflows of resources decreased by \$637,051 largely due to a decrease in changes in assumptions related to the net pension liability and net OPEB liability.
5. Noncurrent liabilities decreased \$675,221 from the previous year primarily due payments on bond indebtedness of \$274,000. Additionally, changes in the proportionate share of the net pension and net OPEB liabilities resulted in a decrease of approximately \$394,000.
6. Deferred inflows of resources increased \$181,904 primarily due to an increase in deferred inflows of resources related to the net OPEB liability. This increase was largely due to differences between expected and actual experience and changes in proportion.
7. Net investment in capital assets increased \$1,141,296 due to the capital assets activity noted above and normal bond payments.
8. Restricted net assets increased \$103,734 due to fewer road projects in the current year along with collected taxes.
9. The City has \$1,502,471 of unrestricted net position as of June 30, 2019.

**CITY OF ELSMERE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
UNAUDITED  
(Continued)**

Table 2 reflects the change in net position for fiscal years 2019 and 2018:

**Table 2  
Change in Net Position**

	<b>Governmental Activities Years Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
General Revenues		
Property Taxes	\$ 1,332,308	\$ 1,365,439
Payroll Taxes	1,772,740	1,737,189
Insurance Premium Taxes	1,132,314	1,080,069
Other Taxes	117,710	111,114
Licenses and Permits	27,695	42,135
Fines, Forfeitures, and Penalties	68,905	39,415
Rehabilitation Loan Interest Payments	5,415	404
Earnings on Deposits	114,014	62,032
Gain on Sale of Assets	18,362	-
Other Revenue	35,241	60,587
Total General Revenues	<u>4,624,704</u>	<u>4,498,384</u>
Program Revenues		
Charges for Service	-	-
Operating Grants and Contributions	270,323	298,463
Capital Grants and Contributions	-	-
Total Program Revenues	<u>270,323</u>	<u>298,463</u>
Total Revenues	<u>4,895,027</u>	<u>4,796,847</u>
<b>Program Expenses</b>		
General Government	678,237	622,270
Public Safety	1,353,443	1,279,542
Public Works and Street	703,268	721,635
Intergovernmental Expenses	-	220,632
Planning and Inspection	47,281	51,626
Waste Collection	78	2,028
Recreation	27,587	27,392
Miscellaneous	5,211	4,808
Interest Expense	13,649	25,600
Pension Expense	621,166	675,819
Other Postemployment Benefits Expense	161,149	215,699
Depreciation	447,067	374,094
Total Program Expenses	<u>4,058,136</u>	<u>4,221,145</u>
<b>Change in Net Position</b>	<u><b>\$ 836,891</b></u>	<u><b>\$ 575,702</b></u>

**CITY OF ELSMERE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
UNAUDITED  
(Continued)**

**Governmental Activities**

Governmental activities increased the City's net position by \$836,891. Key elements of this increase are as follows:

- Insurance premium tax revenues increased \$52,245 due to accretion within the City and business expansion.
- Earnings on deposits increased by \$51,982 due to higher cash balances during the year and moving of funds to certificates of deposit, yielding higher interest rates.
- The City saw a decrease in intergovernmental expenses for \$220,632 due to the County taking over dispatch services.

**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 \$6,057,822, an increase of \$73,848, in comparison to the prior year. This total consists of: General Fund, \$5,278,711; Street Tax Fund, \$313,363; and all other non-major Funds, \$465,748.

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 \$5,278,711. The total fund balance decreased by \$1,365.

The Street Tax Fund balance increased by \$13,281. This increase was the result of fewer expenditures in the current year.

All other fund balances increased \$61,932, largely as a result an excess of revenues over expenditures in the Municipal Road Fund of \$58,243.

**Fiduciary Funds**

The City has one fiduciary fund, the FSA/HRA Fund. This fund had a decrease in net position of \$1,437 as a result of benefits paid exceeding contributions.

**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 \$5,280,076.

For the General Fund, actual revenues, in the amount of approximately \$4.1 million were higher than budgeted revenues of approximately \$3.5 million. Largely due to accretion in the City leading to increased tax revenue.

Expenditures were budgeted at approximately \$4.6 million while actual expenditures were approximately \$4.1 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, 2019  
UNAUDITED  
(Continued)**

**Capital Assets**

At the end of fiscal year 2019, the City had approximately \$10.8 million in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2019 balances compared to fiscal year 2018.

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

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
Land	\$ 1,708,185	\$ 1,241,365
Construction in Progress	18,200	25,278
Buildings	656,840	684,504
Infrastructure	7,620,347	7,623,632
Equipment	282,198	107,128
Vehicles	492,191	228,758
	<b><u>\$ 10,777,961</u></b>	<b><u>\$ 9,910,665</u></b>

**Long-Term Debt**

At June 30, 2019, the City had a total of \$276,000 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 \$64,814 in unused vacation time for employees.

The following is a summary of the City's debt transactions during 2019:

<b>Governmental Activities</b>	<b>June 30, 2018</b>	<b>Additions</b>	<b>Repayments</b>	<b>June 30, 2019</b>
Bond Indebtedness	\$ 550,000	\$ -	\$ 274,000	\$ 276,000
Compensated Absences	64,341	473	-	64,814
	<b><u>\$ 614,341</u></b>	<b><u>\$ 473</u></b>	<b><u>\$ 274,000</u></b>	<b><u>\$ 340,814</u></b>

**Economic Factors and Next Year's Budget**

The City budgeted revenues of \$4,340,697 for the year ended June 30, 2020, which is a decrease of approximately \$510,000 from the June 30, 2019 actual revenue. The City budgeted expenses of \$4,598,769, which is a decrease of approximately \$170,000 from the June 30, 2019 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, 2019**

