

CITY OF ELSMERE, KENTUCKY

June 30, 2020

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING REQUIRED SUPPLEMENTARY
INFORMATION AND OTHER 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2020, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 - 8, major fund budgetary comparison information on pages 42 - 43, the City's pension schedules on pages 44 - 45, and the OPEB schedules on pages 46 - 47, 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 5, 2021, 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 solely 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, 2020
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, 2020. Please read it in conjunction with the City's basic financial statements that begin on page 9.

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 9 and 10, 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 11. 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 2020 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 \$12,814,621 (net position).
- As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$10,565,577, an increase of \$4,507,755 from the prior year ending fund.
- As of June 30, 2020, unassigned fund balance for the General Fund was \$5,010,629.
- The City's cash and cash equivalents increased by \$4,870,095 from \$5,237,948 at June 30, 2019 to \$10,108,043 at June 30, 2020.
- The City's accounts receivables increased by \$328,586 from \$948,579 at June 30, 2019 to \$1,277,165 at June 30, 2020.
- The City's total debt increased by \$4,735,784, including compensated absences but excluding net pension liability and net other postemployment benefit liability, during the current year.

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, 2020
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 9 and 10 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, City Building Bond Fund, Capital Outlay 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.

The basic governmental fund financial statements can be found on pages 11 through 14 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 15 and 16 of this report.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
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 17 through 41 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 2020 compared to 2019:

**Table 1
Net Position**

	Governmental Activities	
	2020	2019
Assets		
Current and Other Assets	\$ 11,410,634	\$ 6,624,964
Capital Assets, Net	11,551,766	10,777,961
Total Assets	<u>22,962,400</u>	<u>17,402,925</u>
Deferred Outflows of Resources	<u>1,757,104</u>	<u>1,366,131</u>
Liabilities		
Current Liabilities	259,136	369,357
Noncurrent Liabilities	11,015,308	5,128,542
Total Liabilities	<u>11,274,444</u>	<u>5,497,899</u>
Deferred Inflows of Resources	<u>630,439</u>	<u>590,931</u>
Net Position		
Net Investment in Capital Assets	11,222,910	10,501,961
Restricted for		
Street Tax Fund Balance	246,462	345,659
Municipal Road Aid Fund Balance	355,135	274,224
Turkeyfoot Acres Fund Balance	56,052	55,911
City Building Bond Fund Balance	3,568	-
Unrestricted	<u>930,494</u>	<u>1,502,471</u>
Total Net Position	<u>\$ 12,814,621</u>	<u>\$ 12,680,226</u>

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 \$12.8 million as of June 30, 2020.

A large portion of the City's net position (approximately \$11.2 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, 2020
UNAUDITED
(Continued)

An additional portion of the City's net position (approximately \$661,000) 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, Turkeyfoot Acres Fund, and City Building Bond Fund.

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

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

1. Cash and cash equivalents increased \$4,870,095 from the previous year primarily due to issuance of general obligation bonds for \$5,000,000 to finance the construction of the city administration building.
2. Accounts receivables increased \$328,586 from the previous year due to recording a receivable of \$322,391 for Coronavirus Relief Funding earned.
3. Net capital assets increased \$773,805. During the fiscal year, the City purchased land and had planning costs for the new city building for approximately \$788,000. Additionally, the City purchased two police cruisers for approximately \$89,000, and had costs for infrastructure projects totaling approximately \$365,000. Other fixed asset additions were approximately \$34,000. Total depreciation expense in the current year was approximately \$502,000.
4. Deferred outflows of resources increased by \$390,973 largely due to an increase in changes in proportion and difference between employer contributions and proportionate share contributions for the net pension and net OPEB liabilities.
5. Noncurrent liabilities increased \$5,886,766 from the previous year primarily due to issuance of general obligation bonds for \$5,000,000, of which \$4,880,000 is classified as noncurrent. Additionally, changes in the proportionate share of the net pension and net OPEB liabilities resulted in an increase of \$998,927.
6. Net investment in capital assets increased \$720,949 due to the capital assets activity noted above.
7. The City has \$930,494 of unrestricted net position as of June 30, 2020.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED
(Continued)**

Table 2 reflects the change in net position for fiscal years 2020 and 2019:

**Table 2
Change in Net Position**

	Governmental Activities	
	Years Ended June 30,	
	2020	2019
Revenues		
General Revenues		
Property Taxes	\$ 1,368,918	\$ 1,332,308
Payroll Taxes	1,593,319	1,772,740
Insurance Premium Taxes	1,104,717	1,132,314
Other Taxes	89,673	117,710
Penalties and Interest on Taxes	31,594	43,342
Rehabilitation Loan Interest Payments	564	5,415
Earnings on Deposits	91,395	114,014
Gain on Sale of Assets	-	18,362
Other Revenue	14,988	32,471
Total General Revenues	<u>4,295,168</u>	<u>4,568,676</u>
Program Revenues		
Charges for Service	87,682	56,028
Operating Grants and Contributions	448,973	97,608
Capital Grants and Contributions	168,220	172,715
Total Program Revenues	<u>704,875</u>	<u>326,351</u>
Total Revenues	<u>5,000,043</u>	<u>4,895,027</u>
Program Expenses		
General Government	685,158	678,237
Public Safety	1,517,111	1,353,443
Public Works and Street	753,152	703,268
Planning and Inspection	35,378	47,281
Waste Collection	13	78
Recreation	35,734	27,587
Miscellaneous	506	5,211
Interest Expense	236,382	13,649
Pension Expense	925,985	621,166
Other Postemployment Benefits Expense	174,638	161,149
Depreciation	501,591	447,067
Total Program Expenses	<u>4,865,648</u>	<u>4,058,136</u>
Change in Net Position	<u>\$ 134,395</u>	<u>\$ 836,891</u>

CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED
(Continued)

Governmental Activities

Governmental activities increased the City's net position by \$134,395. Key elements of this increase are as follows:

- Payroll tax revenue decreased by \$179,421 primarily due to the economic effect of the coronavirus pandemic.
- Operating grants and contributions increased by \$351,365 primarily due to the City receiving reimbursement for expenses from the Coronavirus Relief Fund for approximately \$322,000.
- Public safety expense increased by \$163,668 due to salary increases of approximately \$93,000 and an increase in the employer portion of retirement for approximately \$63,000.
- Interest expense increased by \$222,733 due to the issuance of general obligation bonds to finance the construction of the city administration building. Included in interest were bond issue costs of approximately \$165,000.
- Pension expense increased by \$304,819 due to an increase in the City's proportionate share of the net pension liability for hazardous employees.

