

CITY OF ELKTON, KENTUCKY
BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2016
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ELKTON, KENTUCKY
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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Elkton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky'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 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows 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, budgetary comparison information, schedule of proportionate share of the net pension liability and schedule of contributions on pages 3-12 and 44-48 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2017, on our consideration of the City of Elkton, 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 Elkton, Kentucky's internal control over financial reporting and compliance.

Thurman Campbell Group, PLC

Hopkinsville, Kentucky
January 15, 2017

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

As management of the *City of Elkton, Kentucky*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- As of June 30, 2016, the City's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources for a total net position of \$8,610,219.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$189,687 to a June 30, 2016 balance of \$1,983,219. Of this amount, \$1,479,824 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2016 totaled \$5,076,991, a decrease of \$36,764 from the prior year.
- The City's general fund balance as of June 30, 2016 was \$1,551,309, an increase of \$207,247 over the prior year. Of the total fund balance, \$1,479,824 is unassigned. The unassigned general fund balance represents 97% of total general fund revenues.
- Total capital assets of the City (land, buildings and improvements, park and land improvements, equipment, vehicles, plants and lines, construction in progress) totaled \$7,718,914.

OVERVIEW OF THE 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. This report also contains other supplementary information and reporting in addition to the basic financial statements themselves.

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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them 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.

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 taxes and intergovernmental revenues (*governmental activities*) as opposed to other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government, public safety, public

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

works, community development and culture and recreation. The *business-type activities* of the city include water, sewer and solid waste.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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 presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 several individual funds in addition to the general fund to make up the governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other governmental funds.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds- The City maintains three proprietary fund. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses proprietary funds to account for water, sewer and solid waste management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on the individual enterprise funds.

Notes to the financial statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities had a net position of \$3,533,228, while business-type activities had a net position of \$5,076,991, for total city wide net position of \$8,610,219 as of June 30, 2016.

| Statement of Net Position of Governmental and Business-Type Activities | | | | | | |
|--|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| June 30, 2016 | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| <u>ASSETS</u> | | | | | | |
| Current and other assets | \$ 2,029,871 | \$ 1,990,802 | \$ 1,439,399 | \$ 1,378,386 | \$ 3,469,270 | \$ 3,369,188 |
| Capital assets | 2,190,601 | 2,257,382 | 5,528,313 | 5,662,340 | 7,718,914 | 7,919,722 |
| Total assets | 4,220,472 | 4,248,184 | 6,967,712 | 7,040,726 | 11,188,184 | 11,288,910 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | | | | |
| Deferred outflows related to pensions | 143,562 | 77,835 | 85,644 | 43,129 | 229,206 | 120,964 |
| Total deferred outflows of resources | 143,562 | 77,835 | 85,644 | 43,129 | 229,206 | 120,964 |
| <u>LIABILITIES</u> | | | | | | |
| Current liabilities | 54,504 | 201,413 | 228,544 | 227,100 | 283,048 | 428,513 |
| Net pension liability | 749,485 | 649,854 | 449,373 | 360,921 | 1,198,858 | 1,010,775 |
| Long-term liabilities | 9,179 | 6,709 | 1,298,189 | 1,356,104 | 1,307,368 | 1,362,813 |
| Total liabilities | 813,168 | 857,976 | 1,976,106 | 1,944,125 | 2,789,274 | 2,802,101 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | | |
| Deferred inflows related to pensions | 17,638 | 38,140 | 259 | 26,276 | 17,897 | 64,416 |
| Total deferred inflows of resources | 17,638 | 38,140 | 259 | 26,276 | 17,897 | 64,416 |
| <u>NET POSITION</u> | | | | | | |
| Net investment in capital assets | 2,166,170 | 2,243,034 | 4,172,210 | 4,248,686 | 6,338,380 | 6,491,720 |
| Restricted assets | 245,902 | 251,192 | 1,062,379 | 1,093,647 | 1,308,281 | 1,344,839 |
| Unrestricted assets | 1,121,156 | 935,673 | (157,598) | (228,578) | 963,558 | 707,095 |
| Total net position | \$ 3,533,228 | \$ 3,429,899 | \$ 5,076,991 | \$ 5,113,755 | \$ 8,610,219 | \$ 8,543,654 |

In the City as a whole, the largest portion of net position, \$6,338,380 or 74%, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens and these assets are not available for future spending.

The net position of governmental activity funds was \$3,533,228, with \$2,166,170 or 61% being invested in capital assets and \$1,121,156 or 32% unrestricted. The unrestricted net position of governmental funds include fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities was \$5,076,991. Of the net position, \$4,172,210 or 83% were invested in capital assets.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

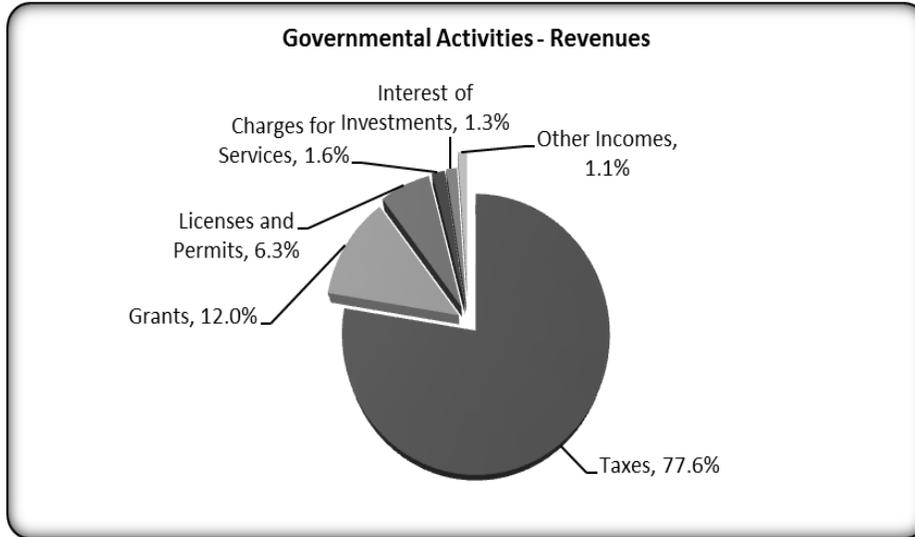
Statement of Activities

| Statement of Activities of Governmental and Business-Type Activities | | | | | | |
|--|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| For the Year Ended June 30, 2016 | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 23,860 | \$ 25,427 | \$ 1,049,028 | \$ 989,391 | \$ 1,072,888 | \$ 1,014,818 |
| Operating Grants and Contributions | 81,587 | 89,886 | - | - | 81,587 | 89,886 |
| Capital Grants and Contributions | 97,937 | - | 29,323 | - | 127,260 | - |
| General Revenues: | | | | | | |
| Taxes | 1,156,547 | 1,089,236 | - | - | 1,156,547 | 1,089,236 |
| Licenses and Permits | 94,290 | 94,650 | - | - | 94,290 | 94,650 |
| Grants and Contributions not restricted to Specific Programs | - | 331,199 | - | - | - | 331,199 |
| Interest on Investments | 20,046 | 18,953 | 13,439 | 13,558 | 33,485 | 32,511 |
| Gain/(Loss) on Sale of Fixed Assets | 8,950 | 6,800 | 1,216 | - | 10,166 | 6,800 |
| Other Income | 22,323 | 19,199 | 18,029 | 17,633 | 40,352 | 36,832 |
| Transfers In/(Out) | (14,400) | (14,400) | 14,400 | 14,400 | - | - |
| Total Revenues | 1,491,140 | 1,660,950 | 1,125,435 | 1,034,982 | 2,616,575 | 2,695,932 |
| Expenditures: | | | | | | |
| General Government | 452,777 | 457,814 | - | - | 452,777 | 457,814 |
| Public Safety | 622,606 | 560,908 | - | - | 622,606 | 560,908 |
| Public Works | 291,811 | 239,854 | - | - | 291,811 | 239,854 |
| Community Development | 1,200 | - | - | - | 1,200 | - |
| Culture and Recreation | 18,802 | 18,731 | - | - | 18,802 | 18,731 |
| Interest on Long-term Debt | 615 | 1,280 | - | - | 615 | 1,280 |
| Water | - | - | 554,652 | 537,516 | 554,652 | 537,516 |
| Sewer | - | - | 521,878 | 541,552 | 521,878 | 541,552 |
| Solid Waste | - | - | 85,669 | 81,986 | 85,669 | 81,986 |
| Total Expenditures | 1,387,811 | 1,278,587 | 1,162,199 | 1,161,054 | 2,550,010 | 2,439,641 |
| Change in Net Position | 103,329 | 382,363 | (36,764) | (126,072) | 66,565 | 256,291 |
| Net Position, Beginning (Restated) | 3,429,899 | 3,047,536 | 5,113,755 | 5,239,827 | 8,543,654 | 8,287,363 |
| Net Position, Ending | \$ 3,533,228 | \$ 3,429,899 | \$ 5,076,991 | \$ 5,113,755 | \$ 8,610,219 | \$ 8,543,654 |

