

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2015

CITY OF ELSMERE, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

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

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

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

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky as of June 30, 2015 and the respective



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

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3–7, the budgetary comparison schedule on pages 26-28, and the pension disclosure information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major fund financial statements on pages 30-31 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016 on our consideration of the City of Elsmere, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elsmere, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
January 5, 2016

CITY OF ELSMERE, KENTUCKY Statement of Net Position June 30, 2015
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ASSETS	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 3,990,901
Investments	120,474
Receivables	
Taxes	613,170
Intergovernmental	19,306
Waste collection	29,428
Other	20,885
Notes receivable	8,640
Total Current Assets	<u>4,802,804</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	1,311,971
Infrastructure	9,247,387
Buildings	1,337,302
Equipment	629,644
Vehicles	874,303
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(3,813,413)</u>
Net Capital Assets	<u>9,619,289</u>
TOTAL ASSETS	<u>14,422,093</u>
DEFERRED OUTFLOW OF RESOURCES	
Pension contribution for fiscal year 2015	<u>327,058</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>14,749,151</u>
LIABILITIES	
Current Liabilities	
Accounts payable	16,917
Accrued liabilities	27,152
Compensated absences	45,748
Current portion of leases payable	<u>255,000</u>
Total Current Liabilities	<u>344,817</u>
Noncurrent Liabilities	
Leases payable	1,070,000
Net pension liability	<u>2,142,994</u>
Total Noncurrent Liabilities	<u>3,212,994</u>
TOTAL LIABILITIES	<u>3,557,811</u>
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources related to pensions	<u>218,080</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>3,775,891</u>
NET POSITION	
Net investment in capital assets	8,294,289
Restricted for:	
Road projects	771,584
Unrestricted	<u>1,907,387</u>
TOTAL NET POSITION	<u>\$ 10,973,260</u>

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

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Our discussion and analysis of City of Elsmere, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's basic financial statements.

USING THIS ANNUAL REPORT

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

Financial Highlights

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

Funds	FYE 2014 Amount	FYE 2015 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 14
General	\$ 3,479,076	\$ 3,753,135	7.88%	\$ 274,059
Street Tax	1,132,396	296,595	-73.81%	(835,801)
Municipal Aid	552,245	474,989	-13.99%	(77,256)
Other Funds	205,100	201,224	-1.89%	(3,876)
Total Fund Balance	<u>\$ 5,368,817</u>	<u>\$ 4,725,943</u>	-11.97%	<u>\$ (642,874)</u>

The General Fund, the Turkeyfoot Acres Fund, and the FSA/HRA Fund experienced an excess of revenues over expenditures, however significant road work was performed and paid from savings accrued in the Street Tax Fund and the Municipal Aid Road Fund, resulting in an excess of expenditures over revenues in these funds, and an overall decrease in fund balances of (\$642,874). Both the revenues and the expenditures of the General Fund were significantly more than in the previous year. Revenues were more because insurance premium taxes are no longer being split into the Municipal Aid Road Fund, consequently, the Municipal Aid Road Fund revenues are lower by the corresponding increase in the General Fund. Street Tax Fund revenues decreased significantly this year due to a reduced draw on the road loan required to fund roadwork during the year, however, the significant related roadwork expenditures were made, leaving a large decrease in the fund balance of these funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statement of Net Assets and Activities

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

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 (Continued)**

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

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

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

Fund Financial Statements

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

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

Government-Wide Change in Net Position

For the years ended June 30, 2015 and 2014, net position for all governmental activities changed as follows:

	Governmental Activities	
	2015	2014
Beginning Net Position	\$ 12,602,576	\$ 12,116,079
Increase in Net Position	458,890	486,497
Prior Period Adjustment - Pensions	(2,088,206)	-
Ending Net Position	\$ 10,973,260	\$ 12,602,576

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 (Continued)**

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	2015	2014
Current Assets	\$ 4,802,804	\$ 5,458,714
Capital Assets, Net	9,619,289	8,811,997
Total Assets	14,422,093	14,270,711
Deferred Outflow of Resources	327,058	-
Total Assets and Deferred Outflows	14,749,151	14,270,711
Current Liabilities	344,817	343,135
Noncurrent Liabilities	3,212,994	1,325,000
Total Liabilities	3,557,811	1,668,135
Deferred Inflow of Resources	218,080	-
Total Liabilities and Deferred Inflows	3,775,891	1,668,135
Net Position	\$ 10,973,260	\$ 12,602,576