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 \$10,565,577, an increase of \$4,507,755, in comparison to the prior year. This total consists of: General Fund, \$5,010,629; Street Tax Fund, \$209,010; City Building Bond Fund, \$4,684,660; Capital Outlay Fund, \$124,483; and all other non-major Funds, \$536,795.

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 \$5,010,629. The total fund balance decreased by \$268,082.

The Street Tax Fund balance decreased by \$104,353. This decrease was the result of an increase in capital street projects during the year.

The City Building Bond Fund balance increased by \$4,684,660. This increase was due to issuing general obligation bonds to finance the construction of the city administration building.

The Capital Outlay Fund balance increased by \$124,483. This increase was due to the City assigning funds for capital purchases.

All other fund balances increased \$71,047, largely as a result an excess of revenues over expenditures in the Municipal Road Aid Fund of \$80,911.

Fiduciary Funds

The City has one fiduciary fund, the FSA/HRA Fund. This fund had an increase in net position of \$12 as a result of contributions exceeding benefits paid.

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED
(Continued)**

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 \$5,278,711.

For the General Fund, actual revenues, in the amount of approximately \$4 million were higher than budgeted revenues of approximately \$3.4 million. Largely due to accretion in the City leading to increased tax revenue.

Expenditures were budgeted at approximately \$4.3 million while actual expenditures were approximately \$3.4 million. Actual expenditures were less than budgeted largely due to capital outlay expenditures being made out of the Capital Outlay Fund, rather than the General Fund.

Capital Assets

At the end of fiscal year 2020, the City had approximately \$11.6 million in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2020 balances compared to fiscal year 2019.

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

	Governmental Activities	
	2020	2019
Land	\$ 1,732,685	\$ 1,708,185
Construction in Progress	806,092	18,200
Buildings	629,176	656,840
Infrastructure	7,737,731	7,620,347
Equipment	214,313	282,198
Vehicles	431,769	492,191
	\$ 11,551,766	\$ 10,777,961

Long-Term Debt

At June 30, 2020, the City had a total of \$5,000,000 in outstanding bonds. The proceeds from this bond are being used to finance the construction of the city administration building. Additionally, the City had an obligation of approximately \$77,000 in unused vacation time for employees.

The following is a summary of the City's debt transactions during 2020:

Governmental Activities	June 30, 2019	Additions	Repayments	June 30, 2020
Bonds Payable	\$ 276,000	\$ 5,000,000	\$ 276,000	\$ 5,000,000
Compensated Absences	64,814	11,784	-	76,598
	\$ 340,814	\$ 5,011,784	\$ 276,000	\$ 5,076,598

**CITY OF ELSMERE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED
(Continued)**

Economic Factors and Next Year's Budget

The City budgeted revenues of \$4,793,155 for the year ending June 30, 2021, which is an increase of approximately \$21,000 from the June 30, 2020 actual revenue. The City budgeted expenses of \$4,802,296, which is a decrease of approximately \$462,000 from the June 30, 2020 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, 2020**

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	\$ 10,108,043
Accounts Receivable	
Taxes	802,561
Waste Collection	34,159
Other Receivables	440,445
Notes Receivable	8,726
Total Current Assets	11,393,934
Noncurrent Assets (Net of Current Portion)	
Notes Receivable	16,700
Capital Assets	
Non-Depreciable	2,538,777
Depreciable, Net	9,012,989
Total Capital Assets	11,551,766
Total Noncurrent Assets	11,568,466
Total Assets	22,962,400
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	1,209,559
Deferred Outflows Related to Other Postemployment Benefits	547,545
Total Deferred Outflows of Resources	1,757,104
Total Assets and Deferred Outflows of Resources	24,719,504
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts Payable	14,502
Accrued Liabilities	98,920
Accrued Interest Payable	9,948
Bonds Payable	120,000
Compensated Absences	15,766
Total Current Liabilities	259,136
Noncurrent Liabilities (Net of Current Portion)	
Compensated Absences	60,832
Bonds Payable	4,880,000
Net Pension Liability	4,819,197
Net Other Postemployment Benefit Liability	1,255,279
Total Noncurrent Liabilities	11,015,308
Total Liabilities	11,274,444
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	222,558
Deferred Inflows Related to Other Postemployment Benefits	407,881
Total Deferred Inflows of Resources	630,439
Total Liabilities and Deferred Inflows of Resources	11,904,883
Net Position	
Net Investment in Capital Assets	11,222,910
Restricted for	
Street Tax Fund Balance	246,462
Municipal Road Aid Fund Balance	355,135
Turkeyfoot Acres Fund Balance	56,052
City Building Bond Fund Balance	3,568
Unrestricted	930,494
Total Net Position	\$ 12,814,621