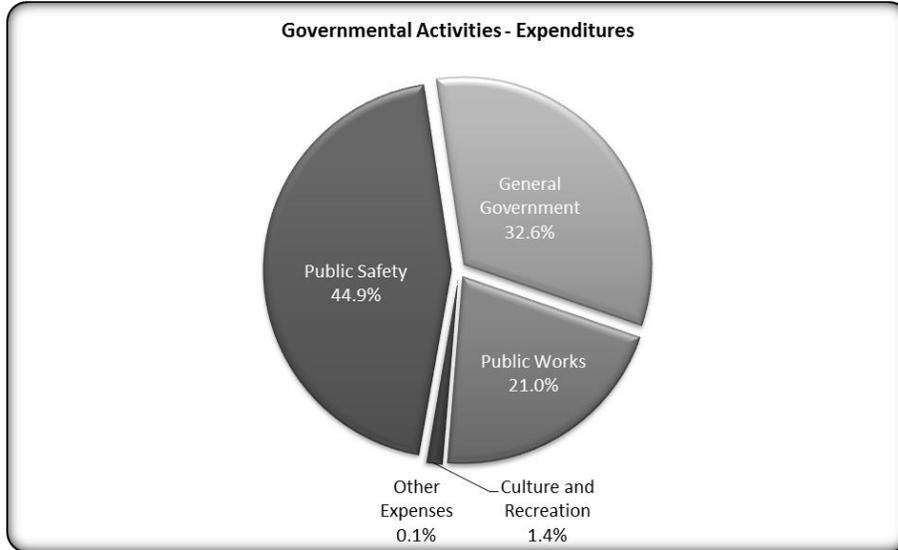
Governmental Activities

Revenues for the City's governmental activities totaled \$1,491,140. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,156,547 which is 77.6% of total revenue. Grants totaled \$179,524 and accounted for about 12.0% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$94,290 or 6.3% of the total. Charges for services totaled \$23,860, or 1.6% of revenues. Interest on investments totaled \$20,046, or about 1.3% of revenues. Finally, other incomes totaled \$16,873, or 1.1% of revenues.

CITY OF ELKTON, KENTUCKY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
 FOR THE YEAR ENDED JUNE 30, 2016



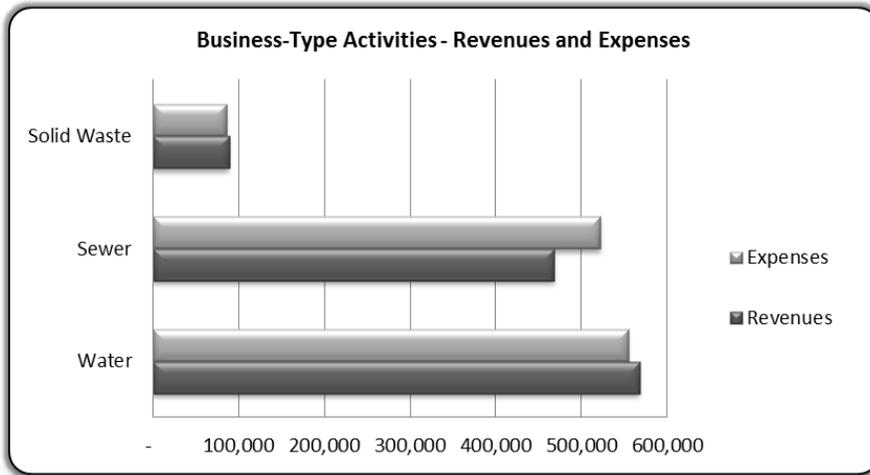
Total expenses of the City's governmental activities were \$1,387,811. The largest expenditure at 44.9% of total expenses \$622,606 was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled \$452,777 or 32.6% of expenses. Public works was third and totaled \$291,811, or 21.0%. Culture and recreation expenses totaled \$18,802, or 1.4% of the total. Finally, other expenses totaled \$1,815, or 0.1% of total expenditures.



CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

Business-type Activities

Revenues for business-type activities totaled \$1,125,435 for the fiscal year ended June 30, 2016. Of this total, 93.2% of total revenue received was from Charges for Services in the amount of \$1,049,028. Interest income accounted for 1.2% of total revenues, or \$13,439. Expenses for business-type activities totaled \$1,162,199. Water department expenses accounted for \$554,652 of total expenditures, or 47.7%. Sewer department expenses accounted for 44.9% of total expenses, or \$521,878. Finally, the solid waste department accounted for 7.4% of total business-type activities expenditures with \$85,669 in expenses.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds- The general government functions are contained in the General, Special Revenue and Permanent 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.

The City's governmental funds for the year ended June 30, 2016 reflect a combined ending fund balance of \$1,983,219, an increase of about \$189,687 from the prior year. Of the total fund balance, \$1,479,824 is unassigned and is available for spending at the City's discretion. The remainder \$503,395 is restricted or committed for prepaid expenses, mortgage receivables, and cemetery maintenance.

General Fund Highlights

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total balance in the General Fund was \$1,551,309, which is an increase of \$207,247 from the prior year. Of the total General Fund balance, 95.4% (\$1,479,824) is *unassigned fund balance*. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represented 97.7% of total general fund revenues.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

The following provides an explanation of revenues by source with change from the prior year:

| General Fund - Revenues by Source | | | | | | |
|---|-------------|----------|-------------|----------|---------------------|-----------|
| | FY 2016 | | FY 2015 | | Increase/(Decrease) | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | | of Total | | of Total | | of Change |
| Revenues by Source | | | | | | |
| Taxes | \$1,149,147 | 75.9% | \$1,085,745 | 57.2% | \$ 63,402 | 5.84% |
| Licenses and Permits | 94,290 | 6.2% | 94,650 | 5.0% | (360) | -0.38% |
| Intergovernmental Revenues | 14,154 | 0.9% | 14,150 | 0.7% | 4 | 0.03% |
| Charges for Services | 23,860 | 1.6% | 25,427 | 1.3% | (1,567) | -6.16% |
| Interest Income | 16,078 | 1.1% | 14,139 | 0.7% | 1,939 | 13.71% |
| Grant Income | 97,937 | 6.5% | 331,199 | 17.4% | (233,262) | -70.43% |
| Other Income | 22,323 | 1.5% | 19,199 | 1.0% | 3,124 | 16.27% |
| Total Revenues | \$1,417,789 | 93.6% | \$1,584,509 | 83.4% | \$(166,720) | -10.52% |
| Total Other Financing (uses) | 96,853 | 6.4% | 314,659 | 16.6% | (217,806) | -69.22% |
| Total Revenues and Other Financing (uses) | \$1,514,642 | 100.0% | \$1,899,168 | 100.0% | \$(384,526) | -20.25% |

- The General Fund saw about a 20% decrease in total revenue and other financing sources over last year.
- The largest decrease in revenue was \$233,262 in Grant Income, a decrease of 70%. Also decreasing by 69% was Total Other Financing (uses) in the amount of \$217,806. Both decreases were due to the completion of the South Streets Avenue Sidewalk project in the previous FYE June 30, 2015, therefore decreasing grants received and transfers from other funds to pay for the project last year.
- The largest total increase in revenue came from Taxes, which increased by nearly 6%, or \$63,402, over last year. This increase is mostly due to increases in payroll tax income.

The following provides an explanation of expenditures by function with change from the prior year:

| General Fund - Expenditures by Function | | | | | | |
|--|--------------|----------|--------------|----------|---------------------|-----------|
| | FY 2016 | | FY 2015 | | Increase/(Decrease) | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | | of Total | | of Total | | of Change |
| Expenditures by Function | | | | | | |
| General Government | \$ 403,843 | 30.9% | \$ 408,228 | 24.5% | \$ (4,385) | -1.07% |
| Public Works | 160,752 | 12.3% | 179,620 | 10.8% | (18,868) | -10.50% |
| Public Safety | 531,185 | 40.6% | 516,649 | 31.1% | 14,536 | 2.81% |
| Culture and Recreation | 18,811 | 1.4% | 20,291 | 1.2% | (1,480) | -7.29% |
| Capital Outlay | 184,475 | 14.1% | 523,658 | 31.5% | (339,183) | -64.77% |
| Debt Service | 8,329 | 0.6% | 15,186 | 0.9% | (6,857) | -45.15% |
| Total Expenditures | \$ 1,307,395 | 100.0% | \$ 1,663,632 | 100.0% | \$ (356,237) | -21.41% |

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

- Overall, General Fund expenditures decreased by 21%, a total of \$356,237 over last year.
- The largest total decrease in expenditures was in the area of Capital Outlay with a decrease in expenditures of \$339,183 from last year. The decrease is due to the completion of the South Streets Avenue Sidewalks Project in the previous fiscal year.
- The only area that saw an increase in expenditures was Public Safety, with a 2.8% increase of about \$14,536.

Proprietary funds- The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. As noted earlier, the City maintains three proprietary funds. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses proprietary funds to account for water, sewer and solid waste management.