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

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2014, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2014 Amount	FYE 2015 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 14
Property tax	\$ 1,219,719	\$ 1,272,005	4.3%	\$ 52,286
Payroll tax	1,345,398	1,451,410	7.9%	106,012
Insurance premium tax	732,941	805,959	10.0%	73,018
Other taxes	105,926	106,593	0.6%	667
Licenses and permits	23,816	19,467	-18.3%	(4,349)
Fines and forfeitures	44,471	46,321	4.2%	1,850
Charges for services	32,057	8,260	-74.2%	(23,797)
Intergovernmental and grants	1,104,058	421,912	-61.8%	(682,146)
Rehabilitation loan payments	5,433	816	-85.0%	(4,617)
Interest income	8,397	5,820	-30.7%	(2,577)
Miscellaneous	65,860	49,470	-24.9%	(16,390)
Total Revenues	\$ 4,688,076	\$ 4,188,033	-10.7%	\$ (500,043)

The (\$500,043) decrease in total revenues can be attributed primarily to the following two items: a \$23,797 (74%) decrease in charges for service, residents are now billed by the vendor for waste

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 (Continued)**

collection and the \$682,146 (62%) decrease in intergovernmental funds, grants, and loan draws from KLC. Intergovernmental funds received funds from Sanitation District No. 1 and the Northern Kentucky Water District for road construction were significantly less than last year, the City also completed its draws upon its capital lease in 2014, resulting in an overall decrease for the current year.

The City's expenditures were slightly more due to a larger amount of expenditures for road work. The City spent significantly more in 2015 for Fire and EMS dispatch services than in 2014.

Expenditures	FYE 2014 Amount	FYE 2015 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 14
General government	\$ 712,075	\$ 642,775	-9.73%	\$ (69,300)
Public safety	1,513,702	1,475,819	-2.50%	(37,883)
Public works	1,040,242	874,277	-15.95%	(165,965)
Planning and inspection	36,489	57,461	57.47%	20,972
Intergovernmental expenses	-	255,753	n/a	255,753
Waste collection	1,466	734	-49.93%	(732)
Recreation	22,387	29,755	32.91%	7,368
Capital outlay	1,158,930	1,199,708	3.52%	40,778
Debt service	295,137	294,625	-0.17%	(512)
Total Expenditures	\$ 4,780,428	\$ 4,830,907	1.06%	\$ 50,479

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2014	2015
Land	\$ 1,143,538	\$ 1,182,538
Construction in Progress	360,803	129,433
Buildings	1,337,302	1,337,302
Infrastructure	8,004,221	9,247,387
Vehicles	836,619	874,303
Equipment	623,579	629,644
Furniture and fixtures	32,095	32,095
Totals	\$ 12,338,157	\$ 13,432,702

This year's net increase of \$1,094,545 in capital assets included:

Streets and sidewalks projects	\$ 1,243,166
Purchase and demolition of blighted building	82,824
Released from CIP	(231,370)
Land purchase (315 Garvey)	39,000
Public works equipment	6,065
Police vehicles	60,024
Disposal of assets	(105,164)
	\$ 1,094,545

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 (Continued)**

Debt

The City has \$1,325,000 in outstanding debt at June 30, 2015, compared to a \$1,575,000 debt at June 30, 2014, a 15.9% decrease from 2014 as detailed below:

	Governmental Activities	
	2015	2014
Road construction capital lease	\$ 1,325,000	\$ 1,575,000
Totals	\$ 1,325,000	\$ 1,575,000

GENERAL BUDGETARY HIGHLIGHTS

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

For actual resources, across all major funds, revenues exceeded budgeted amounts by \$125,256 due property tax revenues generated above the amount budgeted. Actual expenditures were under budget by \$539,797 due to significantly lower expenditures than planned for capital road projects in the Street Tax Fund and the Municipal Road Fund, as well as tight management to budget in all departments of the General Fund. The City's major funds ended the year with actual expenditures exceeding actual revenues by \$638,998 due to planned spending of amounts saved and accrued for road replacement in the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