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Total Governmental Activities
Primary Government					
Governmental Activities					
General Government	\$ 685,158	\$ 68,773	\$ 23,176	\$ -	\$ (593,209)
Public Safety	1,517,111	1,851	413,725	-	(1,101,535)
Public Works and Streets	753,152	-	12,072	168,220	(572,860)
Planning and Inspection	35,378	17,058	-	-	(18,320)
Waste Collection	13	-	-	-	(13)
Recreation	35,734	-	-	-	(35,734)
Miscellaneous	506	-	-	-	(506)
Interest Expense	236,382	-	-	-	(236,382)
Pension Expense	925,985	-	-	-	(925,985)
Other Postemployment Benefits Expense	174,638	-	-	-	(174,638)
Depreciation	501,591	-	-	-	(501,591)
Total Primary Government	\$ 4,865,648	\$ 87,682	\$ 448,973	\$ 168,220	(4,160,773)
General Revenues					
Property Taxes					1,368,918
Payroll Taxes					1,593,319
Insurance Premium Taxes					1,104,717
Other Taxes					89,673
Penalties and Interest on Taxes					31,594
Rehabilitation Loan Interest Payments					564
Earnings on Deposits					91,395
Other Revenue					14,988
Total General Revenues					<u>4,295,168</u>
Change in Net Position					134,395
Net Position as of July 1, 2019					<u>12,680,226</u>
Net Position as of June 30, 2020					<u>\$ 12,814,621</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>City Building Bond Fund</u>	<u>Capital Outlay Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ 4,524,365	\$ 237,740	\$ 4,684,660	\$ 124,483	\$ 536,795	\$ 10,108,043
Accounts Receivable						
Taxes	765,109	37,452	-	-	-	802,561
Waste Collection	34,159	-	-	-	-	34,159
Other Receivables	440,445	-	-	-	-	440,445
Notes Receivable	-	-	-	-	25,426	25,426
Due from Other Funds	15,683	-	-	-	-	15,683
Total Assets	<u>\$ 5,779,761</u>	<u>\$ 275,192</u>	<u>\$ 4,684,660</u>	<u>\$ 124,483</u>	<u>\$ 562,221</u>	<u>\$ 11,426,317</u>
Liabilities						
Accounts Payable	\$ 1,455	\$ 13,047	\$ -	\$ -	\$ -	\$ 14,502
Other Accrued Expenses	98,920	-	-	-	-	98,920
Due to Other Funds	-	15,683	-	-	-	15,683
Total Liabilities	<u>100,375</u>	<u>28,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,105</u>
Deferred Inflows of Resources						
Unavailable Revenues						
Taxes	238,624	37,452	-	-	25,426	301,502
Waste Collection	34,159	-	-	-	-	34,159
Other	395,974	-	-	-	-	395,974
Total Deferred Inflows of Resources	<u>668,757</u>	<u>37,452</u>	<u>-</u>	<u>-</u>	<u>25,426</u>	<u>731,635</u>
Fund Balances						
Restricted for:						
Street Tax Fund Balance	-	209,010	-	-	-	209,010
Municipal Road Aid Fund Balance	-	-	-	-	355,135	355,135
Turkeyfoot Acres Fund Balance	-	-	-	-	56,052	56,052
City Building Bond Fund Balance	-	-	4,684,660	-	-	4,684,660
Committed for:						
Citywide Rehabilitation Fund Balance	-	-	-	-	125,608	125,608
Assigned to:						
Capital Projects	-	-	-	124,483	-	124,483
Unassigned	5,010,629	-	-	-	-	5,010,629
Total Fund Balances	<u>5,010,629</u>	<u>209,010</u>	<u>4,684,660</u>	<u>124,483</u>	<u>536,795</u>	<u>10,565,577</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,779,761</u>	<u>\$ 275,192</u>	<u>\$ 4,684,660</u>	<u>\$ 124,483</u>	<u>\$ 562,221</u>	<u>\$ 11,426,317</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balance - Governmental Funds		\$ 10,565,577
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	\$ 15,791,350	
Accumulated Depreciation	<u>(4,239,584)</u>	11,551,766
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		731,635
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
		(76,598)
Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pension	1,209,559	
Deferred Outflows of Resources Related to Other Postemployment Benefits	547,545	
Deferred Inflows of Resources Related to Pension	(222,558)	
Deferred Inflows of Resources Related to Other Postemployment Benefits	<u>(407,881)</u>	1,126,665
Long-term liabilities, including net pension obligations, net other postemployment benefit obligations, and bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds.		
Bonds Payable	(5,000,000)	
Accrued Interest Payable	(9,948)	
Net Pension Liability	(4,819,197)	
Net Other Postemployment Benefit Liability	<u>(1,255,279)</u>	<u>(11,084,424)</u>
Net Assets of Governmental Activities in the Statement of Net Position		\$ <u><u>12,814,621</u></u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>City Building Bond Fund</u>	<u>Capital Outlay Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property Taxes	\$ 831,750	\$ 544,390	\$ -	\$ -	\$ -	\$ 1,376,140
Payroll Taxes	1,681,364	-	-	-	-	1,681,364
Insurance Premium Taxes	1,104,717	-	-	-	-	1,104,717
Other Taxes	79,052	-	-	-	-	79,052
Waste Collection	1,780	-	-	-	-	1,780
Licenses and Permits	27,795	-	-	-	-	27,795
Fines, Forfeitures, and Penalties	53,439	-	-	-	-	53,439
Intergovernmental Revenue	126,582	-	-	-	168,220	294,802
Rehabilitation Loan Interest Payments	-	-	-	-	7,650	7,650
Earnings on Deposits	66,315	5,640	13,516	561	5,363	91,395
Other Revenue	53,880	-	-	-	-	53,880
Total Revenues	<u>4,026,674</u>	<u>550,030</u>	<u>13,516</u>	<u>561</u>	<u>181,233</u>	<u>4,772,014</u>
Expenditures						
General Government	735,228	-	-	-	-	735,228
Public Safety	1,840,154	-	-	-	-	1,840,154
Public Works and Streets	728,994	236	-	-	92,186	821,416
Planning and Inspection	35,378	-	-	-	-	35,378
Waste Collection	13	-	-	-	-	13
Recreation	35,734	-	-	-	-	35,734
Miscellaneous	-	-	-	506	18,000	18,506
Debt Service						
Principal	-	276,000	-	-	-	276,000
Interest	-	13,200	47,753	-	-	60,953
Bond Issue Costs	-	-	165,481	-	-	165,481
Capital Outlay	-	364,947	38,855	871,594	-	1,275,396
Total Expenditures	<u>3,375,501</u>	<u>654,383</u>	<u>252,089</u>	<u>872,100</u>	<u>110,186</u>	<u>5,264,259</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>651,173</u>	<u>(104,353)</u>	<u>(238,573)</u>	<u>(871,539)</u>	<u>71,047</u>	<u>(492,245)</u>
Other Financing (Uses) Sources						
Issuance of Bonds	-	-	5,000,000	-	-	5,000,000
Transfers In	-	-	47,752	996,022	-	1,043,774
Transfers Out	(919,255)	-	(124,519)	-	-	(1,043,774)
Total Other Financing (Uses) Sources	<u>(919,255)</u>	<u>-</u>	<u>4,923,233</u>	<u>996,022</u>	<u>-</u>	<u>5,000,000</u>
Net Changes in Fund Balances	<u>(268,082)</u>	<u>(104,353)</u>	<u>4,684,660</u>	<u>124,483</u>	<u>71,047</u>	<u>4,507,755</u>
Fund Balance, July 1, 2019	<u>5,278,711</u>	<u>313,363</u>	<u>-</u>	<u>-</u>	<u>465,748</u>	<u>6,057,822</u>
Fund Balance, June 30, 2020	<u>\$ 5,010,629</u>	<u>\$ 209,010</u>	<u>\$ 4,684,660</u>	<u>\$ 124,483</u>	<u>\$ 536,795</u>	<u>\$ 10,565,577</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, 2020