	<u>Governmental Activities</u>
<b>Assets and Deferred Outflows of Resources</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 5,237,948
Short-term Investments	423,925
Accounts Receivable	
Taxes	821,735
Waste Collection	36,789
Other Receivables	90,055
Notes Receivable	8,423
	<u>6,618,875</u>
Total Current Assets	
<b>Noncurrent Assets (Net of Current Portion)</b>	
Notes Receivable	<u>6,089</u>
Capital Assets	
Non-Depreciable	1,726,385
Depreciable, Net	<u>9,051,576</u>
Total Capital Assets	<u>10,777,961</u>
Total Noncurrent Assets	<u>10,784,050</u>
Total Assets	<u>17,402,925</u>
<b>Deferred Outflows of Resources</b>	
Deferred Outflows Related to Pension	946,252
Deferred Outflows Related to Other Postemployment Benefits	<u>419,879</u>
Total Deferred Outflows of Resources	<u>1,366,131</u>
Total Assets and Deferred Outflows of Resources	<u>18,769,056</u>
<b>Liabilities and Deferred Inflows of Resources</b>	
<b>Current Liabilities</b>	
Accounts Payable	21,495
Accrued Liabilities	60,041
Bond Indebtedness	276,000
Compensated Absences	<u>11,821</u>
Total Current Liabilities	<u>369,357</u>
<b>Noncurrent Liabilities (Net of Current Portion)</b>	
Compensated Absences	52,993
Net Pension Liability	3,922,746
Net Other Postemployment Benefit Liability	<u>1,152,803</u>
Total Noncurrent Liabilities	<u>5,128,542</u>
Total Liabilities	<u>5,497,899</u>
<b>Deferred Inflows of Resources</b>	
Deferred Inflows Related to Pension	279,410
Deferred Inflows Related to Other Postemployment Benefits	<u>311,521</u>
Total Deferred Inflows of Resources	<u>590,931</u>
Total Liabilities and Deferred Inflows of Resources	<u>6,088,830</u>
<b>Net Position</b>	
Net Investment in Capital Assets	10,501,961
Restricted for	
Street Tax Fund Balance	345,659
Municipal Road Fund Aid Balance	274,224
Turkeyfoot Acres Fund Balance	55,911
Unrestricted	<u>1,502,471</u>
<b>Total Net Position</b>	<u>\$ 12,680,226</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Total Governmental Activities</u>
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General Government	\$ 678,237	\$ -	\$ 21,603	\$ -	\$ (656,634)
Public Safety	1,353,443	-	76,005	-	(1,277,438)
Public Works and Streets	703,268	-	172,715	-	(530,553)
Planning and Inspection	47,281	-	-	-	(47,281)
Waste Collection	78	-	-	-	(78)
Recreation	27,587	-	-	-	(27,587)
Miscellaneous	5,211	-	-	-	(5,211)
Interest Expense	13,649	-	-	-	(13,649)
Pension Expense	621,166	-	-	-	(621,166)
Other Postemployment Benefits Expense	161,149	-	-	-	(161,149)
Depreciation	447,067	-	-	-	(447,067)
<b>Total Primary Government</b>	<b>\$ 4,058,136</b>	<b>\$ -</b>	<b>\$ 270,323</b>	<b>\$ -</b>	<b>(3,787,813)</b>
<b>General Revenues</b>					
Property Taxes					1,332,308
Payroll Taxes					1,772,740
Insurance Premium Taxes					1,132,314
Other Taxes					117,710
Licenses and Permits					27,695
Fines, Forfeitures, and Penalties					68,905
Rehabilitation Loan Interest Payments					5,415
Earnings on Deposits					114,014
Gain on Sale of Assets					18,362
Other Revenue					35,241
Total General Revenues					<u>4,624,704</u>
Change in Net Position					836,891
<b>Net Position as of July 1, 2018</b>					<u>11,843,335</u>
<b>Net Position as of June 30, 2019</b>					<u>\$ 12,680,226</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	<b>General Fund</b>	<b>Street Tax Fund</b>	<b>Other Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 4,451,435	\$ 320,765	\$ 465,748	\$ 5,237,948
Short-term Investments	423,925	-	-	423,925
Accounts Receivable				
Taxes	789,439	32,296	-	821,735
Waste Collection	36,789	-	-	36,789
Other Receivables	90,055	-	-	90,055
Notes Receivable	-	-	14,512	14,512
Due from Other Funds	7,402	-	-	7,402
	<u>5,799,045</u>	<u>353,061</u>	<u>480,260</u>	<u>6,632,366</u>
<b>Total Assets</b>	<b>\$ 5,799,045</b>	<b>\$ 353,061</b>	<b>\$ 480,260</b>	<b>\$ 6,632,366</b>
<b>Liabilities</b>				
Accounts Payable	\$ 21,495	\$ -	\$ -	\$ 21,495
Other Accrued Expenses	60,041	-	-	60,041
Due to Other Funds	-	7,402	-	7,402
	<u>81,536</u>	<u>7,402</u>	<u>-</u>	<u>88,938</u>
<b>Total Liabilities</b>	<b>81,536</b>	<b>7,402</b>	<b>-</b>	<b>88,938</b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenues				
Taxes	311,954	32,296	14,512	358,762
Waste Collection	36,789	-	-	36,789
Other	90,055	-	-	90,055
	<u>438,798</u>	<u>32,296</u>	<u>14,512</u>	<u>485,606</u>
<b>Total Deferred Inflows of Resources</b>	<b>438,798</b>	<b>32,296</b>	<b>14,512</b>	<b>485,606</b>
<b>Fund Balances</b>				
Restricted for				
Street Tax Fund Balance	-	313,363	-	313,363
Municipal Road Fund Balance	-	-	274,224	274,224
Turkeyfoot Acres Fund Balance	-	-	55,911	55,911
Committed for				
Citywide Rehabilitation Fund Balance	-	-	135,613	135,613
Unassigned	5,278,711	-	-	5,278,711
	<u>5,278,711</u>	<u>313,363</u>	<u>465,748</u>	<u>6,057,822</u>
<b>Total Fund Balances</b>	<b>5,278,711</b>	<b>313,363</b>	<b>465,748</b>	<b>6,057,822</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,799,045</b>	<b>\$ 353,061</b>	<b>\$ 480,260</b>	<b>\$ 6,632,366</b>

See accompanying notes.