The following table shows actual revenues, expenses and change in net position from operations for the fiscal year as well as comparison from prior year:

| Proprietary Funds | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-----------|--------------|--------------|
| Statement of Revenues, Expenses and Changes in Fund Net Position | | | | | | | | |
| | Water | | Sewer | | Solid Waste | | Total | |
| | FY 2016 | FY 2015 | FY 2016 | FY 2015 | FY 2016 | FY 2015 | FY 2016 | FY 2015 |
| Operating Revenues | \$ 553,287 | \$ 494,740 | \$ 453,858 | \$ 430,160 | \$ 89,235 | \$ 82,124 | \$ 1,096,380 | \$ 1,007,024 |
| Operating Expenses | 547,476 | 530,096 | 507,362 | 526,755 | 85,669 | 81,986 | 1,140,507 | 1,138,837 |
| Operating Income (loss) | 5,811 | (35,356) | (53,504) | (96,595) | 3,566 | 138 | (44,127) | (131,813) |
| Non-operating revenues (expenses) | (129) | (1,076) | (7,083) | (7,742) | 175 | 159 | (7,037) | (8,659) |
| Income (loss) before transfers | 5,682 | (36,432) | (60,587) | (104,337) | 3,741 | 297 | (51,164) | (140,472) |
| Transfer in (out) | 7,200 | 7,200 | 7,200 | 7,200 | - | - | 14,400 | 21,600 |
| Net income (loss) | \$ 12,882 | \$ (29,232) | \$ (53,387) | \$ (97,137) | \$ 3,741 | \$ 297 | \$ (36,764) | \$ (126,072) |
| Net Position, beginning of year | 1,048,177 | 1,077,409 | 4,044,434 | 4,141,571 | 21,144 | 20,847 | 5,113,755 | 6,014,420 |
| Net Position, end of year | \$1,061,059 | \$1,048,177 | \$3,991,047 | \$4,044,434 | \$ 24,885 | \$ 21,144 | \$ 5,076,991 | \$ 5,113,755 |

- The **water** fund accounts for the operation and maintenance of the water distribution system for City customers and a few County customers. The funds operating revenue increased by \$58,547. The water fund saw an increase in operating expenditures by \$17,380. Overall, the water fund saw a net gain of \$12,882. Therefore, net position of the water fund as of June 30, 2016 increased to a total of \$1,061,059.
- The **sewer** fund accounts for the operation and maintenance of the sanitary sewer system and wastewater treatment facilities in the City. The funds operating revenue saw an increase of \$23,698 over the previous year, while operating expenses decreased by \$19,393. The decrease in expenditures was mostly due to postponing removal of solid waste to next fiscal year. As of June 30, 2016, the sewer fund saw a net loss of \$53,387 for a net position of \$3,991,047.
- The **solid waste** fund accounts for contractual payments to Waste Management, Inc. for residential solid waste collection and disposal. The fund had a net increase of \$3,741. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2016 for the solid waste fund is \$24,885.

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund's budget one time in order to make adjustments in revenues and expenditures that were not anticipated when the budget was first adopted. In all, the original revenue and other financing sources budget increased by about 18%, or \$227,295. The total expenditure budget was increased by \$209,000 or approximately 17%. These changes can be briefly summarized as follows:

- Although there were several minor changes throughout the budget, the main modifications to the general fund budget in both revenue and expenditures are reflected in purchases of fire department SCBA fill device (\$34,500) and Pond River Road resurfacing (\$57,346), both projects were almost completely funded through grants and were not originally budgeted.
- Unanticipated revenue from the sale of the North Main Street building in the amount of \$40,000.

For the year, general fund actual revenues and other financing sources came in about \$60,997 (4.2%) more than expected. Actual expenditures were \$103,605 less than expected, or nearly 7.3% below budgetary estimates.

CAPITAL ASSETS

The City's capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2016 totaled \$2,190,601. For business-type activities, total capital assets amount to \$5,528,313. The City's total net capital assets as of June 30, 2016 totaled \$7,718,914.

| City of Elkton Capital Assets | | | |
|-------------------------------|--------------|---------------|--------------|
| As of June 30, 2016 | | | |
| | Governmental | Business-Type | |
| | Activities | Activities | Totals |
| Land | 130,545 | 138,500 | 269,045 |
| Buildings and Improvements | 936,531 | | 936,531 |
| Park and Land Improvements | 884,367 | | 884,367 |
| Equipment | 151,459 | 127,408 | 278,867 |
| Vehicles | 87,699 | 17,278 | 104,977 |
| Plant and Lines | | 5,215,804 | 5,215,804 |
| Construction in Progress | | 29,323 | 29,323 |
| Total | \$ 2,190,601 | \$ 5,528,313 | \$ 7,718,914 |

DEBT ADMINISTRATION

At the end of the fiscal year, the City had a total outstanding debt of \$1,380,534. Of the total debt, \$24,431 is payable from the City's General Fund. The largest portion of the General Fund debt is \$17,798 from the purchase of a 2016 Ford Explorer Police vehicle in June 2016. The remaining debt in the amount of \$6,633 is from the purchase of a 2014 Ford Explorer Police vehicle made in August 2013.

The total outstanding debt for Business Type Activities totaled \$1,356,103 as of June 30, 2016. The largest portion this long-term debt in the amount of \$552,133 is payable from the Sewer Fund for repayment of a 0% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

2006 to pay off the 1990 Series Sewer Revenue Bonds. The City also has a low interest loan through KIA with a remaining balance of \$59,594 for the purchase of new radio read water meters that was completed in July 2010. The sewer system also has an outstanding debt in the amount of \$322,500 from the 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project. The sewer system also received a 1% interest loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$105,084. Finally, in June 2014, the city received a low interest loan through KIA to separate the water distribution system from intersecting lines with the Todd County Water District and to replace an old water line on Goebel Avenue with a total balance of \$316,792 as of June 30, 2016.

| City of Elkton Outstanding Debt | | | |
|--|---------------------|----------------------|--------------|
| June 30, 2016 | | | |
| | Governmental | Business-Type | |
| | Activities | Activities | Total |
| Elkton Bank and Trust - 2014 Ford Explorer | \$ 17,798 | \$ - | \$ 17,798 |
| Note Payable - Ford Motor | \$ 6,633 | \$ - | 6,633 |
| KIA Loan - Water Meter Project | - | 59,594 | 59,594 |
| Rural Development Loan - Sewer Plant | - | 322,500 | 322,500 |
| KIA Loan - Sewer Plant Debt Retirement | - | 552,133 | 552,133 |
| KIA Loan - Sewer Extension Project | - | 105,084 | 105,084 |
| KIA Loan - Water Separation and Goebel Extension | - | 316,792 | 316,792 |
| Total | \$ 24,431 | \$ 1,356,103 | \$ 1,380,534 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

When creating the budget, the primary objective was to maintain current levels of city services and adequate employee benefits while at the same time attempting to keep charges for services and tax rates low.

An ongoing issue the city has been dealing with for many years is water loss, or water that is leaking from the system and not being billed to customer. Several years ago, the Utility Department found and repaired a large leak in a water main that brought the city's water loss down to about 10% annually. For the year ended June 30, 2016, the water loss averaged about 18%. The average water loss for similar systems is approximately 15-20%, so finding and maintaining water loss levels can save the water fund several thousand dollars. Also, maintenance issues on water tanks and replacing aging water lines will be a large expense that needs to be addressed in the near future.

Ongoing maintenance of the sewer system continues to increase at a fast rate and therefore the system continues to see a net loss at the end of the year. Sewer rate increases are expected in the near future in order to address repairs and maintenance to the system.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of its citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Elkton, PO Box 578, 71 Public Square, Elkton, KY 42220.

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

| <u>ASSETS</u> | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| Current assets: | | | |
| Cash | \$ 778,829 | \$ 203,396 | \$ 982,225 |
| Investments | 932,631 | - | 932,631 |
| Receivables: | | | |
| Taxes, net | 15,912 | - | 15,912 |
| Accounts | - | 141,797 | 141,797 |
| Other | 4,048 | 9,019 | 13,067 |
| Internal balances, net | 2,251 | (2,251) | - |
| Prepaid expenses | 50,298 | 25,059 | 75,357 |
| Total current assets | 1,783,969 | 377,020 | 2,160,989 |
| Restricted assets: | | | |
| Restricted cash | 23,587 | 168,801 | 192,388 |
| Restricted investments | 190,299 | 893,578 | 1,083,877 |
| Total restricted assets | 213,886 | 1,062,379 | 1,276,265 |
| Noncurrent assets: | | | |
| Mortgages receivable | 32,016 | - | 32,016 |
| Capital assets (not being depreciated) | 130,545 | 167,823 | 298,368 |
| Capital assets, net | 2,060,056 | 5,360,490 | 7,420,546 |
| Total noncurrent assets | 2,222,617 | 5,528,313 | 7,750,930 |
| Total assets | 4,220,472 | 6,967,712 | 11,188,184 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Deferred outflows related to pensions | 143,562 | 85,644 | 229,206 |
| Total deferred outflows of resources | 143,562 | 85,644 | 229,206 |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable | 26,045 | 41,473 | 67,518 |
| Accrued liabilities | 13,207 | 19,483 | 32,690 |
| Withholdings and other payables | - | 5,055 | 5,055 |
| Customer deposits | - | 104,619 | 104,619 |
| Current maturities of long-term debt | 15,252 | 57,914 | 73,166 |
| Total current liabilities | 54,504 | 228,544 | 283,048 |
| Noncurrent liabilities: | | | |
| Net pension liability | 749,485 | 449,373 | 1,198,858 |
| Long-term debt | 9,179 | 1,298,189 | 1,307,368 |
| Total noncurrent liabilities | 758,664 | 1,747,562 | 2,506,226 |
| Total liabilities | 813,168 | 1,976,106 | 2,789,274 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Deferred inflows related to pensions | 17,638 | 259 | 17,897 |
| Total deferred inflows of resources | 17,638 | 259 | 17,897 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 2,166,170 | 4,172,210 | 6,338,380 |
| Restricted for: | | | |
| Mortgages receivable | 32,016 | - | 32,016 |
| Cemetery perpetual care | 192,699 | - | 192,699 |
| Debt service | - | 1,062,379 | 1,062,379 |
| Special funds | 21,187 | - | 21,187 |
| Unrestricted | 1,121,156 | (157,598) | 963,558 |
| Total net position | \$ 3,533,228 | \$ 5,076,991 | \$ 8,610,219 |