Change in Fund Balances - Total Governmental Funds		\$ 4,507,755
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	\$ (501,591)	
Capital Outlays	<u>1,275,396</u>	773,805
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		276,000
Bond proceeds from new issues provide current financial resources to governmental funds, but issuing debt increases the long-term liabilities in the statement of net position.		
Proceeds from issuance of long-term debt		(5,000,000)
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.		
		(11,784)
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, 2019	(100,898)	
City Other Postemployment Benefit Contributions - June 30, 2020	103,468	
Change in Other Postemployment Benefit Liability	<u>(73,740)</u>	(71,170)
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, 2019	(256,145)	
City Pension Contributions - June 30, 2020	349,693	
Cost of Benefits Earned Net of Employee Contributions	<u>(669,840)</u>	(576,292)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The difference in interest expense reported in the statement of activities is a result of the change in accrued interest on bonds.		
		(9,948)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		<u>246,029</u>
Change in Net Position - Governmental Activities		\$ <u>174,395</u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020**

	FSA/HRA Fund
Assets	
Cash	\$ <u>7,894</u>
Total Assets	\$ <u><u>7,894</u></u>
Net Position	
Restricted for Other Employee Benefits	\$ <u>7,894</u>
Total Net Position	\$ <u><u>7,894</u></u>

See accompanying notes.

**CITY OF ELSMERE, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2020**

	FSA/HRA Fund
Additions	
Employer Contributions	\$ 12,036
Employee Contributions	12,741
Interest Income	100
Total Additions	24,877
Deductions	
Benefits Paid	24,865
Change in Net Position	12
Net Position, July 1, 2019	7,882
Total Net Position, June 30, 2020	\$ 7,894

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, City Building Bond Fund, Capital Outlay 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.
- (C) The Capital Project Funds are used to account for capital outlays financed with general obligation debt and capital outlays for general capital assets purchased from financial resources that are restricted, committed, or assigned by City. The City Building Bond Fund and Capital Outlay Fund are major capital project funds of the City.

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 fund financial statements use the modified accrual basis of accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

Cash and Cash Equivalents

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2020.

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.

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

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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, Turkeyfoot Acres Fund, and City Building Bond 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. These include residual balances from the Capital Outlay Fund.
- 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.

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

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

Interfund Balances

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

Property Taxes

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

Adoption of New Accounting Standards*Majority Equity Interests*

GASB Statement No. 90, *Majority Equity Interests—an Amendment of GASB Statement No. 14 and No. 61*, was issued to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The implementation of GASB Statement No. 90 had no impact on the financial statement of the City for the year ended June 30, 2020.

Certain Disclosures Related to Debt

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued to improve the information that is disclosed in notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of GASB Statement No. 88 are effective for fiscal years beginning after June 15, 2019. The implementation of GASB Statement No. 88 resulted in additional note disclosures regarding long-term debt (see Long-Term Debt note).

Recently Issued Significant Accounting Standards*Lease Accounting Standard*

GASB Statement No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB Statement No. 87 are effective for reporting periods beginning after June 15, 2021. The City is currently evaluating the impact GASB Statement No. 87 may have on its financial statements.

Accounting for Interest Cost Incurred Before the End of a Construction Period

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, was issued to enhance the relevant and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of GASB Statement No. 89 are effective for reporting periods beginning after December 15, 2020. The City is currently evaluating the impact GASB Statement No. 89 may have on its financial statements.

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

GASB Statement No. 91, *Conduit Debt Obligations*, was issued to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related not disclosures. The requirements of GASB Statement No. 91 are effective for reporting periods beginning after December 15, 2021. The City is currently evaluating the impact GASB Statement No. 91 may have on its financial statements.

Omnibus 2020

GASB Statement No. 92, *Omnibus 2020*, was issued to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB Statement No. 92 are effective for reporting periods beginning after June 15, 2021, other than the requirements related to the effective date of GASB Statement No. 87, which is effective upon issuance. The City is currently evaluating the impact GASB Statement No. 92 may have on its financial statements.

Replacement of Interbank Offered Rates

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The requirements of GASB Statement No. 93, except paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirements in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal year periods beginning after June 15, 2021. The City is currently evaluating the impact GASB Statement No. 93 may have on its financial statements.

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements and to provide guidance for accounting and financial reporting for availability payment arrangements. The requirements of GASB Statement No. 94 are effective for reporting periods beginning after June 15, 2022. The City is currently evaluating the impact GASB Statement No. 94 may have on its financial statements.

Subscription-Based Information Technology Arrangements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of GASB Statement No. 96 are effective for reporting periods beginning after June 15, 2022. The City is currently evaluating the impact GASB Statement No. 96 may have on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, was issued to (1) increase consistency and comparability related to the fiduciary reporting of component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan for benefits provided through those plans. Aspects of GASB Statement No. 97 are effective immediately, however there was no significant impact to the City's financial statements for the year ended June 30, 2020. Other requirements of GASB Statement No. 97 are effective for reporting periods beginning after June 15, 2021. The City is currently evaluating the impact GASB Statement No. 97 may have on its financial statements.

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.

The General Fund had transfers out of the fund in excess of budgeted amount for \$919,255 due to the City not budgeting for transfers out of the fund that occurred during the fiscal year.

NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the maximum security and highest investment of principle while meeting the daily cash flow demands of the City and conforming to both KRS 91A.060 and KRS 66.480.

In accordance with KRS 66.480, the City is authorized to invest in the following:

- 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) U.S. Treasury and other U.S. government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- C) Federal Agency or U.S. government-sponsored enterprises obligations, participations or other instruments.
- D) CDs issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky and that are insured by the Federal Deposit Insurance Corporation or similar entity or that are collateralized by any obligations, including surety bonds permitted by KRS 41.240. KRS 66.480(1)(d).
- E) Uncollateralized CDs issued by any bank or savings and loan having a physical presence in Kentucky rated in one of three highest categories by a competent rating agency.
- F) Bankers' acceptances, which must be rated in one of the three highest categories by a competent rating agency.
- G) Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a competent rating organization.
- H) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- I) Investment-grade obligations of state or local governments or instrumentality thereof rated one of three highest categories by a competent rating agency.
- J) Shares of mutual funds and exchange traded funds as identified by KRS 66.480(1)(j).
- K) Individual equity securities if the funds are managed by a professional investment manager regulated by a federal regulatory agency and are included within the S&P 500 pursuant to KRS 66.480(1)(k).
- L) Individual high-quality corporate bonds managed by a professional investment manager pursuant to KRS 66.480(1)(l).