**CITY OF ELSMERE, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 6,057,822</b>
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	\$ 14,515,954	
Accumulated Depreciation	<u>(3,737,993)</u>	10,777,961
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		485,606
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
		(64,814)
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	946,252	
Deferred Outflows of Resources Related to Other Postemployment Benefits	419,879	
Deferred Inflows of Resources Related to Pension	(279,410)	
Deferred Inflows of Resources Related to Other Postemployment Benefits	<u>(311,521)</u>	775,200
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	(276,000)	
Net Pension Liability	(3,922,746)	
Net Other Postemployment Benefit Liability	<u>(1,152,803)</u>	<u>(5,351,549)</u>
<b>Net Assets of Governmental Activities in the Statement of Net Position</b>		<b>\$ <u>12,680,226</u></b>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Property Taxes	\$ 828,445	\$ 509,384	\$ -	\$ 1,337,829
Payroll Taxes	1,711,602	-	-	1,711,602
Insurance Premium Taxes	1,132,314	-	-	1,132,314
Other Taxes	117,710	-	-	117,710
Waste Collection	4,006	-	-	4,006
Licenses and Permits	27,695	-	-	27,695
Fines, Forfeitures, and Penalties	68,905	-	-	68,905
Intergovernmental Revenue	97,608	-	172,715	270,323
Rehabilitation Loan Interest Payments	-	-	8,433	8,433
Earnings on Deposits	101,463	6,134	6,417	114,014
Other Revenue	54,703	-	-	54,703
<b>Total Revenues</b>	<u>4,144,451</u>	<u>515,518</u>	<u>187,565</u>	<u>4,847,534</u>
<b>Expenditures</b>				
General Government	717,093	-	-	717,093
Public Safety	1,617,503	-	-	1,617,503
Public Works and Streets	636,499	-	120,422	756,921
Planning and Inspection	47,281	-	-	47,281
Waste Collection	78	-	-	78
Recreation	27,587	-	-	27,587
Miscellaneous	-	-	5,211	5,211
Debt Service				
Principal	-	274,000	-	274,000
Interest	-	13,649	-	13,649
Capital Outlay	1,099,775	214,588	-	1,314,363
<b>Total Expenditures</b>	<u>4,145,816</u>	<u>502,237</u>	<u>125,633</u>	<u>4,773,686</u>
<b>(Deficiency) Excess of Revenues Over Expenditures</b>	(1,365)	13,281	61,932	73,848
<b>Fund Balance, July 1, 2018 (As Restated)</b>	<u>5,280,076</u>	<u>300,082</u>	<u>403,816</u>	<u>5,983,974</u>
<b>Fund Balance, June 30, 2019</b>	<u>\$ 5,278,711</u>	<u>\$ 313,363</u>	<u>\$ 465,748</u>	<u>\$ 6,057,822</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, 2019**

**Change in Fund Balances - Total Governmental Funds** \$ 73,848

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 capital outlays exceeds depreciation expense.

Depreciation Expense	\$ (447,067)	
Capital Outlays	<u>1,314,363</u>	867,296

In the statement of activities, only the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Proceeds from Sale of Capital Assets	(18,362)	
Gain on Sale of Capital Assets	<u>18,362</u>	-

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 274,000

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. (473)

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, 2018	(81,798)	
City Other Postemployment Benefit Contributions - June 30, 2019	100,898	
Change in Other Postemployment Benefit Liability	<u>(79,351)</u>	(60,251)

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, 2018	(209,264)	
City Pension Contributions - June 30, 2019	256,145	
Cost of Benefits Earned Net of Employee Contributions	<u>(411,902)</u>	(365,021)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 47,492

**Change in Net Position - Governmental Activities** **\$ 836,891**

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2019**

	<b>FSA/HRA Fund</b>
<b>Assets</b>	
Cash	\$ <u>7,882</u>
<b>Total Assets</b>	\$ <u><u>7,882</u></u>
<b>Net Position</b>	
Restricted for Other Employee Benefits	\$ <u>7,882</u>
<b>Total Net Position</b>	\$ <u><u>7,882</u></u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
JUNE 30, 2019**

	<b>FSA/HRA Fund</b>
<b>Additions</b>	
Employer Contributions	\$ 12,025
Employee Contributions	11,697
Interest Income	137
Total Additions	23,859
 <b>Deductions</b>	
Benefits Paid	25,296
<b>Change in Net Position</b>	(1,437)
 <b>Net Position, July 1, 2018</b>	9,319
<b>Total Net Position, June 30, 2019</b>	\$ 7,882

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.

**Short-term Investments**

Short-term investments consist of time certificates of deposit with an original maturity greater than ninety days and market linked certificates of deposit. Time certificates of deposit are recorded at cost and market linked certificates of deposit are recorded at fair value based on quoted market prices.

**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)****Accounts Receivable**

Accounts receivable are presented, when considered necessary, net of an allowance for doubtful accounts. There was no allowance determined necessary as of June 30, 2019.

**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 on the government-wide financial statements.

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 on the government-wide financial statements. In the governmental funds, certain revenue transactions have been reported as unavailable revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current period. Revenue that is earned but not available is reported as a deferred inflow of resources until such time as the revenue becomes available.

**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.

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

**Net Position**

The government-wide financial statement utilize a net position presentation. Net position is displayed as three components:

- Net Investment in Capital Assets – Represents capital assets, net of accumulated depreciation, reduced by the outstanding balances of capital leases, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position – Consists of net position with constraints place on their use by external groups such as creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – Represents the net position available for future operations.

**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.

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

**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 1<sup>st</sup>. 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 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, 2019, 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.

**Investments**

At June 30, 2019, the City’s investment balances and maturities were as follows:

	June 30, 2019	Investment Maturities Less than 1 Year
Certificates of Deposit	\$ 209,728	\$ 209,728
Market Linked Certificates of Deposit	214,197	214,197
Total Investments	<u>\$ 423,925</u>	<u>\$ 423,925</u>

*Interest rate risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The City’s investment policy limits interest rate risk by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio. The market linked certificates of deposit are subject to market risks if redeemed prior to maturity. Interest rate returns are subject to change depending on the equity value of a certain pool of investments.