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
Program Revenues

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | Total |
|---|---------------------|----------------------------|---|---|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | |
| Government activities: | | | | | | | |
| General government | \$ 452,777 | \$ 13,036 | \$ 5,904 | \$ 97,937 | \$ (335,900) | \$ - | \$ (335,900) |
| Public safety | 622,606 | 10,824 | 8,250 | - | (603,532) | - | (603,532) |
| Public works | 291,811 | - | 67,433 | - | (224,378) | - | (224,378) |
| Community development | 1,200 | - | - | - | (1,200) | - | (1,200) |
| Culture and recreation | 18,802 | - | - | - | (18,802) | - | (18,802) |
| Interest on long term debt | 615 | - | - | - | (615) | - | (615) |
| Total government activities | <u>1,387,811</u> | <u>23,860</u> | <u>81,587</u> | <u>97,937</u> | <u>(1,184,427)</u> | <u>-</u> | <u>(1,184,427)</u> |
| Business-type activities: | | | | | | | |
| Water | 554,652 | 524,666 | 11,143 | - | - | (18,843) | (18,843) |
| Sewer | 521,878 | 435,127 | 18,180 | - | - | (68,571) | (68,571) |
| Solid Waste | 85,669 | 89,235 | - | - | - | 3,566 | 3,566 |
| Total business activities | <u>1,162,199</u> | <u>1,049,028</u> | <u>29,323</u> | <u>-</u> | <u>-</u> | <u>(83,848)</u> | <u>(83,848)</u> |
| Total city | <u>\$ 2,550,010</u> | <u>\$ 1,072,888</u> | <u>\$ 110,910</u> | <u>\$ 97,937</u> | <u>(1,184,427)</u> | <u>(83,848)</u> | <u>(1,268,275)</u> |
| General revenues: | | | | | | | |
| Taxes | | | | | 1,156,547 | - | 1,156,547 |
| Licenses and permits | | | | | 94,290 | - | 94,290 |
| Interest on investments | | | | | 20,046 | 13,439 | 33,485 |
| Gain (loss) on sale of fixed asset | | | | | 8,950 | 1,216 | 10,166 |
| Other income | | | | | 22,323 | 18,029 | 40,352 |
| Transfers | | | | | (14,400) | 14,400 | - |
| Total general revenues and transfers | | | | | <u>1,287,756</u> | <u>47,084</u> | <u>1,334,840</u> |
| Change in net position | | | | | <u>103,329</u> | <u>(36,764)</u> | <u>66,565</u> |
| Net position, beginning (previously reported) | | | | | <u>3,483,351</u> | <u>5,137,748</u> | <u>8,621,099</u> |
| Prior period adjustmen (note 14) | | | | | <u>(53,452)</u> | <u>(23,993)</u> | <u>(77,445)</u> |
| Net position, beginning (restated) | | | | | <u>3,429,899</u> | <u>5,113,755</u> | <u>8,543,654</u> |
| Net position, ending | | | | | <u>\$ 3,533,228</u> | <u>\$ 5,076,991</u> | <u>\$ 8,610,219</u> |

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNEMENTAL FUNDS
JUNE 30, 2016

| <u>ASSETS</u> | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------|---|---|
| Cash | \$ 571,695 | \$ 207,134 | \$ 778,829 |
| Investments | 932,631 | - | 932,631 |
| Receivables: | | | |
| Taxes, net | 15,912 | - | 15,912 |
| Other | 2,195 | 1,853 | 4,048 |
| Prepaid expenses | 50,298 | - | 50,298 |
| Mortgages receivable | - | 32,016 | 32,016 |
| Due from other funds | 6,499 | 2,456 | 8,955 |
| Restricted cash | 21,187 | 2,400 | 23,587 |
| Restricted investments | - | 190,299 | 190,299 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | \$ 1,600,417 | \$ 436,158 | \$ 2,036,575 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 26,045 | \$ - | \$ 26,045 |
| Accrued liabilities | 13,207 | - | 13,207 |
| Due to other funds | 2,456 | 4,248 | 6,704 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities | 41,708 | 4,248 | 45,956 |
| | <hr/> | <hr/> | <hr/> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Unavailable revenues - taxes | 7,400 | - | 7,400 |
| | <hr/> | <hr/> | <hr/> |
| Total deferred inflows of resources | 7,400 | - | 7,400 |
| | <hr/> | <hr/> | <hr/> |
| <u>FUND BALANCE</u> | | | |
| Nonspendable: | | | |
| Prepaid expenses | 50,298 | - | 50,298 |
| Restricted | 21,187 | 224,715 | 245,902 |
| Committed | - | 207,195 | 207,195 |
| Unassigned | 1,479,824 | - | 1,479,824 |
| | <hr/> | <hr/> | <hr/> |
| Total fund balance | 1,551,309 | 431,910 | 1,983,219 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities, deferred inflows of resources, and fund balance | \$ 1,600,417 | \$ 436,158 | \$ 2,036,575 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016

| | |
|---|--------------|
| Total fund balance - total government funds | \$ 1,983,219 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets (net of accumulated depreciation) used in governmental activities activities are not financial resources and therefore are not reported in the funds. | 2,190,601 |
| Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds. | 7,400 |
| Certain long-term obligations are not due and payable in the current period and therefore are not reported in the funds. | |
| Net pension liability | (749,485) |
| Deferred outflows related to pensions | 143,562 |
| Deferred inflows related to pension | (17,638) |
| Debt obligations | (24,431) |
| Net position of governmental activities | \$ 3,533,228 |

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|---|---|
| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| Revenues: | | | |
| Taxes | \$ 1,149,147 | \$ - | \$ 1,149,147 |
| Licenses and permits | 94,290 | - | 94,290 |
| Intergovernmental revenues | 14,154 | 67,433 | 81,587 |
| Charges for services | 23,860 | - | 23,860 |
| Interest income | 16,078 | 3,968 | 20,046 |
| Grant income | 97,937 | - | 97,937 |
| Other income | 22,323 | - | 22,323 |
| | <u>1,417,789</u> | <u>71,401</u> | <u>1,489,190</u> |
| Total revenues | | | |
| Expenditures: | | | |
| Current: | | | |
| General government | 403,843 | - | 403,843 |
| Public works | 160,752 | 10,601 | 171,353 |
| Public safety | 531,185 | 24,905 | 556,090 |
| Culture and recreation | 18,811 | - | 18,811 |
| Capital outlay | 184,475 | - | 184,475 |
| Debt service: | | | |
| Principal | 7,714 | - | 7,714 |
| Interest | 615 | - | 615 |
| Total expenditures | <u>1,307,395</u> | <u>35,506</u> | <u>1,342,901</u> |
| Revenues over (under) expenditures | <u>110,394</u> | <u>35,895</u> | <u>146,289</u> |
| Other financing sources (uses): | | | |
| Sale of fixed assets | 40,000 | - | 40,000 |
| Debt proceeds | 17,798 | - | 17,798 |
| Operating transfers in | 53,455 | - | 53,455 |
| Operating transfers out | (14,400) | (53,455) | (67,855) |
| Total other financing sources (uses) | <u>96,853</u> | <u>(53,455)</u> | <u>43,398</u> |
| Net changes in fund balance | 207,247 | (17,560) | 189,687 |
| Fund balance, beginning of year | <u>1,344,062</u> | <u>449,470</u> | <u>1,793,532</u> |
| Fund balance, end of year | <u>\$ 1,551,309</u> | <u>\$ 431,910</u> | <u>\$ 1,983,219</u> |

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

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balance - total governmental funds \$ 189,687

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

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

| | |
|--|-----------|
| Capital assets purchased | 124,954 |
| Depreciation expense, net of gains or losses | (191,735) |

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the governmental funds. 7,400

Debt proceeds provide current financial resources in the governmental funds,
but create a long-term liability on the statement of net position. Repayment
of long-term liabilities is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net position.

| | |
|---------------------------|----------|
| Debt proceeds | (17,798) |
| Debt principal repayments | 7,714 |

Net pension expense is an actuarial calculation and does not require the use of
current financial resources and is excluded as an expenditure in the
governmental funds.

| | |
|---|-----------------|
| Contributions recorded as deferred outflows | 57,418 |
| Pension expense recorded in the governmental fund | <u>(74,311)</u> |