REQUESTS FOR INFORMATION

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

CITY OF ELSMERE, KENTUCKY Statement of Net Position June 30, 2015
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ASSETS	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 3,990,901
Investments	120,474
Receivables	
Taxes	613,170
Intergovernmental	19,306
Waste collection	29,428
Other	20,885
Notes receivable	8,640
Total Current Assets	<u>4,802,804</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	1,311,971
Infrastructure	9,247,387
Buildings	1,337,302
Equipment	629,644
Vehicles	874,303
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(3,813,413)</u>
Net Capital Assets	<u>9,619,289</u>
TOTAL ASSETS	<u>14,422,093</u>
DEFERRED OUTFLOW OF RESOURCES	
Pension contribution for fiscal year 2015	<u>327,058</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>14,749,151</u>
LIABILITIES	
Current Liabilities	
Accounts payable	16,917
Accrued liabilities	27,152
Compensated absences	45,748
Current portion of leases payable	<u>255,000</u>
Total Current Liabilities	<u>344,817</u>
Noncurrent Liabilities	
Leases payable	1,070,000
Net pension liability	<u>2,142,994</u>
Total Noncurrent Liabilities	<u>3,212,994</u>
TOTAL LIABILITIES	<u>3,557,811</u>
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources related to pensions	<u>218,080</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>3,775,891</u>
NET POSITION	
Net investment in capital assets	8,294,289
Restricted for:	
Road projects	771,584
Unrestricted	<u>1,907,387</u>
TOTAL NET POSITION	<u>\$ 10,973,260</u>

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

CITY OF ELSMERE, KENTUCKY
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 650,065	\$ 2,189	\$ -	\$ -	\$ (647,876)
Public safety	1,488,127	17,718	51,492	-	(1,418,917)
Public works and street	1,106,674	2,288	236,935	112,106	(755,345)
Intergovernmental expenses	255,753	-	-	-	(255,753)
Planning and inspection	57,461	-	-	-	(57,461)
Waste collection	734	8,260	-	-	7,526
Recreation	32,324	-	-	-	(32,324)
Interest on long-term debt	44,625	-	-	-	(44,625)
Total Governmental Activities	<u>\$ 3,635,763</u>	<u>\$ 30,455</u>	<u>\$ 288,427</u>	<u>\$ 112,106</u>	<u>(3,204,775)</u>

General Revenues: Taxes	
Property taxes	1,261,449
Payroll tax	1,451,410
Insurance premium taxes	805,959
Other taxes	106,593
Licenses and permits	19,467
Fines and forfeitures	46,321
Interest income	5,820
Miscellaneous	49,470
Loss on disposal	(82,824)
Total general revenues	<u>3,663,665</u>
Change in net position	458,890
Net position, beginning	12,602,576
Prior period adjustment - Pension	(2,088,206)
Net position, ending	<u>\$ 10,973,260</u>

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

CITY OF ELSMERE, KENTUCKY Balance Sheet - Governmental Funds June 30, 2015

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>Municipal Road Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 3,172,661	\$ 155,217	\$ 461,728	\$ 201,295	\$ 3,990,901
Investments	-	120,474	-	-	120,474
Receivables					
Taxes	594,520	18,650	-	-	613,170
Waste collection	29,428	-	-	-	29,428
Intergovernmental	-	19,306	-	-	19,306
Other	20,885	-	-	-	20,885
Notes receivable	-	-	-	8,640	8,640
Due from other funds	-	1,598	13,261	-	14,859
TOTAL ASSETS	<u>\$ 3,817,494</u>	<u>\$ 315,245</u>	<u>\$ 474,989</u>	<u>\$ 209,935</u>	<u>\$ 4,817,663</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 16,846	\$ -	\$ -	\$ 71	\$ 16,917
Accrued liabilities	27,152	-	-	-	27,152
Deferred revenue	5,502	18,650	-	8,640	32,792
Due to other funds	14,859	-	-	-	14,859
TOTAL LIABILITIES	<u>64,359</u>	<u>18,650</u>	<u>-</u>	<u>8,711</u>	<u>91,720</u>
FUND BALANCES					
Restricted	-	296,595	474,989	-	771,584
Committed	-	-	-	201,224	201,224
Assigned	1,083,326	-	-	-	1,083,326
Unassigned	2,669,809	-	-	-	2,669,809
TOTAL FUND BALANCES	<u>3,753,135</u>	<u>296,595</u>	<u>474,989</u>	<u>201,224</u>	<u>4,725,943</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,817,494</u>	<u>\$ 315,245</u>	<u>\$ 474,989</u>	<u>\$ 209,935</u>	<u>\$ 4,817,663</u>