*Credit risk* – Credit risk is the risk of loss of principal stemming from a borrower’s failure to repay a loan or otherwise meet a contractual obligation. Kentucky Revised Statutes (KRS) 66.480 of Commonwealth of Kentucky law limits the investment of public funds to obligations of the United States Government, obligations backed by the full faith and credit of the United States Government, obligations of any corporation or agency of the United States Government, certificates of deposit, commercial paper, bond or securities issued by a state or local government, and shares of mutual funds. KRS 66.480 limit the Bureau’s authorized investment instruments in these investments to one of the top three highest rated categories by a nationally rated agency.

*Custodial credit risk – investments* – For market linked certificates of deposit, this is the risk that in the event of failure of the counterparty or bank, the City will not be able to recover the value of its investments held in the possession of an outside party. Investments are held for the benefit of the City by a registered broker/dealer that is a member of the Financial Industry Regulatory Authority and the Securities Investors Protection Corporation.

**NOTE 4 - FAIR VALUE MEASUREMENT**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the markets for the security type and the inputs used to determine their fair value, as follows:

**LEVEL 1** – Unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the City has the ability to access.

**LEVEL 2** – Other observable inputs (included but no limited to, quotes process for similar assets or liabilities in the markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates or other market- corroborated inputs).

**LEVEL 3** – Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Certificates of deposit categorized as Level 2 are based on a matrix pricing approach. Matrix pricing is used to value securities based on the securities’ relationship to the benchmark quoted price.

The following table sets forth by level, within the fair value hierarchy, the City’s assets at fair value at June 30, 2019:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Market Linked Certificates of Deposit	\$ <u>214,197</u>	\$ <u>-</u>	\$ <u>214,197</u>	\$ <u>-</u>

**NOTE 5 - NOTES RECEIVABLE**

**Citywide Loan Program**

The City offers a loan program to eligible citizens and businesses for rehab assistance on properties within the city limits. The rehab assistance is limited to exterior repairs, structural deficiencies and energy conservation improvements. Private citizens are eligible for rehab loans up to \$6,000 and business owners are eligible for loans up to \$10,000. These loans are made for a term of 5 years, payable monthly, with an effective interest rate of 3 percent. At June 30, 2019, the City reported a balance of \$14,512 due on notes from the Citywide Loan Program.

**NOTE 6 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 1,241,365	\$ 466,820	\$ -	\$ 1,708,185
Construction in Progress	25,278	18,200	25,278	18,200
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,266,643</b>	<b>485,020</b>	<b>25,278</b>	<b>1,726,385</b>
Depreciable Capital Assets				
Buildings	1,337,302	-	-	1,337,302
Infrastructure	9,614,314	239,866	-	9,854,180
Equipment	283,335	230,661	-	513,996
Furniture and Fixtures	32,095	-	9,605	22,490
Vehicles	702,277	384,094	24,770	1,061,601
<b>Total Depreciable Capital Assets</b>	<b>11,969,323</b>	<b>854,621</b>	<b>34,375</b>	<b>12,789,569</b>
<b>Total Capital Assets at Historical Cost</b>	<b>13,235,966</b>	<b>1,339,641</b>	<b>59,653</b>	<b>14,515,954</b>
Less Accumulated Depreciation				
Buildings	652,798	27,664	-	680,462
Infrastructure	1,990,682	243,151	-	2,233,833
Equipment	176,207	55,591	-	231,798
Furniture and Fixtures	32,095	-	9,605	22,490
Vehicles	473,519	120,661	24,770	569,410
<b>Total Accumulated Depreciation</b>	<b>3,325,301</b>	<b>447,067</b>	<b>34,375</b>	<b>3,737,993</b>
<b>Depreciable Capital Assets, Net</b>	<b>8,644,022</b>	<b>407,554</b>	<b>-</b>	<b>9,051,576</b>
<b>Governmental Activities Capital Assets - Net</b>	<b>\$ 9,910,665</b>	<b>\$ 892,574</b>	<b>\$ 25,278</b>	<b>\$ 10,777,961</b>

**NOTE 7 - 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.

**NOTE 7 - LONG-TERM LIABILITIES (Continued)**

The original amount of the outstanding issue, the issue date, interest rates and outstanding balances at June 30, 2019 are summarized below:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Outstanding Balance at June 30, 2019</u>	<u>Outstanding Balance at June 30, 2018</u>
2010 Series A	\$ 2,560,000	1.00 - 3.00%	\$ <u>276,000</u>	\$ <u>550,000</u>

The minimum obligation of the City at June 30, 2019 for principal and interest is a follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2020	\$ <u>276,000</u>	\$ <u>8,400</u>	\$ <u>284,400</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, 2019.

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2019</u>	<u>Amounts Expected to be Paid Within One Year</u>
Bond Indebtedness	\$ 550,000	\$ -	\$ 274,000	\$ 276,000	\$ 276,000
Compensated Absences	<u>64,341</u>	<u>473</u>	<u>-</u>	<u>64,814</u>	<u>11,821</u>
Total	\$ <u>614,341</u>	\$ <u>473</u>	\$ <u>274,000</u>	\$ <u>340,814</u>	\$ <u>287,821</u>

**NOTE 8 - PENSION PLAN**

**General Information about the Pension Plan**

*Plan description:* County Employees Retirement System (CERS) 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.

*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.

**NOTE 8 - PENSION PLAN (Continued)**

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

**Benefit Formula for Tiers 3**

<b>(A-B) = C X 75% = D then B+D = Interest</b>					
<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>Interest Rate Earned (4% + Upside)</u>	<u>Total Interest Credited to Members' Accounts</u>
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned		
7.39%	4.00%	3.39%	2.54%	6.54%	\$ 4,786,000



**NOTE 8 - PENSION PLAN (Continued)**

Hazardous Plan:

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

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
55	1 month	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.