Change in net position of governmental activities \$ 103,329

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

| | Major Funds | | Nonmajor Fund | Total |
|---|--------------|--------------|---------------|--------------|
| | Water | Sewer | Solid Waste | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | \$ 125,034 | \$ 54,021 | \$ 24,341 | \$ 203,396 |
| Accounts receivable, net | 141,797 | - | - | 141,797 |
| Other receivables | 3,427 | 5,592 | - | 9,019 |
| Due from other funds | - | 37,581 | 7,507 | 45,088 |
| Prepaid expenses | 12,015 | 13,044 | - | 25,059 |
| Total current assets | 282,273 | 110,238 | 31,848 | 424,359 |
| Restricted assets: | | | | |
| Restricted cash | 113,092 | 55,709 | - | 168,801 |
| Restricted investments | 428,292 | 465,286 | - | 893,578 |
| Total restricted assets | 541,384 | 520,995 | - | 1,062,379 |
| Noncurrent assets: | | | | |
| Capital assets (not being depreciated) | 66,143 | 101,680 | - | 167,823 |
| Capital assets, net | 913,478 | 4,447,012 | - | 5,360,490 |
| Total noncurrent assets | 979,621 | 4,548,692 | - | 5,528,313 |
| Total assets | 1,803,278 | 5,179,925 | 31,848 | 7,015,051 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows related to pensions | 43,560 | 42,084 | - | 85,644 |
| Total deferred outflows of resources | 43,560 | 42,084 | - | 85,644 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 24,681 | 9,829 | 6,963 | 41,473 |
| Accrued liabilities | 8,834 | 10,649 | - | 19,483 |
| Payroll withholdings and other payables | 2,056 | 2,999 | - | 5,055 |
| Due to other funds | 45,668 | 1,671 | - | 47,339 |
| Customer deposits | 104,619 | - | - | 104,619 |
| Current portion of note | 18,954 | 38,960 | - | 57,914 |
| Total current liabilities | 204,812 | 64,108 | 6,963 | 275,883 |
| Noncurrent liabilities: | | | | |
| Net pension liability | 223,404 | 225,969 | - | 449,373 |
| Note payable | 357,432 | 940,757 | - | 1,298,189 |
| Total noncurrent liabilities | 580,836 | 1,166,726 | - | 1,747,562 |
| Total liabilities | 785,648 | 1,230,834 | 6,963 | 2,023,445 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to pensions | 131 | 128 | - | 259 |
| Total deferred inflows of resources | 131 | 128 | - | 259 |
| NET POSITION | | | | |
| Net investment in capital assets | 603,235 | 3,568,975 | - | 4,172,210 |
| Restricted for: | | | | |
| Debt Service | 541,384 | 520,995 | - | 1,062,379 |
| Unrestricted | (83,560) | (98,923) | 24,885 | (157,598) |
| Total net position | \$ 1,061,059 | \$ 3,991,047 | \$ 24,885 | \$ 5,076,991 |

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | Business-Type Activities | | | Total |
|---|--------------------------|---------------------|------------------|---------------------|
| | Major Funds | | Nonmajor Fund | |
| | Water | Sewer | Solid Waste | |
| Operating revenues: | | | | |
| Charges for services | \$ 524,666 | \$ 435,127 | \$ 89,235 | \$ 1,049,028 |
| Operating grant income | 11,143 | 18,180 | - | 29,323 |
| Miscellaneous | 17,478 | 551 | - | 18,029 |
| | | | | |
| Total operating revenues | <u>553,287</u> | <u>453,858</u> | <u>89,235</u> | <u>1,096,380</u> |
| | | | | |
| Operating expenses: | | | | |
| Personal services | 187,792 | 183,441 | - | 371,233 |
| Purchased water | 232,841 | - | - | 232,841 |
| Materials and supplies | 78,995 | 161,567 | 108 | 240,670 |
| Depreciation | 47,848 | 160,989 | - | 208,837 |
| Contractual services | - | 1,365 | 85,561 | 86,926 |
| | | | | |
| Total operating expenses | <u>547,476</u> | <u>507,362</u> | <u>85,669</u> | <u>1,140,507</u> |
| | | | | |
| Operating income (loss) | <u>5,811</u> | <u>(53,504)</u> | <u>3,566</u> | <u>(44,127)</u> |
| | | | | |
| Nonoperating revenues (expenses): | | | | |
| Gain (loss) on sale of assets | 608 | 608 | - | 1,216 |
| Interest income | 6,439 | 6,825 | 175 | 13,439 |
| Interest expense | (7,176) | (14,516) | - | (21,692) |
| | | | | |
| Total nonoperating revenues (expenses) | <u>(129)</u> | <u>(7,083)</u> | <u>175</u> | <u>(7,037)</u> |
| | | | | |
| Income (loss) before transfers | 5,682 | (60,587) | 3,741 | (51,164) |
| | | | | |
| Transfer in | 7,200 | 7,200 | - | 14,400 |
| | | | | |
| Change in net position | <u>12,882</u> | <u>(53,387)</u> | <u>3,741</u> | <u>(36,764)</u> |
| | | | | |
| Net position, beginning (previously reported) | 1,060,292 | 4,056,312 | 21,144 | 5,137,748 |
| Prior period adjustment (note 14) | (12,115) | (11,878) | - | (23,993) |
| Net position, beginning (restated) | <u>1,048,177</u> | <u>4,044,434</u> | <u>21,144</u> | <u>5,113,755</u> |
| | | | | |
| Net position, ending | <u>\$ 1,061,059</u> | <u>\$ 3,991,047</u> | <u>\$ 24,885</u> | <u>\$ 5,076,991</u> |

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | Business-type Activities | | | |
|---|--------------------------|------------|-------------|--------------|
| | Water | Sewer | Solid Waste | Total |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 521,855 | \$ 448,266 | \$ 89,235 | \$ 1,059,356 |
| Cash payments for operating expenses | (307,000) | (157,440) | (85,538) | (549,978) |
| Cash payments to employees | (178,941) | (179,295) | - | (358,236) |
| Net cash provided (used) by operating activities | 35,914 | 111,531 | 3,697 | 151,142 |
| Cash flows from non-capital financing activities: | | | | |
| Operating transfers in/(out) from other funds | (9,059) | (5,095) | (216) | (14,370) |
| Net cash provided (used) by noncapital financing activities | (9,059) | (5,095) | (216) | (14,370) |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition and construction of property, plant and equipment | (16,797) | (58,013) | - | (74,810) |
| Sale of fixed assets | 608 | 608 | - | 1,216 |
| Principal paid on long-term debt | (18,655) | (38,896) | - | (57,551) |
| Interest paid on long term debt | (7,176) | (14,516) | - | (21,692) |
| Net cash provided (used) by capital and related financing activities | (42,020) | (110,817) | - | (152,837) |
| Cash flows from investing activities: | | | | |
| Interest on cash and investments | 6,439 | 6,825 | 175 | 13,439 |
| Net cash provided by investing activities | 6,439 | 6,825 | 175 | 13,439 |
| Net (decrease) increase in cash and cash investments | (8,726) | 2,444 | 3,656 | (2,626) |
| Cash and cash investments, beginning of year | 675,144 | 572,572 | 20,685 | 1,268,401 |
| Cash and cash investments, end of year | \$ 666,418 | \$ 575,016 | \$ 24,341 | \$ 1,265,775 |
| Reconciliation of total cash and cash investments: | | | | |
| Current assets - cash and cash investments | \$ 125,034 | \$ 54,021 | \$ 24,341 | \$ 203,396 |
| Restricted assets - cash and cash investments | 541,384 | 520,995 | - | 1,062,379 |
| Total cash and cash investments | \$ 666,418 | \$ 575,016 | \$ 24,341 | \$ 1,265,775 |

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | Business-type Activities | | | |
|---|--------------------------|-------------------|-----------------|-------------------|
| | Water | Sewer | Solid Waste | Total |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | | |
| Operating income (loss) | \$ 5,811 | \$ (53,504) | \$ 3,566 | \$ (44,127) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 47,848 | 160,989 | - | 208,837 |
| (Increase) decrease in: | | | | |
| Accounts receivable | (29,908) | - | - | (29,908) |
| Other receivable | (3,427) | (5,592) | - | (9,019) |
| Prepaid expense | 1,825 | 2,536 | - | 4,361 |
| Deferred outflows | (22,297) | (20,218) | - | (42,515) |
| Increase (decrease) in: | | | | |
| Accounts payable | 5,699 | 2,956 | 131 | 8,786 |
| Other withholdings and payables | (1,208) | (618) | - | (1,826) |
| Customer deposits | 1,903 | - | - | 1,903 |
| Accrued liabilities | (2,688) | (5,095) | - | (7,783) |
| Net pension liability | 45,179 | 43,271 | - | 88,450 |
| Deferred inflows | (12,823) | (13,194) | - | (26,017) |
| Net cash provided (used) by operating activities | <u>\$ 35,914</u> | <u>\$ 111,531</u> | <u>\$ 3,697</u> | <u>\$ 151,142</u> |

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Elkton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The government's most significant accounting policies are described below.

A. Reporting Entity

Form of government - The City of Elkton, Kentucky is incorporated under provisions of the Commonwealth of Kentucky. The City operates under a council - mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (streets and highways and cemetery), health and welfare, culture and recreation, public improvements, water, sewer and sanitation, planning and zoning and general administrative services. All are responsible to the Citizens of Elkton, Kentucky and are therefore included within the reporting entity.

Principles determining scope of reporting entity - The criteria used in determining what accounting entities, agencies, commissions, boards and authorities are part of the City of Elkton's operations include how the budget is adopted, whether debt is secured by general obligation of the city, the City's duty to cover any deficits that may occur, and supervision over the accounting functions. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity:

Excluded from the reporting entity:

Elkton City Tree Board
Elkton Airport Board
Elkton Planning and Zoning Commission
Elkton Board of Adjustments

These units have no assets, liabilities and fund equity at June 30, 2016, and had no material financial activities for the year then ended.

The accounts of the Todd County Emergency Services Center are excluded from the accompanying financial statements because the Center is an autonomous agency, operated as a joint venture supported by the city and county. The City contributes to the Center's operations; however, the City has no responsibility for financing deficits.