Overall investments in (E), (F), (G), (K), and (L) investment types are restricted to 20% of total local government investments.

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, 2020, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

NOTE 4 - 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 \$10,000 and business owners are eligible for loans up to \$15,000. These loans are made for a term not to exceed 6 years, payable monthly, with an effective interest rate of 3 percent. At June 30, 2020, the City reported a balance of \$25,426 due on notes from the Citywide Loan Program.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

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

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,708,185	\$ 24,500	\$ -	\$ 1,732,685
Construction in Progress	18,200	787,892	-	806,092
Total Capital Assets Not Being Depreciated	1,726,385	812,392	-	2,538,777
Depreciable Capital Assets				
Buildings and Improvements	1,337,302	-	-	1,337,302
Infrastructure	9,854,180	364,947	-	10,219,127
Equipment	513,996	9,552	-	523,548
Furniture and Fixtures	22,490	-	-	22,490
Vehicles	1,061,601	88,505	-	1,150,106
Total Depreciable Capital Assets	12,789,569	463,004	-	13,252,573
Total Capital Assets at Historical Cost	14,515,954	1,275,396	-	15,791,350
Less Accumulated Depreciation				
Buildings and Improvements	680,462	27,664	-	708,126
Infrastructure	2,233,833	247,563	-	2,481,396
Equipment	231,798	77,437	-	309,235
Furniture and Fixtures	22,490	-	-	22,490
Vehicles	569,410	148,927	-	718,337
Total Accumulated Depreciation	3,737,993	501,591	-	4,239,584
Depreciable Capital Assets, Net	9,051,576	(38,587)	-	9,012,989
Governmental Activities Capital Assets - Net	\$ 10,777,961	\$ 773,805	\$ -	\$ 11,551,766

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 - 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. During the year ended June 30, 2020, the remaining principal was paid and the bond was retired.

General Obligation Bonds, Series 2019

In January 2020, the City issued \$5,000,000 of general obligation bonds, Series 2019 at coupon interest rates ranging from 2.00% to 2.75%. Principal is due December 1 each year and the issue's final maturity date is December 1, 2049. The bonds pay interest semi-annually on June 1 and December 1. The bonds were issued to finance all or a portion of costs of the acquisition, construction, installation, and equipping of a city administration building. Principal and interest requirements to maturity are as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2021	\$ 120,000	\$ 118,181	\$ 238,181
2022	120,000	115,781	235,781
2023	125,000	113,331	238,331
2024	125,000	110,831	235,831
2025	130,000	108,281	238,281
2026 - 2030	685,000	501,356	1,186,356
2031 - 2035	760,000	428,147	1,188,147
2036 - 2040	850,000	337,678	1,187,678
2041 - 2045	975,000	220,559	1,195,559
2046 - 2050	1,110,000	78,100	1,188,100
Total	<u>\$ 5,000,000</u>	<u>\$ 2,132,245</u>	<u>\$ 7,132,245</u>

The bonds are general obligations of the City and the full faith, credit, and taxing power of the City is irrevocably pledged to the payment of principal and interest on the bonds when due. The basic security for the general obligation bond debt of the City, is the City's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the bonds as and when they become due and payable.

General obligation bonds outstanding at June 30, 2020 are as follows:

Issue Date	Original Amount	Interest	Maturity During Year End June 30,	Outstanding Balance at June 30, 2020
Series 2019	\$ 5,000,000	2.00 - 2.75%	2050	<u>\$ 5,000,000</u>

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Summary of Long-Term Liability Transactions

The following is a summary of the City's long-term liability transactions for the year ended June 30, 2020:

	June 30, 2019	Additions	Repayments	June 30, 2020	Amounts Expected to be Paid Within One Year
Bonds Payable	\$ 276,000	\$ 5,000,000	\$ 276,000	\$ 5,000,000	\$ 120,000
Compensated Absences	64,814	11,784	-	76,598	15,766
Total	<u>\$ 340,814</u>	<u>\$ 5,011,784</u>	<u>\$ 276,000</u>	<u>\$ 5,076,598</u>	<u>\$ 135,766</u>

NOTE 7 - 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 7 - 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>	X	<u>Benefit Factor</u>	X	<u>Years of Service</u>
Average of the five highest years of compensation 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 years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement up to 30 years* 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 (1.30%); 10 - 20 years (1.50%); 20 - 25 years (2.25%); 25 + years (2.50%)**

Benefit Formula for Tiers 3

(A-B) = C X 75% = D then B+D = Interest

<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	Upside Sharing Interest x 75% = Upside Gain		
5.51%	4.00%	1.51%	1.13%	5.13%	\$ 6,360,000

NOTE 7 - PENSION PLAN (Continued)

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>
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 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 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 years of compensation 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 (if the member's employer participates in an approved sick leave program).
Average of the three highest complete years of compensation 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.	

* **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

(A-B) = C X 75% = D then B+D = Interest

<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	Upside Sharing Interest x 75% = Upside Gain		
5.79%	4.00%	1.79%	1.34%	5.34%	\$ 1,838,000

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 7 - 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. Non-hazardous employees contribute 5.00% and hazardous employees contributed 8.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% to health insurance.

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 7 - 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, 2020, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund) for the non-hazardous system of each employee's creditable compensation and 39.58% (30.06% pension fund and 9.52% 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 \$349,693 for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$4,819,197 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, 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, 2020, the City's proportion for the non-hazardous system was 0.017467% and for the hazardous system was 0.129991% a decrease of 0.000816% and an increase of 0.013832% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2019.

For the year ended June 30, 2020, the City recognized pension expense of \$925,985. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference Between Expected and Actual Experience	\$ 183,928	\$ 5,191
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	70,621
Changes of Assumptions	472,884	-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	203,054	146,746
Contributions Subsequent to the Measurement Date	349,693	-
	<u> </u>	<u> </u>
Total	<u>\$ 1,209,559</u>	<u>\$ 222,558</u>

NOTE 7 - PENSION PLAN (Continued)

The \$349,693 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2021	\$ 381,356
2022	173,499
2023	77,812
2024	<u>4,641</u>
	<u>\$ 637,308</u>

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

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Pay Amortization Method
Remaining Amortization Period	24 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.30%
Payroll Growth Rate	2.0% for Non-hazardous and Hazardous
Salary Increase	3.30 to 10.30%, Varies by Service for Non-hazardous; 3.55% to 19.05%, Varies by Service for Hazardous
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 7 - 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
Growth:		
US Equity	18.75 %	4.30 %
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Liquidity:		
Core Bonds	13.50	1.35
Cash	1.00	0.20
Diversifying Strategies:		
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
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 each fund receives the employer required contributions each year as determined by the current funding policy established in statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to CERS.