**Tier 2: Retirement Eligibility for Members Whose Participation 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>
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  
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>
60	5	None
Any	25	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 three highest if participation began before 09/01/2008.		2.50% if:	Member begins participating before 09/01/2008.	Includes earned service, purchased service, prior service, and sick leave service
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 on or after 09/01/2008 but before 01/01/2014.	(if the member's employer participates in an approved sick

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

**Benefit Formula for Tiers 3**

<b>(A-B) = C X 75% = D then B+D = Interest</b>					
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>Interest Rate Earned (4% + Upside)</b>	<b>Total Interest Credited to Members' Accounts</b>
<b>5 Year Geometric Average Return</b>	<b>Less Guarantee Rate</b>	<b>Upside Sharing Interest</b>	<b>Interest Rate Earned</b>		
7.66%	4.00%	3.66%	2.75%	6.75%	\$ 1,284,000

Non-hazardous and Hazardous Plans:

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.

**NOTE 8 - PENSION PLAN (Continued)**

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 hypothetical 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.

During the 2018 legislative session, House Bill 185 was enacted, which provided increased pension benefits for the beneficiaries of active members who die in the line of duty.

*Contributions:* The employee contribution rate is set by state statute. For the year ended June 30, 2019 non-hazardous employees contribute 5.00% and hazardous employees contributed 8.00% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous or 9.00% for hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous or 8.00% hazardous (of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

**NOTE 8 - 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, 2019, participating employers contributed 21.48% (16.22% pension fund and 5.26% insurance fund) for the non-hazardous system of each employee's creditable compensation and 35.34% (24.86% pension fund and 10.48% 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 were \$256,145 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of \$3,922,746 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, 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, 2019, the City's proportion for the non-hazardous system was 0.018283% and for the hazardous system was 0.116159% a decrease of 0.000830% and 0.013290% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2018.

For the year ended June 30, 2019, the City recognized pension expense of \$621,166. At June 30, 2019, 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>
Difference Between Expected and Actual Experience	\$ 259,888	\$ 16,299
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	45,039
Changes of Assumptions	407,856	-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	22,363	218,072
Contributions Subsequent to the Measurement Date	<u>256,145</u>	<u>-</u>
Total	<u>\$ 946,252</u>	<u>\$ 279,410</u>

**NOTE 8 - PENSION PLAN (Continued)**

The \$256,145 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, 2020. 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>	
2020	\$ 356,178
2021	131,246
2022	(58,063)
2023	<u>(18,664)</u>
	<u>\$ 410,697</u>

*Actuarial assumptions:* The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	25 Years
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.30%
Salary Increase	3.05%, Average, Including Inflation
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

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 (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.

**NOTE 8 - PENSION PLAN (Continued)**

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 Real Rate of Return
US Equity:		
US Large Cap	5.00 %	4.50 %
US Mid Cap	6.00	4.50
US Small Cap	6.50	5.50
Non-US Equity:		
International Developed	12.50	6.50
Emerging Markets	5.00	7.25
Global Bonds	4.00	3.00
Credit Fixed:		
Global IG Credit	2.00	3.75
High Yield	7.00	5.50
EMD	5.00	6.00
Illiquid Private	10.00	8.50
Private Equity	10.00	6.50
Real Estate	5.00	9.00
Absolute Return	10.00	5.00
Real Return	10.00	7.00
Cash	2.00	1.50
Total	100.00 %	

*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	Current Discount	1% Increase
Non-hazardous	\$ 1,401,769	\$ 1,113,490	\$ 871,963
Hazardous	\$ 3,519,813	\$ 2,809,256	\$ 2,221,846

*Changes of assumptions:* There have been no changes in actuarial assumptions since the June 30, 2017 valuation.

*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](http://www.kyret.ky.gov).

**NOTE 9 - 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.

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.

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:

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

During the 2018 legislative session, House Bill 185 was enacted, which provided increased pension benefits for the beneficiaries of active members who die in the line of duty.

*Contributions:* The employee contribution rate is set by state statute. For the year ended June 30, 2019, non-hazardous employees contribute 5.00% while hazardous duty members contribute 8.00% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous or 9.00% for hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

**NOTE 9 - OPEB PLAN (Continued)**

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous or 8.00% hazardous (of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

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, 2019, participating employers contributed 21.48% (16.22% pension fund and 5.26% insurance fund) for the non-hazardous system and 35.34% (24.86% pension fund and 10.48% 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 \$100,898 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of \$1,152,803 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, 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, 2019, the City's proportion for the non-hazardous system was 0.018282% and for the hazardous system was 0.116165% a decrease of 0.000830% and 0.013284% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2018.

For the year ended June 30, 2019, the City recognized OPEB expense of \$161,149. At June 30, 2019, 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	\$ -	\$ 130,383
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	101,094
Changes in Assumptions	318,981	3,015
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	-	77,029
Contributions Subsequent to the Measurement Date	<u>100,898</u>	<u>-</u>
Total	<u>\$ 419,879</u>	<u>\$ 311,521</u>

**NOTE 9 - OPEB PLAN (Continued)**

\$100,898 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2020	\$	30,400
2021		30,400
2022		(15,310)
2023		(29,735)
2024		(5,426)
Thereafter		<u>(2,869)</u>
	\$	<u>7,460</u>

*Actuarial assumptions:* The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Amortization Period	27 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Assets is Recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	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.

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 (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.



**NOTE 9 - OPEB PLAN (Continued)**

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 Real Rate of Return
US Equity:		
US Large Cap	5.00 %	4.50 %
US Mid Cap	6.00	4.50
US Small Cap	6.50	5.50
Non-US Equity:		
International Developed	12.50	6.50
Emerging Markets	5.00	7.25
Global Bonds	4.00	3.00
Credit Fixed:		
Global IG Credit	2.00	3.75
High Yield	7.00	5.50
EMD	5.00	6.00
Illiquid Private	10.00	8.50
Private Equity	10.00	6.50
Real Estate	5.00	9.00
Absolute Return	10.00	5.00
Real Return	10.00	7.00
Cash	2.00	1.50
Total	<u>100.00 %</u>	

*Discount rate:* The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous and 5.97% 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 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. 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.