The accounts of the Elkton - Todd County Industrial Foundation, Inc. have been excluded from these financial statements because the City is not financially accountable over this agency and the agency is fiscally independent of the City of Elkton.

The accounts of the Elkton - Todd County Park and Recreation Commission are excluded from the accompanying financial statements because the Commission is a jointly operated venture of the City and County. Both the City and County contribute to the Commission, however neither has a fiscal liability for the Commissions' operations.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

Government-wide Financial Statements – The statements of net position and activities display information about the City as a whole. These statements include the financial activities of the overall government. The effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the City’s governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the City’s funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds. The City of Elkton reports the General, Water and Sewer funds as major funds.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the City’s major governmental fund:

General Fund – The general fund accounts for all financial resources except those that are required to be accounted for in another fund. The general fund balance is available to the City for any purpose, provided it is expended or transferred in accordance with the charter of the City.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds). The following are the City’s major proprietary funds:

Water – This fund is used to account for the provision of water and related services.

Sewer – This fund is used to account for the collection of wastewater and related treatment services.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

Government-wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which government-wide statements are presented; therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e. revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of the proprietary funds.

C. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements, and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the 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 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, revenue from non-exchange transactions must also be available before it can be recognized.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue, and charges for services. Fines, permits and other revenues are not susceptible to accrual because generally they are not measurable until received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for utility funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating revenues of the proprietary funds are recorded on a cyclical billing basis. The utility records unbilled receivables for services provided but not billed at the end of a fiscal period. The receivable is estimated based on the number of days of service unbilled through the end of the period.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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 on expenses. Expenditures are generally recognized in the accounting period in which the related liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Deposits and Investments

For purposes of financial statement presentation, all highly liquid investments (including restricted cash and investment assets) with original maturities of less than 90 days when purchased by the City are considered to be cash equivalents. Currently the City only holds certificates of deposit as investments which are recorded at cost.

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to: 1) United States Treasury; 2) Export-Import Bank of the United States; 3) Farmers Home Administration; 4) Government National Mortgage Corporation; and 5) Merchant Marine Bonds
- (c) Obligations of any corporation of the United States government

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency
- (f) Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency
- (h) Bonds or certificates of indebtedness of the state of Kentucky and of its agencies and instrumentalities
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- (j) Shares of mutual funds, each of which shall have the following characteristics:
 - 1. The mutual fund shall be an open-ended diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - 2. The management company of the investment company shall have been in operation for at least five years.
 - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section

As security for deposits of the City, banks doing business with the City are required to pledge securities in an amount to exceed uninsured funds on deposit by the City.

E. Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items.

F. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

General capital assets are long-lived assets of the City as a whole. These assets 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 capital assets are recorded at their acquisition value by the City.

The City maintains a capitalization policy of \$250. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The City capitalizes interest cost incurred as part of the cost of constructing capital assets, when material. All reported assets are depreciated except for land. Improvements are depreciated over the remaining estimated useful lives of the related capital assets.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City was not required to capitalize infrastructure assets used in general government operations including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to July 1, 2003. Infrastructure assets acquired since July 1, 2003 will be recorded at cost, and classified as “Infrastructure”. As allowed by accounting principles generally accepted in the United States, the City has elected not to record infrastructure values retroactively. For the year ended June 30, 2016 there were no infrastructure asset additions.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Position and each proprietary fund’s Statement of Net Position. Depreciation is computed using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Estimated Lives</u> |
|---------------------------|------------------------|
| Buildings & Utility Plant | 30 years |
| Equipment | 7-10 years |
| Vehicles | 5 years |

Governmental activities capital assets and related depreciation expenses are only reported in the Governmental Activities columns on the government-wide financial statements. Because their measurement focus is on “current financial resources,” capital assets and related depreciation expenses are not recorded in the governmental fund-type fund financial statements. Instead, in the governmental fund-type fund financial statements, capital asset acquisitions are reported as capital outlay expenditures.

Capital assets reported in both governmental and proprietary funds are carried at cost and depreciation is calculated using the straight line method.

H. Interfund Balances

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

I. Compensated Absences

The City accrues vacation leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2016. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements as an accrued liability. The City considers the amount to be a current liability.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

K. Net Position

Equity is classified as net position and displayed in three components:

- *Net investment in capital assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

L. Fund Balances:

Governmental funds classify fund balances in the following five components:

- *Nonspendable* — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.
- *Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City’s adopted policy, only City Council may assign amounts for specific purposes.
- *Unassigned* — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

CITY OF ELKTON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of June 30, 2016, fund balance components balances are as follows:

| | <u>Nonspendable</u> | <u>Restricted</u> | <u>Committed</u> | <u>Unassigned</u> | <u>Total</u> |
|-------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| General | \$ 50,298 | \$ 21,187 | \$ - | \$ 1,479,824 | \$ 1,551,309 |
| Other Funds | - | 224,715 | 207,195 | - | 431,910 |
| Total | <u>\$ 50,298</u> | <u>\$ 245,902</u> | <u>\$ 207,195</u> | <u>\$ 1,479,824</u> | <u>\$ 1,983,219</u> |

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Stewardship, Compliance and Accountability

As provided by Ordinance, the City submits an annual budget to govern City revenues and expenditures. KRS 91A.030 calls for submission of the annual budget 30 days prior to the beginning of the fiscal year. The budget is adopted by ordinance and may be amended by ordinance. The executive authority has the power to transfer surplus funds to supplement departments as needed. The annual budget is prepared, to the extent practical, on a basis consistent with generally accepted accounting principles and, with exception to minor adjustments, is presented in comparison with actual figures. The City anticipated expenditures in excess of revenues for the General Fund for the current year. This excess was to be funded with prior year funds carried over.

Encumbrances represent commitments related to unperformed contracts for goods or services. For budgetary purposes appropriations lapse at fiscal year-end except for that portion related to encumbered amounts. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Once the goods or services are received or consumed, a liability (and expenditure) is recognized and the reserve for encumbrances is eliminated.

Q. Accounts Receivable

The city grants credit to its customers, all of whom are residents or businesses located in Elkton and Todd County. An allowance for doubtful accounts has been established.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

S. Deferred Outflows and Inflows of Resources

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The City has two types of items that arise under the modified accrual basis of accounting that qualifies for reporting in these categories. The Statement of Net Position reports deferred outflows and inflows related to pension requirements and the Balance Sheet-Governmental Fund reports a deferred inflow related to unavailable property tax revenue.

T. New Pronouncements

Effective for the fiscal year ending June 30, 2016, the City adopted the GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

Effective for the fiscal year ending June 30, 2016, the City adopted the GASB Statement No. 72, Fair Value Measurement and Application.

The GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for applying fair value to certain investments and disclosures relate to all fair value measurement. There is no effect of the Statement on the City’s beginning net position/fund balance.

The GASB Statement No. 72 requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

CITY OF ELKTON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 – CASH AND INVESTMENTS

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due.

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the City, includes disclosure of the following:

- Risks related to custodial credit risk of bank deposits;

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. As of June 30, 2016, the carrying amount of City's deposits (including certificates of deposit) was \$3,191,121 and the bank balance of \$3,248,073 was categorized as follows:

| | |
|--|----------------------------|
| Insured by the FDIC | \$ 502,876 |
| Uninsured and collateralized with securities held by the pledging financial institution's agent but not in the name of the City. | 2,739,519 |
| Uninsured and uncollateralized | <u>5,678</u> |
| Total | <u><u>\$ 3,248,073</u></u> |

As of June 30, 2016, the City had petty cash on hand of \$550.

Restricted Cash – Cemetery Perpetual Care Fund cash and investments (certificates of deposit) are classified as restricted. Other assets are classified as restricted when their use is restricted by third-party covenants.

NOTE 3 – RECEIVABLES

A. Property Taxes

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2016 are as follows:

| |
|---|
| Real property - \$0.249 |
| Personal property - \$0.201 |
| Motor Vehicles and Watercraft - \$0.303 |

Property tax receivables are shown net of an allowance for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end. The allowance account at June 30, 2016 is \$4,846.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 3 – RECEIVABLES (continued)

B. Mortgages Receivable

During prior years, the City participated in the Department of Housing and Urban Development community development block grant program. The objective of the program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for persons of low to moderate income. In order to meet the objectives of the grant, provisions are made for various types of financial assistance for housing rehabilitation programs. The City provided financial assistance to eligible applicants in the form of deferred payment loans. The City utilized three types of deferred payment loans, (a) low interest mortgage loans, (b) equity secured mortgages and (c) forgivable deferred mortgages.

Mortgage loans - Mortgage loans totaling \$32,016 have been granted through June 30, 2016. The loans are for varying terms based on the low to moderate income person's ability to repay the loan. The loans carry an interest rate of zero percent. The outstanding balance at June 30, 2016 was \$20,258 for loans made with funds from a grant for the Main Street project and \$11,758 for loans made with funds from a grant project for the Marion Street area.

C. Utility Receivable

The City maintains a utility fund for the billing and collecting of water, sewer and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2016, the balance of the receivable account is \$111,889 which consists of billings for June service billed in July. The City maintains a high level of collectability and therefore does not maintain an allowance against this amount.