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	\$ 1,536,457	\$ 1,228,462	\$ 971,751
Hazardous	\$ 4,489,225	\$ 3,590,735	\$ 2,854,104

Changes of assumptions: As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdraw rates, and rates of disablement were updated for the 2019 actuarial valuation.

Payable to the Pension Plan: At June 30, 2020, the City reported a payable of \$35,590 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.

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

NOTE 8 - 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:

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

Contributions: The employee contribution rate is set by state statute. Non-hazardous employees contribute 5.00% while hazardous duty members contribute 8.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% to health insurance.

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 8 - 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, 2020, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund) for the non-hazardous system and 39.58% (30.06% pension fund and 9.52% 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 \$103,468 for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$1,255,279 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, 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, 2020, the City's proportion for the non-hazardous system was 0.017463% and for the hazardous system was 0.129965% a decrease of 0.000819% and an increase of 0.013800% from its proportion measured for the non-hazardous and hazardous systems, respectively, as of June 30, 2019.

For the year ended June 30, 2020, the City recognized OPEB expense of \$174,638. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 267,503
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	68,329
Changes in Assumptions	377,493	2,402
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	66,584	69,647
Contributions Subsequent to the Measurement Date	103,468	-
Total	\$ 547,545	\$ 407,881

NOTE 8 - OPEB PLAN (Continued)

\$103,468 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, 2021. 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,	
2021	\$ 54,740
2022	3,596
2023	(14,206)
2024	2,788
2025	(9,032)
Thereafter	<u>(1,690)</u>
	<u>\$ 36,196</u>

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

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Pay Amortization Method
Amortization Period	24 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increase	3.30 to 10.30% Varies by Service for Non-hazardous; 3.55 to 19.05%, Varies by Service for Hazardous
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	
Pre-retirement	PUB-210 General Mortality table, for the Non-hazardous Systems, and the PUB-210 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-210 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

NOTE 8 - OPEB PLAN (Continued)

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Growth:		
US Equity	18.75 %	4.30 %
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Liquidity:		
Core Bonds	13.50	1.35
Cash	1.00	0.20
Diversifying Strategies:		
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Total	100.00 %	

Discount rate: The discount rate used to measure the total OPEB liability was 5.68% for non-hazardous and 5.69% 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 3.13%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2019. 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. The projection of cash flows to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018).

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 (4.68% for non-hazardous and 4.69% for hazardous) or 1-percentage-point higher (6.68% for non-hazardous and 6.69% for hazardous) than the current rate:

	1% Decrease	Current Discount	1% Increase
Non-hazardous	\$ 393,464	\$ 293,720	\$ 211,537
Hazardous	\$ 1,341,568	\$ 961,559	\$ 653,101

NOTE 8 - 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 presents 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	\$ 218,441	\$ 293,720	\$ 385,004
Hazardous	\$ 669,067	\$ 961,559	\$ 1,318,383

Changes of assumptions: As a result of the 2018 experience study, salary increase assumptions, retirement rate assumptions, mortality assumptions, withdraw rates, and rates of disablement were updated for the 2019 actuarial valuation. The medical trend assumption rate was also updated for the 2019 actuarial valuations as a result of an annual review of this particular assumption.

Payable to the OPEB Plan: At June 30, 2020, the City reported a payable of \$35,590 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.

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.

NOTE 9 - 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 \$6,590 for the year ended June 30, 2020.

Future minimum rental payments under these leases are as follows:

Years Ending June 30,	
2021	\$ 6,590
2022	6,590
2023	6,590
2024	4,909
2025	807
	\$ 25,486

NOTE 9 - OPERATING LEASES (Continued)

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 no future rent payment receivable under the terms of this lease.

NOTE 10 - TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Capital Outlay	To Fund Capital Expenditures	\$ 871,503
City Building Bond	Capital Outlay	To Fund Capital Project Expenditures	\$ 124,519
General	City Building Bond	Debt Service	\$ 47,752

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, 2020 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 - CONTINGENCIES

The City has filed a claim against a pharmaceutical company for the amount of \$1,507,008. The claim is based on the company's involvement in enabling the supply of opioid drugs without legitimate medical purpose, leading to overdoses and addiction, which strained public health and policing resources within the City. No estimate can be made of the amount, if any, that the City will actually receive.

Prior to year-end, the World Health Organization announced a global health emergency, later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response has impacted financial and economic markets across the World and within the United States of America. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the City's financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the City.

NOTE 14 - SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 5, 2021, which is the date the financial statements were available to be issued.

In September 2020, the City approved a resolution authorizing the issuance of up to \$45,000,000 in industrial building revenue bonds. The proceeds of which are to be used to pay the costs of the acquisition, construction, installation, and equipping of a building suitable for use in manufacturing, processing or assembling of any commercial product, to be located within the City. The bonds will be secured by the property and will be payable solely from lease payments made by the developer of the property. The City will not have any debt service obligations in regards to the issuance.