*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 (4.85% for non-hazardous and 4.97% for hazardous) or 1-percentage-point higher (6.85% for non-hazardous and 6.97% for hazardous) than the current rate:

	1% Decrease	Current Discount	1% Increase
Non-hazardous	\$ 421,595	\$ 324,593	\$ 241,966
Hazardous	\$ 1,151,252	\$ 828,210	\$ 569,605

**NOTE 9 - OPEB PLAN (Continued)**

*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	\$ 241,663	\$ 324,593	\$ 422,344
Hazardous	\$ 564,051	\$ 828,210	\$ 1,155,381

*Changes of assumptions:* There have been changes in actuarial assumptions since June 30, 2017.

*Other postemployment benefits plan fiduciary net position:* Detailed information about the other postemployment benefits 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](http://www.kyret.ky.gov).

**NOTE 10 - OPERATING LEASES**

**Operating Leases Payable**

The City leases equipment under operating leases expiring at various times through October, 2024. Expenditures for equipment under operating leases totaled \$5,212 for the year ended June 30, 2019. Future minimum rental payments under these leases are as follows:

Years Ending June 30,	
2020	\$ 6,590
2021	6,590
2022	6,590
2023	6,590
2024	4,909
Thereafter	807
	<u>\$ 32,076</u>

**Operating Lease Receivable**

During December 2018, as the result of a settlement agreement, the City purchased property from Grants Park, LLC for \$450,000. The terms of the settlement agreement stipulate that the City must lease the property back to Grants Park until December 31, 2020. The annual rental payments agreed upon between the parties is \$1 per year, which is payable on the first day of each year in advance during the term of the lease. There is one future rent payment receivable under the terms of this lease during the fiscal year ending June 30, 2020 for \$1.

**NOTE 11 - 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, 2019 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 12 - 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 13 - RESTATEMENT OF FUND BALANCE**

For the year ended June 30, 2018, the City recorded tax receivables in the general fund that were earned, but not yet available. The revenue was improperly recognized as of June 30, 2018, thus the general fund balance was overstated by \$182,984. This restatement of general fund balance has no effect on the net position of the City.

The restatement had the following effects on the general fund balance:

General Fund Balance, June 30, 2018	\$ 5,463,060
Correction of Payroll Tax Revenue not Earned	<u>(182,984)</u>
Restated General Fund Balance, June 30, 2018	<u><u>\$ 5,280,076</u></u>

**NOTE 14 - SUBSEQUENT EVENTS**

**Issuance of General Obligation Bonds**

In August 2019, the City approved an ordinance authorizing the issuance of General Obligation Bonds, Series 2019, for the aggregate principal amount of \$5,000,000. The authorized amount is subject to a permitted adjustment, increasing the bonds by up to \$500,000 or decreasing the principal amounts of the bonds by any amount. The purpose of the bonds are for financing a portion of the costs of acquisition, construction, installation, and equipping of a new city administration building.

**Franchise Tax**

In August 2019, the City approved an ordinance to establish a franchise fee equal to 3% of gross receipts from the sale of electricity and natural gas for consumption within the City. The franchise fee is to be paid on a quarterly basis, and there is an annual single customer maximum of \$4,000.

**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, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>with Final Budget Favorable (Unfavorable)</b>
<b>Revenues</b>				
Taxes	\$ 3,277,800	\$ 3,277,800	\$ 3,790,071	\$ 512,271
Waste Collection	2,000	2,000	4,006	2,006
Licenses and Permits	9,700	9,700	27,695	17,995
Fines, Forfeitures, and Penalties	30,000	30,000	68,905	38,905
Intergovernmental Revenue	81,700	81,700	97,608	15,908
Earnings on Investments	10,000	10,000	101,463	91,463
Other Revenue	49,600	49,600	54,703	5,103
<b>Total Revenues</b>	<b>3,460,800</b>	<b>3,460,800</b>	<b>4,144,451</b>	<b>683,651</b>
<b>Expenditures</b>				
General Government	776,650	776,650	717,093	59,557
Public Safety	1,803,600	1,803,600	1,617,503	186,097
Public Works and Streets	665,500	665,500	636,499	29,001
Planning and Inspection	64,600	64,600	47,281	17,319
Waste Collection	2,500	2,500	78	2,422
Parks And Recreation	36,500	36,500	27,587	8,913
Miscellaneous Expense	-	-	-	-
Capital Outlay	932,500	1,278,901	1,099,775	179,126
<b>Total Expenditures</b>	<b>4,281,850</b>	<b>4,628,251</b>	<b>4,145,816</b>	<b>482,435</b>
<b>(Deficiency) of Revenues Over Expenditures</b>	<b>(821,050)</b>	<b>(1,167,451)</b>	<b>(1,365)</b>	<b>1,166,086</b>
<b>Fund Balance July 1, 2018 (As Restated)</b>	<b>5,280,076</b>	<b>5,280,076</b>	<b>5,280,076</b>	<b>-</b>
<b>Fund Balance June 30, 2019</b>	<b>\$ 4,459,026</b>	<b>\$ 4,112,625</b>	<b>\$ 5,278,711</b>	<b>\$ 1,166,086</b>

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, 2019**

	<b>Budgeted Items</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 500,000	\$ 500,000	\$ 509,384	\$ 9,384
Earnings on Investments	1,500	1,500	6,134	4,634
 Total Revenues	 501,500	 501,500	 515,518	 14,018
<b>Expenditures</b>				
Debt Service	295,000	295,000	287,649	7,351
Capital Projects	319,625	319,625	214,588	105,037
 Total Expenditures	 614,625	 614,625	 502,237	 112,388
 <b>(Deficiency) Excess of Revenues Over Expenditures</b>	 (113,125)	 (113,125)	 13,281	 126,406
 <b>Fund Balance July 1, 2018</b>	 300,082	 300,082	 300,082	 -
 <b>Fund Balance June 30, 2019</b>	 \$ 186,957	 \$ 186,957	 \$ 313,363	 \$ 126,406