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

<p>CITY OF ELSMERE, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2015</p>

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

Total fund balance per balance sheet	\$ 4,725,943
Capital assets of \$13,432,702, less accumulated depreciation of (\$3,813,413), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,619,289
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds:	
Deferred outflow of resources	327,058
Deferred inflow of resources	(218,080)
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the balance in deferred items.	32,792
Long-term liabilities, including leases payable and compensated absences, may not be due and payable in the current period in the funds and therefore are not reported as liabilities in the governmental funds.	
Leases payable	(1,325,000)
Net pension liability	(2,142,994)
Compensated absences	(45,748)
Net position of governmental activities	<u>\$ 10,973,260</u>

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

CITY OF ELSMERE, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 786,091	\$ 485,914	\$ -	\$ -	\$ 1,272,005
Payroll tax	1,451,410	-	-	-	1,451,410
Insurance premium tax	805,952	-	7	-	805,959
Other taxes	106,593	-	-	-	106,593
Licenses and permits	19,467	-	-	-	19,467
Fines, forfeitures, penalties	46,321	-	-	-	46,321
Charges for services	8,260	-	-	-	8,260
Intergovernmental	72,751	112,106	226,988	10,067	421,912
Grants	-	-	-	-	-
Rehabilitation loan payments	-	-	-	816	816
Loan Proceeds	-	-	-	-	-
Interest income	5,067	129	125	499	5,820
Miscellaneous	49,470	-	-	-	49,470
Total Revenues	3,351,382	598,149	227,120	11,382	4,188,033
Expenditures					
Current Expenditures					
General government	633,517	-	-	9,258	642,775
Public safety	1,475,819	-	-	-	1,475,819
Public works and streets	436,372	127,529	304,376	6,000	874,277
Intergovernmental expenses	255,753	-	-	-	255,753
Planning and inspection	57,461	-	-	-	57,461
Waste collection	734	-	-	-	734
Recreation	29,755	-	-	-	29,755
Capital outlay	187,912	1,011,796	-	-	1,199,708
Debt service	-	294,625	-	-	294,625
Total Expenditures	3,077,323	1,433,950	304,376	15,258	4,830,907
Excess (Deficiency) of Revenues Over (Under) Expenditures	274,059	(835,801)	(77,256)	(3,876)	(642,874)
Other Financing Sources (Uses)					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	274,059	(835,801)	(77,256)	(3,876)	(642,874)
Fund Balance, beginning	3,479,076	1,132,396	552,245	205,100	5,368,817
Fund Balance, ending	\$ 3,753,135	\$ 296,595	\$ 474,989	\$ 201,224	\$ 4,725,943

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

<p>CITY OF ELSMERE, KENTUCKY Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities For the Year Ended June 30, 2015</p>

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

Net change in fund balance - total governmental funds \$ (642,874)

Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 1,199,708	
Loss on disposal of assets (315 Garvey)	(82,824)	
Depreciation expense	<u>(309,593)</u>	807,291

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (10,556)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences. 839

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

City pension contributions	327,058	
Costs of benefits earned	(272,868)	

Repayment of leases payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 250,000

Change in net position of governmental activities \$ 458,890

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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OVERVIEW OF ENTITY

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

Reporting Entity

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

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

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement focus, basis of accounting and financial statement presentation

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports on the following funds:

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

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

Assets, Liabilities and Equity

Deposits and Investments

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

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

Receivables

No allowance for doubtful accounts is required.

Property Taxes Receivable

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

Short-Term Inter-fund Receivables/Payables

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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Prepaid Items

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

Capital Assets

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

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

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

Compensated Absences

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

Long-term Obligations

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

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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Fund Equity

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

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

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

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

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

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

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

Revenues, Expenditures and Expenses – Inter-fund Transactions

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

Pensions

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Pervasiveness of Estimates

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

Budgetary Information

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

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

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

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

NOTE C – DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents – The carrying amount of the City's cash equivalents (bank deposits, money market accounts and certificates of deposit with less than 90 days maturity) with financial institutions was \$3,990,901 at June 30, 2015.