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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
Revenues				
Taxes	\$ 3,227,600	\$ 3,227,600	\$ 3,696,883	\$ 469,283
Waste Collection	2,000	2,000	1,780	(220)
Licenses and Permits	5,900	5,900	27,795	21,895
Fines, Forfeitures, and Penalties	32,000	32,000	53,439	21,439
Intergovernmental Revenue	116,997	116,997	126,582	9,585
Earnings on Deposits	10,000	10,000	66,315	56,315
Other Revenue	47,000	47,000	53,880	6,880
	<u>3,441,497</u>	<u>3,441,497</u>	<u>4,026,674</u>	<u>585,177</u>
Total Revenues				
Expenditures				
General Government	793,705	793,705	735,228	58,477
Public Safety	2,032,154	2,032,154	1,840,154	192,000
Public Works and Streets	785,900	785,900	728,994	56,906
Planning and Inspection	64,600	64,600	35,378	29,222
Waste Collection	2,500	2,500	13	2,487
Parks And Recreation	36,500	36,500	35,734	766
Capital Outlay	-	603,042	-	603,042
	<u>3,715,359</u>	<u>4,318,401</u>	<u>3,375,501</u>	<u>942,900</u>
Total Expenditures				
(Deficiency) Excess of Revenues Over Expenditures				
	(273,862)	(876,904)	651,173	1,528,077
Other Financing Uses				
Transfers Out	-	-	(919,255)	(919,255)
	<u>-</u>	<u>-</u>	<u>(919,255)</u>	<u>(919,255)</u>
Net Changes in Fund Balances				
	(273,862)	(876,904)	(268,082)	608,822
Fund Balance, July 1, 2019				
	5,278,711	5,278,711	5,278,711	-
Fund Balance, June 30, 2020				
	<u>\$ 5,004,849</u>	<u>\$ 4,401,807</u>	<u>\$ 5,010,629</u>	<u>\$ 608,822</u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
STREET TAX FUND
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget (Unfavorable) Favorable
Revenues				
Taxes	\$ 500,000	\$ 554,000	\$ 544,390	\$ (9,610)
Earnings on Deposits	2,000	5,500	5,640	140
Total Revenues	<u>502,000</u>	<u>559,500</u>	<u>550,030</u>	<u>(9,470)</u>
Expenditures				
Public Works and Streets	-	-	236	(236)
Debt Service	295,000	289,200	289,200	-
Capital Projects	168,750	380,839	364,947	15,892
Total Expenditures	<u>463,750</u>	<u>670,039</u>	<u>654,383</u>	<u>15,656</u>
Excess (Deficiency) of Revenues Over Expenditures	38,250	(110,539)	(104,353)	6,186
Fund Balance, July 1, 2019	<u>313,363</u>	<u>313,363</u>	<u>313,363</u>	<u>-</u>
Fund Balance, June 30, 2020	<u>\$ 351,613</u>	<u>\$ 202,824</u>	<u>\$ 209,010</u>	<u>\$ 6,186</u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2020

County Employees Retirement System
Last 10 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability - Non-hazardous	0.017467%	0.018283%	0.019113%	0.018360%	0.017508%	0.016995%
City's Proportion of the Net Pension Liability - Hazardous	0.129991%	0.116159%	0.129449%	0.132390%	0.127730%	0.132432%
City's Proportionate Share of the Net Pension Liability - Non-hazardous	\$ 1,228,462	\$ 1,113,490	\$ 1,118,743	\$ 905,036	\$ 752,754	\$ 551,393
City's Proportionate Share of the Net Pension Liability - Hazardous	<u>3,590,735</u>	<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	<u>\$ 4,819,197</u>	<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 Payroll	\$ 1,184,524	\$ 1,100,210	\$ 1,219,996	\$ 1,120,604	\$ 1,119,827	\$ 1,076,478
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	406.85%	356.55%	329.09%	283.49%	242.32%	199.07%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability - Non-hazardous	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability - Hazardous	46.63%	49.26%	49.78%	53.95%	57.52%	63.46%

*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 PENSION CONTRIBUTIONS
JUNE 30, 2020**

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

<u>Non-hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 103,902	\$ 72,050	\$ 65,615	\$ 55,087	\$ 44,359	\$ 44,692	\$ 44,939
Contributions in Relation to the Contractually Required Contribution	<u>(103,902)</u>	<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>	<u>\$ -</u>
City's Covered Payroll	\$ 538,351	\$ 444,205	\$ 453,143	\$ 394,771	\$ 357,159	\$ 350,524	\$ 327,058
Contributions as a Percentage of Covered Payroll	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
<u>Hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 245,791	\$ 184,095	\$ 143,649	\$ 166,825	154,674	\$ 176,555	\$ 163,149
Contributions in Relation to the Contractually Required Contribution	<u>(245,791)</u>	<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>	<u>\$ -</u>
City's Covered Payroll	\$ 817,670	\$ 740,319	\$ 647,067	\$ 825,225	\$ 763,445	\$ 769,303	\$ 749,420
Contributions as a Percentage of Covered Payroll	30.06%	24.87%	22.20%	20.22%	20.26%	22.95%	21.77%

*Only seven 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, 2020

County Employees Retirement System
Last 10 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
City's Proportion of the Net OPEB Liability - Non-hazardous	0.017463%	0.018282%	0.019113%
City's Proportion of the Net OPEB Liability - Hazardous	0.129965%	0.116165%	0.129449%
City's Proportionate Share of the Net OPEB Liability - Non-hazardous	\$ 293,720	\$ 324,593	\$ 384,237
City's Proportionate Share of the Net OPEB Liability - Hazardous	<u>961,559</u>	<u>828,210</u>	<u>1,070,118</u>
Total City's Proportionate Share of the Net OPEB Liability	<u>\$ 1,255,279</u>	<u>1,152,803</u>	<u>\$ 1,454,355</u>
City's Covered Payroll	\$ 1,184,524	\$ 1,100,210	\$ 1,219,996
City's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered Payroll	105.97%	104.78%	119.21%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-hazardous	60.44%	57.62%	52.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Hazardous	64.44%	64.24%	58.99%

** Only three 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, 2020**

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

<u>Non-hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 25,625	\$ 23,365	\$ 21,298	\$ 18,678
Contributions in Relation to the Contractually Required Contribution	<u>(25,625)</u>	<u>(23,365)</u>	<u>(21,298)</u>	<u>(18,678)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 538,351	\$ 444,205	\$ 453,143	\$ 394,771
Contributions as a Percentage of Covered Payroll	4.76%	5.26%	4.70%	4.73%
<u>Hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 77,843	\$ 77,533	\$ 60,500	\$ 71,848
Contributions in Relation to the Contractually Required Contribution	<u>(77,843)</u>	<u>(77,533)</u>	<u>(60,500)</u>	<u>(71,848)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 817,670	\$ 740,319	\$ 647,067	\$ 825,225
Contributions as a Percentage of Covered Payroll	9.52%	10.47%	9.35%	8.71%

* Only four 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, 2020**

	Municipal Road Fund	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	Total Non-Major Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 355,135	\$ 125,608	\$ 56,052	\$ 536,795
Notes Receivable	-	25,426	-	25,426
Total Assets	\$ 355,135	\$ 151,034	\$ 56,052	\$ 562,221
Deferred Inflows of Resources				
Unavailable Revenues	-	25,426	-	25,426
Fund Balances				
Restricted for				
Municipal Road Fund Balance	355,135	-	-	355,135
Turkeyfoot Acres Fund Balance	-	-	56,052	56,052
Committed for				
Citywide Rehabilitation Fund Balance	-	125,608	-	125,608
Total Fund Balances	355,135	125,608	56,052	536,795
Total Deferred Inflows of Resources and Fund Balances	\$ 355,135	\$ 151,034	\$ 56,052	\$ 562,221