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**JUNE 30, 2019**

**County Employees Retirement System**  
**Last 10 Fiscal Years\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability (Asset) - Non-hazardous	0.018283%	0.019113%	0.018360%	0.017508%	0.016995%
City's Proportion of the Net Pension Liability (Asset) - Hazardous	0.116159%	0.129449%	0.132390%	0.127730%	0.132432%
City's Proportionate Share of the Net Net Pension Liability (Asset) - Non-hazardous	\$ 1,113,490	\$ 1,118,743	\$ 905,036	\$ 752,754	\$ 551,393
City's Proportionate Share of the Net Net Pension Liability (Asset) - Hazardous	<u>2,809,256</u>	<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>\$ 3,922,746</u>	<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	\$ 1,100,210	\$ 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 Covered-Employee Payroll	356.55%	329.09%	283.49%	242.32%	199.07%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability - Non-hazardous	53.54%	53.32%	55.50%	59.97%	66.80%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability - Hazardous	49.26%	49.78%	53.95%	57.52%	63.46%

\*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 PENSION CONTRIBUTIONS  
JUNE 30, 2019**

**County Employees Retirement System  
Last 10 Fiscal Years\***

<u>Non-hazardous</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 72,050	\$ 65,615	\$ 55,087	\$ 44,359	\$ 44,692	\$ 44,939
Contributions in Relation to the Contractually Required Contribution	<u>(72,050)</u>	<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>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>
City's Covered-Employee Payroll	\$ 444,205	\$ 453,143	\$ 394,771	\$ 357,159	\$ 350,524	\$ 327,058
Contributions as a Percentage of Covered-Employee Payroll	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
<u>Hazardous</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 184,095	\$ 143,649	\$ 166,825	154,674	\$ 176,555	\$ 163,149
Contributions in Relation to the Contractually Required Contribution	<u>(184,095)</u>	<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>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>      -</u>
City's Covered-Employee Payroll	\$ 740,319	\$ 647,067	\$ 825,225	\$ 763,445	\$ 769,303	\$ 749,420
Contributions as a Percentage of Covered-Employee Payroll	24.87%	22.20%	20.22%	20.26%	22.95%	21.77%

\*Only six 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, 2019**

**County Employees Retirement System  
Last 10 Fiscal Years\***

	<u>2019</u>	<u>2018</u>
City's Proportion of the Net OPEB Liability (Asset) - Non-hazardous	0.018282%	0.019113%
City's Proportion of the Net OPEB Liability (Asset) - Hazardous	0.116165%	0.129449%
City's Proportionate Share of the Net OPEB Liability (Asset) - Non-hazardous	\$ 324,593	\$ 384,237
City's Proportionate Share of the Net OPEB Liability (Asset) - Hazardous	<u>828,210</u>	<u>1,070,118</u>
Total City's Proportionate Share of the Net OPEB Liability (Asset)	<u>\$ 1,152,803</u>	<u>\$ 1,454,355</u>
City's Covered - Employee Payroll	\$ 1,100,210	\$ 1,219,996
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	104.78%	119.21%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-hazardous	57.62%	52.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Hazardous	64.24%	58.99%

*\* Only two 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 OPEB CONTRIBUTIONS  
JUNE 30, 2019**

**County Employees Retirement System  
Last 10 Fiscal Years\***

<b>Non-hazardous</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Contractually Required Contribution	\$ 23,365	\$ 21,298	\$ 18,678
Contributions in Relation to the Contractually Required Contribution	<u>(23,365)</u>	<u>(21,298)</u>	<u>(18,678)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 444,205	\$ 453,143	\$ 394,771
Contributions as a Percentage of Covered-Employee Payroll	5.26%	4.70%	4.73%
<b>Hazardous</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Contractually Required Contribution	\$ 77,533	\$ 60,500	\$ 71,848
Contributions in Relation to the Contractually Required Contribution	<u>(77,533)</u>	<u>(60,500)</u>	<u>(71,848)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 740,319	\$ 647,067	\$ 825,225
Contributions as a Percentage of Covered-Employee Payroll	10.47%	9.35%	8.71%

\* Only three 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, 2019**

	<u>Municipal Road Fund</u>	<u>Citywide Rehabilitation Fund</u>	<u>Turkeyfoot Acres Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 274,224	\$ 135,613	\$ 55,911	\$ 465,748
Notes Receivable	-	14,512	-	14,512
<b>Total Assets</b>	<u>\$ 274,224</u>	<u>\$ 150,125</u>	<u>\$ 55,911</u>	<u>\$ 480,260</u>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenues	\$ -	\$ 14,512	\$ -	\$ 14,512
<b>Fund Balances</b>				
Restricted for				
Municipal Road Fund Balance	274,224	-	-	274,224
Turkeyfoot Acres Fund Balance	-	-	55,911	55,911
Committed for				
Citywide Rehabilitation Fund Balance	-	135,613	-	135,613
<b>Total Fund Balances</b>	<u>274,224</u>	<u>135,613</u>	<u>55,911</u>	<u>465,748</u>
<b>Total Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 274,224</u>	<u>\$ 150,125</u>	<u>\$ 55,911</u>	<u>\$ 480,260</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, 2019**