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

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2015.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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NOTE D – RISK MANAGEMENT

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

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

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,143,538	\$ 39,000	\$ -	\$ 1,182,538
Construction in progress	360,803	1,011,796	(1,243,166)	129,433
Total Capital Assets Not Being Depreciated	<u>1,504,341</u>	<u>1,050,796</u>	<u>(1,243,166)</u>	<u>1,311,971</u>
Depreciable Capital Assets				
Infrastructure	8,004,221	1,243,166	-	9,247,387
Buildings	1,337,302	82,824	(82,824)	1,337,302
Vehicles	836,619	6,065	-	842,684
Equipment	623,579	-	-	623,579
Furniture and fixtures	32,095	60,024	(22,340)	69,779
Total Depreciable Capital Assets	<u>10,833,816</u>	<u>1,392,079</u>	<u>(105,164)</u>	<u>12,120,731</u>
Total Capital Assets at Historical Cost	<u>13,428,930</u>	<u>2,442,875</u>	<u>(1,348,330)</u>	<u>13,432,702</u>
Less Accumulated Depreciation				
Infrastructure	(1,773,471)	(211,440)	-	(1,984,911)
Buildings	(495,828)	(32,563)	-	(528,391)
Vehicles	(679,672)	(46,648)	22,340	(703,980)
Equipment	(545,094)	(18,942)	-	(564,036)
Furniture and fixtures	(32,095)	-	-	(32,095)
Total Accumulated Depreciation	<u>(3,526,160)</u>	<u>(309,593)</u>	<u>22,340</u>	<u>(3,813,413)</u>
Depreciable Capital Assets, Net	<u>7,307,656</u>	<u>1,082,486</u>	<u>(82,824)</u>	<u>8,307,318</u>
Total Capital Assets, Net	<u>\$ 9,902,770</u>	<u>\$ 2,133,282</u>	<u>\$ (1,325,990)</u>	<u>\$ 9,619,289</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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Depreciation was charged to functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General government	\$ 14,706
Public safety	53,846
Public works	27,032
Public Works-Infrastructure	211,440
Recreation	<u>2,569</u>
Total Depreciation	<u>\$ 309,593</u>

NOTE F – LONG-TERM DEBT

Road Construction Capital Lease

In August 2010, the City signed a capital lease for \$2,560,000. The proceeds of this lease are to go to road reconstruction in the City. The City began paying principal and interest on this balance in September 2010. As of June 30, 2015, \$2,560,000 of these funds had been drawn. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2015 is \$1,325,000.

Summary of General Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2015:

	<u>Balance</u>		<u>Retirements/</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2015</u>	<u>Within 1 Year</u>
Road construction lease	\$ 1,575,000	\$ -	\$ (250,000)	\$ 1,325,000	\$ 255,000
Total	<u>\$ 1,575,000</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ 1,325,000</u>	<u>\$ 255,000</u>

NOTE G – COMPENSATED ABSENCE LIABILITY

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

	<u>Balance</u>	<u>Net</u>	<u>Net</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Within 1 Year</u>
Compensated absences	\$ 46,587	\$ 2,196	\$ (3,035)	\$ 45,748	\$ 45,748

NOTE H – COUNTY EMPLOYEE'S RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Hazardous duty employees who entered the plan after August 31, 2008 must also contribute an additional 1% of their annual creditable compensation for health insurance. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

Contributions

The City contributed 17.67% (34.31% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2015.

The City of Elsmere made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2015 in the amount of \$327,058.

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

At June 30, 2015, the City reported a liability of \$2,142,994 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's employer allocation proportion was 0.016995% of the total CERS non-hazardous duty employees and 0.132432% of the total CERS hazardous duty employees. For the year ended June 30, 2015, the City recognized pension expense of \$327,058. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	218,080
Changes of assumptions	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>327,058</u>	<u>-</u>
Total	<u>\$ 327,058</u>	<u>\$ 218,080</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The \$327,058 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending	Net
<u>June 30,</u>	<u>Deferral</u>
2016	\$ 43,616
2017	43,616
2018	43,616
2019	43,616
2020	43,616
	<u>\$ 218,080</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$ 2,807,664
Current discount rate	7.75%	2,141,994
1% increase	8.75%	1,572,636

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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Plan Fiduciary Net Position

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

NOTE I – CLAIMS AND JUDGMENTS

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

NOTE J – INTERFUND ACTIVITY

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. There were no fund transfers in fiscal year 2015.

NOTE K – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 67 – *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* – This statement is not currently applicable to the City of Elsmere.