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, 2020

	Municipal Road Fund	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	Total Non-Major Governmental Funds
Revenues				
Intergovernmental Revenue	\$ 168,220	\$ -	\$ -	\$ 168,220
Rehabilitation Loan Interest Payments	-	7,650	-	7,650
Earnings on Deposits	4,877	345	141	5,363
Total Revenues	173,097	7,995	141	181,233
Expenditures				
Public Works and Streets	92,186	-	-	92,186
Miscellaneous	-	18,000	-	18,000
Total Expenditures	92,186	18,000	-	110,186
Excess (Deficiency) of Revenues Over Expenditures	80,911	(10,005)	141	71,047
Fund Balance, July 1, 2019	274,224	135,613	55,911	465,748
Fund Balance, June 30, 2020	\$ 355,135	\$ 125,608	\$ 56,052	\$ 536,795

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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
	<u>Original</u>	<u>Final</u>		<u>Favorable</u>
Revenues				
Intergovernmental Revenue	\$ 169,450	\$ 169,450	\$ 168,220	\$ (1,230)
Earnings on Investments	<u>2,000</u>	<u>2,000</u>	<u>4,877</u>	<u>2,877</u>
Total Revenues	171,450	171,450	173,097	1,647
Expenditures				
Public Works and Streets	<u>155,000</u>	<u>155,000</u>	<u>92,186</u>	<u>62,814</u>
Excess of Revenues Over Expenditures	16,450	16,450	80,911	64,461
Fund Balance, July 1, 2019	<u>274,224</u>	<u>274,224</u>	<u>274,224</u>	<u>-</u>
Fund Balance, June 30, 2020	<u>\$ 290,674</u>	<u>\$ 290,674</u>	<u>\$ 355,135</u>	<u>\$ 64,461</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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget (Unfavorable) Favorable
Revenues				
Rehabilitation Loan Interest Payments	\$ -	\$ -	\$ 7,650	\$ 7,650
Earnings on Deposits	300	300	345	45
	<u>300</u>	<u>300</u>	<u>7,995</u>	<u>7,695</u>
Total Revenues	300	300	7,995	7,695
Expenditures				
Miscellaneous	16,000	16,000	18,000	(2,000)
	<u>16,000</u>	<u>16,000</u>	<u>18,000</u>	<u>(2,000)</u>
(Deficiency) Excess of Revenues Over Expenditures	(15,700)	(15,700)	(10,005)	5,695
Fund Balance, July 1, 2019	<u>135,613</u>	<u>135,613</u>	<u>135,613</u>	<u>-</u>
Fund Balance, June 30, 2020	<u>\$ 119,913</u>	<u>\$ 119,913</u>	<u>\$ 125,608</u>	<u>\$ 5,695</u>

See accompanying notes.

CITY OF ELSMERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
TURKEYFOOT ACRES FUND
YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget (Unfavorable) Favorable
Revenues				
Earnings on Deposits	\$ 150	\$ 150	\$ 141	\$ (9)
Fund Balance, July 1, 2019	<u>55,911</u>	<u>55,911</u>	<u>55,911</u>	<u>-</u>
Fund Balance, June 30, 2020	<u>\$ 56,061</u>	<u>\$ 56,061</u>	<u>\$ 56,052</u>	<u>\$ (9)</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, 2020, 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 5, 2021.

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 opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompany schedule of findings and responses as items 2020-001 through 2020-003 that we consider 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2020-004. Additionally, 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 5, 2021

**CITY OF ELSMERE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL STATEMENT FINDINGS

Finding 2020-001 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 financial statements and post any adjustments to ensure the financial records are fairly stated in accordance with generally accepted accounting principles before the audit begins.

Finding 2020-002 Segregation of Duties Surrounding Cash Disbursements

Criteria: The City 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 access to the accounting software for mailing.

Views of Responsible Officials and Planned Corrective Actions: Management acknowledges the importance of adequate segregation of duties surrounding cash disbursements. Internal procedures may be modified considering the current size of the office staff and resources available. Management will continue to review 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, 2020
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2020-003 Segregation of Duties Surrounding Property Taxes and Cash Receipts

Criteria: The City 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 property taxes and cash receipts. Internal procedures may be modified considering the current size of the office staff and resources available. Future 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.

Finding 2020-004 Budgetary Noncompliance

Criteria: Kentucky Revised Statute (KRS) 91A.030 prohibits the expenditure of moneys except in accordance with a budget ordinance.

Condition: The City passes a budget ordinance on the fund level. During the year, the City established a new fund, the Capital Outlay Fund, which was not budgeted for. Expenditures made from this fund during the year totaled \$872,100. Additionally, the City had expenditures in excess of budgeted amounts within the City Building Bond Fund and Citywide Rehabilitation Fund, and the City made unbudgeted transfers within the General Fund and City Building Bond Fund.

Cause: The City did not appropriately budget for expenditures and transfers during the year.

Effect: The City was not in compliance with Kentucky statutes.

Repeat Finding: This is not a repeat finding from the prior year.

Recommendation: The City should monitor budgeted expenditures and transfers and amend when the City expects to incur expenditures or transfers in excess of appropriations. Additionally, the City should budget for the Capital Outlay Fund as a separate fund of the City.

Views of Responsible Officials and Planned Corrective Actions: Management acknowledges the importance of monitoring expenditures and transfers. In the future, the City will amend the budget if expenditures or transfers are expected to exceed appropriations. The City has budgeted for the Capital Outlay Fund in the current year.

**CITY OF ELSMERE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)**

PRIOR YEAR - FINANCIAL STATEMENT FINDINGS

Finding 2019-001 Audit Adjustment in Current and Prior Period

The City failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records. The City's books required an audit adjustment to ensure their financial records were fairly stated in accordance with generally accepted accounting principles.

Status: This is a repeat finding for the fiscal year ended June 30, 2020.

Finding 2019-002 Segregation of Duties Surrounding Cash Disbursements

One City employee is responsible for preparing checks, recording of transactions in the accounting software, and mailing of checks. There is a lack of segregation of duties surrounding cash disbursements.

Status: This is a repeat finding for the fiscal year ended June 30, 2020.

Finding 2019-003 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, 2020.