NOTE 4 – INTERFUND ACTIVITIES

Individual fund activities at June 30, 2016 were as follows:

| | Interfund Receivable | Interfund Payable | Interfund Transfers in | Interfund Transfers out |
|----------------|-------------------------|----------------------|---------------------------|----------------------------|
| General fund | \$ 6,499 | \$ (2,456) | \$ (53,455) | \$ 14,400 |
| KLEFPF | - | (1,853) | - | - |
| RLF | 2,456 | - | - | 24,028 |
| MRA | - | - | - | 27,032 |
| Perpetual Care | - | (2,395) | - | 2,395 |
| Water fund | - | (45,668) | (7,200) | - |
| Sewer | 37,581 | (1,681) | (7,200) | - |
| Solid Waste | 7,507 | - | - | - |
| Total | <u>\$ 54,043</u> | <u>\$ (54,053)</u> | <u>\$ (67,855)</u> | <u>\$ 67,855</u> |

Transfers are used to (a) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5 – CONTINGENCIES

The City receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. It is the opinion of City management that such disallowances, if any, will not be material.

NOTE 6 – RISK MANAGEMENT

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 7 - CLAIMS AND JUDGEMENTS

The City is party to a pending suit as of June 30, 2016. While the outcome of this suit cannot be predicted, due to the insurance coverage maintained by the City, the City management and the City's legal representative feel that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

NOTE 8 – OTHER MATTERS

The City has, over several years, appropriated funds to civic and charitable organizations which, while being made for civic purposes and public welfare, may not be in accordance with Section 179 of the Kentucky Constitution. It is in the opinion of the City management that these funds would not have a material adverse effect on the financial condition of the City.

NOTE 9 – LEASES

During March 2002, the City leased the unused Todd County Courthouse building from Todd County. The lease period is for 25 years at an annual lease amount of \$1. The lease is renewable for an additional 25 years at the end of the initial term.

NOTE 10 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation pay, the City has accrued a current liability for pay, which has been earned but not taken by employees as of June 30, 2016. The City is currently liable for compensated absences of the following:

| | <u>June 30, 2016</u> |
|-------------------------------|----------------------|
| City of Elkton - General Fund | \$ 6,763 |
| Water Fund | 5,569 |
| Sewer Fund | <u>3,484</u> |
| | <u>\$ 15,816</u> |

The City of Elkton allows employees after 90 days of employment to accumulate unused sick leave to a maximum of 21 days. Upon termination, employees are not compensated for unused sick leave.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

| <u>Government Activities</u> | <u>Balance June 30, 2015</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2016</u> |
|--|----------------------------------|--------------------|--------------------|----------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 130,545 | \$ - | \$ - | \$ 130,545 |
| Capital Assets Being Depreciated: | | | | |
| Buildings & Improvements | 1,462,630 | - | (36,000) | 1,426,630 |
| Park and Land Improvements | 1,103,671 | 44,886 | - | 1,148,557 |
| Equipment | 617,075 | 46,103 | - | 663,178 |
| Vehicles | 433,313 | 33,965 | - | 467,278 |
| Total Capital Assets | <u>3,747,234</u> | <u>124,954</u> | <u>(36,000)</u> | <u>3,836,188</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings & Improvements | (449,337) | (45,712) | 4,950 | (490,099) |
| Park and Land Improvements | (214,494) | (49,696) | - | (264,190) |
| Equipment | (469,301) | (42,418) | - | (511,719) |
| Vehicles | (356,720) | (22,859) | - | (379,579) |
| Total Accumulated Depreciation | <u>(1,489,852)</u> | <u>(160,685)</u> | <u>4,950</u> | <u>(1,645,587)</u> |
| Governmental Activities - Capital Assets, net | <u>\$ 2,257,382</u> | <u>\$ (35,731)</u> | <u>\$ (31,050)</u> | <u>\$ 2,190,601</u> |

Depreciation expense was charged to the governmental functions as follows:

| | |
|-----------------------------------|-------------------|
| General Government | \$ 47,815 |
| Public Safety | 49,758 |
| Public Works | <u>63,112</u> |
| Total Depreciation Expense | <u>\$ 160,685</u> |

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11 – CAPITAL ASSETS (continued)

| Business-Type Activities | Balance June 30, 2015 | Additions | Retirements | Balance June 30, 2016 |
|---------------------------------------|--------------------------|---------------------|----------------|--------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 138,500 | \$ - | \$ - | \$ 138,500 |
| Construction in process | - | 29,323 | - | 29,323 |
| Capital Assets Being Depreciated: | | | | |
| Plant & lines | 8,974,601 | 3,510 | - | 8,978,111 |
| Equipment | 459,443 | 41,979 | - | 501,422 |
| Vehicles | 125,202 | - | (5,498) | 119,704 |
| Total Capital Assets | <u>9,697,746</u> | <u>74,812</u> | <u>(5,498)</u> | <u>9,767,060</u> |
| Less Accumulated Depreciation | | | | |
| Plant & lines | (3,583,052) | (179,255) | - | (3,762,307) |
| Equipment | (349,144) | (24,870) | - | (374,014) |
| Vehicles | (103,212) | (4,712) | 5,498 | (102,426) |
| Total Accumulated Depreciation | <u>(4,035,408)</u> | <u>(208,837)</u> | <u>5,498</u> | <u>(4,238,747)</u> |
| Business-Type Activities | | | | |
| Capital Assets, net | <u>\$ 5,662,338</u> | <u>\$ (134,025)</u> | <u>\$ -</u> | <u>\$ 5,528,313</u> |

Depreciation expense was charged to the business-type functions as follows:

| | |
|----------------------------|-------------------|
| Water | \$ 47,848 |
| Sewer | <u>160,989</u> |
| Total Depreciation Expense | <u>\$ 208,837</u> |

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN

General Information about the Pension Plan

Plan description- Employees with membership in the Kentucky Retirement Systems (KRS) of the County Employee Retirement System are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

Benefits provided- Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. There are currently three benefit Tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 are those that began participation 9/1/2008 through 12/31/2013 and Tier 3 are those members that began participation on or after 1/1/14.

Non-Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must have at least 24 months. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must be 36 months. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 members are also eligible to retire at any age with 25 year of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

Contributions- Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, total employer contributions for the City were \$128,404 based on a rate of 17.06% for Non-Hazardous and 32.95% for Hazardous members through covered payroll. The contribution rate of 17.06% for Non-Hazardous comprised of contributions of \$85,862 of which 12.42% or \$62,509 was allocated for pension and 4.64% or \$23,353 was allocated for insurance. The contribution rate of 32.95% for Hazardous comprised contributions of \$42,542 of which 20.26% or \$26,158 was allocated for pension and 12.69% or \$16,384 was allocated for insurance.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

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

Pension liability- At June 30, 2016, the City reported a liability of \$1,198,858 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions to the pension plan during the year ended June 30, 2015, relative to the contributions of all members for the year ended June 30, 2015. At the June 30, 2015 measurement date, the City’s proportion was 0.0205 percent.

Pension expense- For the year ended June 30, 2016; the City recognized a pension expense of \$164,705.

Deferred outflows of resources and deferred inflows of resources- For the year ended June 30, 2016; 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 |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 13,816 | \$ - |
| Change in assumptions | 116,749 | - |
| Net difference between projected and actual earnings on plan investments | 9,976 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 17,897 |
| Contributions subsequent to the measurement date | 88,665 | - |
| | \$ 229,206 | \$ 17,897 |

The amount shown for “Contributions subsequent to the measurement date” will be recognized a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | |
|--------------------|------------|
| 2017 | \$ 39,264 |
| 2018 | 39,264 |
| 2019 | 19,951 |
| 2020 | 24,165 |
| 2121 | - |
| | \$ 122,644 |

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

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

| | |
|---------------------------|---|
| Inflation | 3.25% |
| Salary increases | 4.00% average, including inflation |
| Investment rate of return | 7.75% per annum, compounded annual for retirement and insurance benefits. |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The 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 asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--|------------------------------|---|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 8.50% |
| Cash Equivalents | 2% | -0.25% |
| Total | <u>100%</u> | |

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 12 – PENSION PLAN (Continued)

Discount rate- The discount rate used to measure the total pension liability was 7.75%. The discount rate does not use a municipal bond rate.

Projected cash flows- The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate- The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate for non-hazardous:

| | 1% Decrease (6.75%) | Current rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------|------------------------|
| City of Elkton's net pension liability | | | |
| Hazardous | \$ 367,728 | \$ 287,278 | \$ 220,627 |
| Non-Hazardous | 1,163,752 | 911,580 | 695,627 |
| Total | \$ 1,531,480 | \$ 1,198,858 | \$ 916,254 |

Pension plan fiduciary net position- Detailed information about the pension plan's fiduciary net position is available in a separately issued CERS financial report.