Statement No. 68 – *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* – Requires the City to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on the City's Statement of Net Position. This statement is effect for the fiscal period June 30, 2015. This statement adds a liability that was booked as a prior period adjustment at June 30, 2014 in the net amount of \$2,088,206 as the City's share of the CERS unfunded liability to the City's Statement of Net Position.

Statement No. 69 – *Government Combinations and Disposals of Government Operations* – This statement is not currently applicable to the City of Elsmere.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This statement is not currently applicable to the City of Elsmere.

NOTE L – FUTURE ACCOUNTING STANDARDS

Statement No. 77 – *Tax Abatement Disclosures*

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

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2015
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Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

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

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

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

NOTE M – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$2,088,206) at June 30, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated events through January 5, 2016 the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2015 through January 5, 2016 to disclose.

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - General Fund
For the Year Ended June 30, 2015**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 2,900,000</u>	<u>\$ -</u>	<u>\$ 2,900,000</u>	<u>\$ 3,479,076</u>	<u>\$ 579,076</u>
Resources (inflows):					
Taxes	2,810,000	216,910	3,026,910	3,150,046	123,136
Licenses and permits	22,200	(2,747)	19,453	19,467	14
Intergovernmental	79,200	(6,300)	72,900	72,751	(149)
Fines, forfeitures, penalties	39,000	5,000	44,000	46,321	2,321
Charges for services	25,000	(17,100)	7,900	8,260	360
Interest income	7,000	-	7,000	5,067	(1,933)
Grants	-	-	-	-	-
Miscellaneous	61,900	(12,180)	49,720	49,470	(250)
Total resources (inflows)	<u>3,044,300</u>	<u>183,583</u>	<u>3,227,883</u>	<u>3,351,382</u>	<u>123,499</u>
Amounts available for appropriation	<u>5,944,300</u>	<u>183,583</u>	<u>6,127,883</u>	<u>6,830,458</u>	<u>702,575</u>
Charges to appropriations (outflows):					
General government	712,500	(4,972)	707,528	673,724	33,804
Public safety	1,586,150	(53,895)	1,532,255	1,475,819	56,436
Public works	476,500	4,423	480,923	442,437	38,486
Intergovernmental expense	260,000	(4,000)	256,000	255,753	247
Planning and inspection	46,150	20,000	66,150	57,461	8,689
Waste collection	5,000	(4,200)	800	734	66
Recreation	30,540	-	30,540	29,755	785
Capital projects	159,500	(9,500)	150,000	141,640	8,360
Total charges to appropriations	<u>3,276,340</u>	<u>(52,144)</u>	<u>3,224,196</u>	<u>3,077,323</u>	<u>146,873</u>
Interfund transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 2,667,960</u>	<u>\$ 235,727</u>	<u>\$ 2,903,687</u>	<u>\$ 3,753,135</u>	<u>\$ 849,448</u>

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

<p>CITY OF ELSMERE, KENTUCKY Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (With Variances) - Street Tax Fund For the Year Ended June 30, 2015</p>

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 1,175,000</u>	<u>\$ -</u>	<u>\$ 1,175,000</u>	<u>\$ 1,132,396</u>	<u>\$ (42,604)</u>
Resources (inflows):					
Steet tax	484,050	2,950	487,000	485,914	(1,086)
Intergovernmental	117,826	-	117,826	112,106	(5,720)
Interest	150	(20)	130	129	(1)
Loan Proceeds	-	-	-	-	-
Total resources (inflows)	<u>602,026</u>	<u>2,930</u>	<u>604,956</u>	<u>598,149</u>	<u>(6,807)</u>
Amounts available for appropriation	<u>1,777,026</u>	<u>2,930</u>	<u>1,779,956</u>	<u>1,730,545</u>	<u>(49,411)</u>
Charges to appropriations (outflows):					
Bank fees	-	-	-	-	-
Debt service payments	294,630	(5)	294,625	294,625	-
Capital projects	<u>1,235,529</u>	<u>(340)</u>	<u>1,235,189</u>	<u>1,139,325</u>	<u>95,864</u>
Total expenses (outflows)	<u>1,530,159</u>	<u>(345)</u>	<u>1,529,814</u>	<u>1,433,950</u>	<u>95,864</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 246,867</u>	<u>\$ 3,275</u>	<u>\$ 250,142</u>	<u>\$ 296,595</u>	<u>\$ 46,453</u>

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

<p>CITY OF ELSMERE, KENTUCKY Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (With Variances) - Municipal Road Fund For the Year Ended June 30, 2015</p>