	<b>Municipal Road Fund</b>	<b>Citywide Rehabilitation Fund</b>	<b>Turkeyfoot Acres Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>Revenues</b>				
Intergovernmental Revenue	\$ 172,715	\$ -	\$ -	\$ 172,715
Rehabilitation Loan Interest Payments	-	8,433	-	8,433
Earnings on Deposits	5,950	327	140	6,417
	<u>178,665</u>	<u>8,760</u>	<u>140</u>	<u>187,565</u>
<b>Total Revenues</b>				
	<u>178,665</u>	<u>8,760</u>	<u>140</u>	<u>187,565</u>
<b>Expenditures</b>				
Public Works and Streets	120,422	-	-	120,422
Miscellaneous	-	4,985	226	5,211
	<u>120,422</u>	<u>4,985</u>	<u>226</u>	<u>125,633</u>
<b>Total Expenditures</b>				
	<u>120,422</u>	<u>4,985</u>	<u>226</u>	<u>125,633</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	58,243	3,775	(86)	61,932
<b>Fund Balance, July 1, 2018</b>	<u>215,981</u>	<u>131,838</u>	<u>55,997</u>	<u>403,816</u>
<b>Fund Balance, June 30, 2019</b>	<u><u>\$ 274,224</u></u>	<u><u>\$ 135,613</u></u>	<u><u>\$ 55,911</u></u>	<u><u>\$ 465,748</u></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, 2019**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 166,950	\$ 166,950	\$ 172,715	\$ 5,765
Earnings on Investments	1,500	1,500	5,950	4,450
	<u>168,450</u>	<u>168,450</u>	<u>178,665</u>	<u>10,215</u>
<b>Expenditures</b>				
Public Works and Streets	135,000	135,000	120,422	14,578
Capital Projects	72,625	72,625	-	72,625
	<u>207,625</u>	<u>207,625</u>	<u>120,422</u>	<u>87,203</u>
<b>(Deficit) Excess of Revenues Over Expenditures</b>	(39,175)	(39,175)	58,243	97,418
<b>Fund Balance, July 1, 2018</b>	<u>215,981</u>	<u>215,981</u>	<u>215,981</u>	<u>-</u>
<b>Fund Balance, June 30, 2019</b>	<u>\$ 176,806</u>	<u>\$ 176,806</u>	<u>\$ 274,224</u>	<u>\$ 97,418</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, 2019**

	<b>Budgeted Items</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>with Final Budget (Unfavorable) Favorable</b>
<b>Revenues</b>				
Miscellaneous	\$ 7,000	\$ 7,000	\$ 8,433	\$ 1,433
Interest	200	200	327	127
Total Revenues	7,200	7,200	8,760	1,560
<b>Expenditures</b>				
Miscellaneous	28,000	28,000	4,985	23,015
<b>(Deficiency) Excess of Revenues Over Expenditures</b>	(20,800)	(20,800)	3,775	24,575
<b>Fund Balance July 1, 2018</b>	131,838	131,838	131,838	-
<b>Fund Balance June 30, 2019</b>	<u>\$ 111,038</u>	<u>\$ 111,038</u>	<u>\$ 135,613</u>	<u>\$ 24,575</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, 2019**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Earnings on Deposits	\$ 500	\$ 500	\$ 140	\$ (360)
<b>Expenditures</b>				
Miscellaneous	<u>56,500</u>	<u>56,500</u>	<u>226</u>	<u>56,274</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(56,000)	(56,000)	(86)	55,914
<b>Fund Balance, July 1, 2018</b>	<u>55,997</u>	<u>55,997</u>	<u>55,997</u>	<u>-</u>
<b>Fund Balance, June 30, 2019</b>	<u><u>\$ (3)</u></u>	<u><u>\$ (3)</u></u>	<u><u>\$ 55,911</u></u>	<u><u>\$ 55,914</u></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, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky as of and for the year ended June 30, 2019, 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 January 7, 2020.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. We did identify certain deficiencies in internal control, described in the accompany schedule of findings and responses as items 2019-001 through 2019-003 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 responses. 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  
January 7, 2020

**CITY OF ELSMERE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2019-001 Audit Adjustment in Current and Prior Period**

*Criteria:* The City is required to have internal controls over the period-end financial reporting process that enable the City to record year-end journal entries to produce financial records that are in accordance with generally accepted accounting principles.

*Condition:* As a result of current year auditing procedures, a misstatement was identified that was not previously identified by the City's internal controls over financial reporting.

*Cause:* The City failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records.

*Effect:* The City's books required an audit adjustment to ensure their financial records were fairly stated in accordance with generally accepted accounting principles.

*Repeat Finding:* This is a repeat finding.

*Recommendation:* The City should implement procedures to their period-end financial reporting process to analytically review year-end financial data in order to detect and correct errors prior to the audit beginning.

*Views of Responsible Officials and Planned Corrective Actions:* Management acknowledges the importance of adequate oversight over period-end financial reporting. The contracted third party accountant will review current as well as prior period audited financial statements and post any adjustment to ensure the financial records are fairly stated in accordance with generally accepted accounting principles before the audit begins.

**Finding 2019-002 Segregation of Duties Surrounding Cash Disbursements**

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

*Condition:* One City employee is responsible for preparing checks, recording of transactions in the accounting software, and mailing of checks.

*Cause:* There is a lack of segregation of duties surrounding cash disbursements.

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

*Repeat Finding:* This is a repeat finding from the prior year.

*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): 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 acknowledges the importance of adequate segregation of duties surrounding cash disbursements. Internal procedures have been modified considering the current size of the office staff and resources available. Management will reevaluate the processes surrounding cash disbursements and implement modifications as deemed necessary.

**CITY OF ELSMERE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019  
(Continued)**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2019-003 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 posting 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 a repeat finding from the prior year.

*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
- 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 acknowledges the importance of adequate segregation of duties surrounding payroll taxes and cash receipts. Management will modify procedures so the same individual does not send the bills and upload data into the software in the future. Additionally, property tax write offs will be approved by the City Administrator or Mayor and posted by an individual other than the person posting receipts to the software.

**PRIOR YEAR - FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001 Material Prior Period Adjustments**

The audited financial statements for the year ended June 30, 2017 were materially misstated. Prior period adjustments were made to restate net position.

*Status:* The City implemented procedures in the current year. However, material adjustments were still identified. Therefore, this will be a repeat finding.

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

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.

*Status:* The City implemented procedures to correct the finding during the fiscal year.

**CITY OF ELSMERE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2019  
(Continued)**

**PRIOR YEAR - FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2018-003 Monitoring of Payroll**

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.

*Status:* The City implemented procedures to correct the finding during the fiscal year.

**Finding 2018-004 Segregation of Duties Surrounding Cash Disbursements**

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

*Status:* This a repeat finding for the fiscal year ended June 30, 2019. The City has implemented procedures to segregate many of the incompatible duties surrounding disbursements, however, certain incompatible duties still exist.

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

One City employee is responsible for uploading property tax information into the software, sending property tax bills, receiving property tax payments and posting of receipts into the same software. There is a potential for misappropriation of funds to occur with one employee having control over the property tax function.

*Status:* This is a repeat finding for the fiscal year ended June 30, 2019.