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 550,000</u>	<u>\$ -</u>	<u>\$ 550,000</u>	<u>\$ 552,245</u>	<u>\$ 2,245</u>
Resources (inflows):					
Intergovernmental	235,272	(16,846)	218,426	226,988	8,562
Insurance premium tax	-	-	-	7	7
Interest	<u>130</u>	<u>-</u>	<u>130</u>	<u>125</u>	<u>(5)</u>
Total resources (inflows)	<u>235,402</u>	<u>(16,846)</u>	<u>218,556</u>	<u>227,120</u>	<u>8,564</u>
Amounts available for appropriation	<u>785,402</u>	<u>(16,846)</u>	<u>768,556</u>	<u>779,365</u>	<u>10,809</u>
Charges to appropriations (outflows):					
Capital outlay	50,000	(50,000)	-	-	-
Street repair	93,000	10,000	103,000	117,501	(14,501)
Capital street projects	<u>498,436</u>	<u>-</u>	<u>498,436</u>	<u>186,875</u>	<u>311,561</u>
	<u>641,436</u>	<u>(40,000)</u>	<u>601,436</u>	<u>304,376</u>	<u>297,060</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 143,966</u>	<u>\$ 23,154</u>	<u>\$ 167,120</u>	<u>\$ 474,989</u>	<u>\$ 307,869</u>

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

CITY OF ELSMERE, KENTUCKY**Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure
For the Year Ended June 30, 2015****Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.048198%									
Proportionate share of the net pension liability (asset)	\$ 2,142,994									
Covered employee payroll in year of measurement	1,154,507									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	185.62%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

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

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 327,058	\$ 333,757								
Actual contribution	327,058	333,757								
Contribution deficiency (excess)	-	-								
Covered employee payroll	1,126,462	1,154,507								
Contributions as a percentage of covered employee payroll	29.03%	28.91%								

**Notes to Required Supplementary Information
for the Year Ended June 30, 2015
Changes of Assumptions**

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization.

CITY OF ELSMERE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2015

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	\$ 138,487	\$ 55,374	\$ 7,434	\$ 201,295
Accounts receivable				
Note receivable	8,640	-	-	8,640
TOTAL ASSETS	<u>\$ 147,127</u>	<u>\$ 55,374</u>	<u>\$ 7,434</u>	<u>\$ 209,935</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ 8,640	\$ -	\$ -	\$ 8,640
Accounts payable	-	-	71	71
TOTAL LIABILITIES	<u>8,640</u>	<u>-</u>	<u>71</u>	<u>8,711</u>
FUND BALANCES				
Committed	<u>138,487</u>	<u>55,374</u>	<u>7,363</u>	<u>201,224</u>
TOTAL FUND BALANCES	<u>138,487</u>	<u>55,374</u>	<u>7,363</u>	<u>201,224</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 147,127</u>	<u>\$ 55,374</u>	<u>\$ 7,434</u>	<u>\$ 209,935</u>

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

CITY OF ELSMERE, KENTUCKY**Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Non-Major Governmental Funds
For the Year Ended June 30, 2015**

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
Revenues				
Loan repayments	\$ 816	\$ -	\$ -	\$ 816
FSA/HRA contributions	-	-	10,067	10,067
Interest	360	138	1	499
Total Revenues	<u>1,176</u>	<u>138</u>	<u>10,068</u>	<u>11,382</u>
Expenditures				
FSA/HRA reimbursements	-	-	9,258	9,258
City wide loan program	6,000	-	-	6,000
Total Expenditures	<u>6,000</u>	<u>-</u>	<u>9,258</u>	<u>15,258</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(4,824)</u>	<u>138</u>	<u>810</u>	<u>(3,876)</u>
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(4,824)</u>	<u>138</u>	<u>810</u>	<u>(3,876)</u>
Fund Balance, beginning	<u>143,311</u>	<u>55,236</u>	<u>6,553</u>	<u>205,100</u>
Fund Balance, ending	<u>\$ 138,487</u>	<u>\$ 55,374</u>	<u>\$ 7,363</u>	<u>\$ 201,224</u>

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the City of Elsmere, Kentucky, as of June 30, 2015 and the related notes to the financial statements which collectively comprise the City of Elsmere, Kentucky's financial statements, and have issued our report thereon dated January 5, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



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

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

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
January 5, 2016