NOTE 13 – LONG-TERM OBLIGATIONS

| | <u>June 30, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2016</u> | <u>Current</u> |
|------------------------------------|----------------------|------------------|-------------------|----------------------|------------------|
| <u>Governmental Activities:</u> | | | | | |
| Note Payable - Ford Motor | \$ - | \$ 17,798 | \$ - | \$ 17,798 | \$ 8,619 |
| Note Payable - Elkton Bank & Trust | 14,347 | - | 7,714 | 6,633 | 6,633 |
| | <u>\$ 14,347</u> | <u>\$ 17,798</u> | <u>\$ 7,714</u> | <u>\$ 24,431</u> | <u>\$ 15,252</u> |
| <u>Business-Type Activities:</u> | | | | | |
| KIA Loan \$808,000 | \$ 579,067 | \$ - | \$ 26,934 | \$ 552,133 | \$ 26,933 |
| KIA Loan \$80,233 | 63,395 | - | 3,801 | 59,594 | 3,839 |
| Bond Issue \$360,000 | 328,000 | - | 5,500 | 322,500 | 5,500 |
| KIA Loan \$136,761 | 111,546 | - | 6,462 | 105,084 | 6,527 |
| KIA Loan \$346,243 | 331,646 | - | 14,854 | 316,792 | 15,115 |
| | <u>\$ 1,413,654</u> | <u>\$ -</u> | <u>\$ 57,551</u> | <u>\$ 1,356,103</u> | <u>\$ 57,914</u> |

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

Debt service requirement on long-term obligations at June 30, 2016 are as follows:

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|-----------|--------------------------------|-----------------|---------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 15,252 | \$ 1,441 | \$ 57,914 | \$ 21,846 |
| 2018 | 9,179 | 597 | 58,284 | 21,173 |
| 2019 | - | - | 59,659 | 20,494 |
| 2020 | - | - | 60,040 | 15,101 |
| 2021 | - | - | 60,427 | 14,649 |
| 2022-2026 | - | - | 313,155 | 66,122 |
| 2027-2031 | - | - | 329,559 | 52,896 |
| 2032-2036 | - | - | 250,597 | 39,547 |
| 2037-2041 | - | - | 81,968 | 26,187 |
| 2042-2046 | - | - | 84,500 | 10,766 |
| Totals | <u>\$ 24,431</u> | <u>\$ 2,038</u> | <u>\$ 1,356,103</u> | <u>\$ 288,781</u> |

Interest expense for the year ended June 30, 2016

| | |
|---------------------------|------------------|
| Governmental Activities: | \$ 615 |
| Business-type Activities: | <u>21,692</u> |
| Total | <u>\$ 22,307</u> |

Note Payable – Ford Motor

The City purchased a new police explorer on May 27, 2016 and issued a note payable in the amount of \$17,798. This note is due in 2 annual installments including 6.550% interest through May 2018 and is secured by the vehicle.

Note Payable – Elkton Bank & Trust

The City purchased a new Ford Explorer on October 24, 2013 and issued a note payable in the amount of \$29,853. This note is due in 5 annual installments of including 4.250% interest through October 2018 and is secured by the vehicle.

Kentucky Infrastructure Authority Loan

In December 2006, the city received a thirty year, 1%t interest loan from the Kentucky Infrastructure Authority, in the amount of \$808,000 to retire the existing sewer bonds. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. Annual principal payments of \$26,933 will be required through December 2037. The loan requires the city to maintain a "Maintenance and Replacement Reserve" account. The account is to be funded on or before each payment date an amount equal to 10% of each loan payment until the amount on deposit is equal to 5% of the original principal amount of

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

the loan or \$40,400. Amounts in the "Maintenance and Replacement Reserve" account may be used for extraordinary maintenance expenses or for the costs of replacing worn or obsolete portions of the sewer system. As of June 30, 2016, the reserve account totaled \$27,258.

City of Elkton Sewer System Revenue Bonds – Series 2007

During 2007, the City adopted a resolution to issue \$360,000 principal "City of Elkton Sewer System Revenue Bonds as follows: Series A \$225,000 and Series B \$135,000 for the purpose of financing the cost of construction of extensions, additions and improvements to the existing sewer system.

The bond covenant requires that rates for all utility services must be reasonable; the City must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the City must be equal to 120% of average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the Utility, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued.

The City is required to transfer into the Sinking Fund an amount equal to one sixth of the next succeeding six-month interest payment and one twelfth of the principal maturing on the next succeeding principal payment date. In addition, the City is required to transfer to the Depreciation Fund \$160 per month until \$19,200 has accumulated. As of June 30, 2016 the depreciation fund balance was \$18,356.

Series 2007 Bonds maturing before January 1, 2017 shall not be subject to prepayment. Principal maturities falling due on and after January 2, 2017, shall be subject to prepayment by the City on any date falling on and after January 1, 2016, at par plus accrued interest, without any penalty.

Interest, at 4.125%, is to be paid each January 1 and July 1. The bonds are to mature in annual installments in accordance with the schedule presented above as business-type activities.

Kentucky Infrastructure Authority Loan

On December 1, 2009 the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account had a June 30, 2016 balance of \$8,538.

Kentucky Infrastructure Authority Loan

In June 2011, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$136,761. The purpose of the agreement was to assist the city with the cost of the sewer line extension project completed in August 2011. The terms of the loan are 1% interest rate with a 20-year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account had a June 30, 2016 balance of \$27,258.

CITY OF ELKTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

Kentucky Infrastructure Authority Loan

In October 2013, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$346,243. The purpose of the agreement was to assist the city with the cost of the Elkton, Todd County Water District Separation Project, to be completed in 2014. The terms of the loan are 1.75% interest rate with a 20-year payout. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$17,600. The "M&R" account had a June 30, 2016 balance of \$8,538.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The net position was restated to reflect the change in proportionate share of the net pension liability related to the County Employee Retirement System pension plan. The net position of the governmental activities was decreased by \$53,452. The net positions of the business-type activities were decreased as follows: water fund \$12,115 and sewer fund \$11,878. This change is reflected in beginning net position balance.

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual Amounts | Variance - Favorable |
|---|------------------|------------------|---------------------|-------------------------|
| | Original | Final | | (Unfavorable) |
| Revenues: | | | | |
| Taxes | \$ 1,114,400 | \$ 1,138,000 | \$ 1,149,147 | \$ 11,147 |
| Licenses and permits | 89,400 | 89,745 | 94,290 | 4,545 |
| Intergovernmental revenues | 16,650 | 16,650 | 14,154 | (2,496) |
| Charges for services | 2,700 | 16,100 | 23,860 | 7,760 |
| Interest income | 14,500 | 16,100 | 16,078 | (22) |
| Grant income | - | 98,050 | 97,937 | (113) |
| Other income | 4,500 | 9,500 | 22,323 | 12,823 |
| Total revenues | <u>1,242,150</u> | <u>1,384,145</u> | <u>1,417,789</u> | <u>33,644</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 435,300 | 438,900 | 403,843 | 35,057 |
| Public works | 125,800 | 129,500 | 160,752 | (31,252) |
| Public safety | 596,400 | 585,600 | 531,185 | 54,415 |
| Culture and recreation | 21,100 | 21,100 | 18,811 | 2,289 |
| Capital outlay | 15,000 | 227,500 | 184,475 | 43,025 |
| Debt service: | | | | |
| Principal | 7,700 | 7,700 | 7,714 | (14) |
| Interest | 700 | 700 | 615 | 85 |
| Total expenditures | <u>1,202,000</u> | <u>1,411,000</u> | <u>1,307,395</u> | <u>103,605</u> |
| Revenues over (under) expenditures | <u>40,150</u> | <u>(26,855)</u> | <u>110,394</u> | <u>137,249</u> |
| Other financing sources (uses): | | | | |
| Sale of fixed assets | - | 40,000 | 40,000 | - |
| Debt proceeds | - | 17,900 | 17,798 | (102) |
| Operating transfers in | 2,100 | 29,500 | 53,455 | 23,955 |
| Operating transfers out | (17,900) | (17,900) | (14,400) | 3,500 |
| Total other financing sources (uses) | <u>(15,800)</u> | <u>69,500</u> | <u>96,853</u> | <u>27,353</u> |
| Net change in fund balance | <u>\$ 24,350</u> | <u>\$ 42,645</u> | <u>207,247</u> | <u>\$ 164,602</u> |
| Fund balance, beginning of year | | | <u>1,344,062</u> | |
| Fund balances, end of year | | | <u>\$ 1,551,309</u> | |

CITY OF ELKTON, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
COUNTY EMPLOYEE RETIREMENT SYSTEM (UNAUDITED)
LAST TEN FISCAL YEARS

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Total net pension liability (asset) for Employees Retirement System | \$ 5,834,631,445 | \$ 4,446,202,000 |
| City's proportion of the net pension liability (asset) | <u>0.0205%</u> | <u>0.0210%</u> |
| City's proportionated share of the net pension liability (asset) | \$ 1,198,858 | \$ 933,330 |
| City's covered-employee payroll | <u>\$ 624,684</u> | <u>\$ 590,037</u> |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 191.91% | 158.18% |
| Total pension plan's fiduciary net position as a percentage of the total pension liability | 58.75% | 65.13% |

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Addition years will be reported when available.

CITY OF ELKTON, KENTUCKY
SCHEDULE OF CONTRIBUTIONS –
COUNTY EMPLOYEE RETIRMENT SYSTEM (UNAUDITED)
LAST TEN FISCAL YEARS

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|
| Actuarially determined contribution (ADC) | \$ 88,665 | \$ 83,429 | \$ 89,356 |
| Contribution in relation to the actuarially determined contribution | 88,665 | 83,429 | 89,356 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 624,684 | \$ 593,902 | \$ 590,037 |
| Contribution as a percentage of covered-employee payroll | 14.19% | 14.05% | 15.14% |

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Addition years will be reported when available.

CITY OF ELKTON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
(UNAUDITED)

Notes Related to Schedule of Proportionate Share of the Net Pension Liability – County Employee Retirement System

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability Page 12 retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

CITY OF ELKTON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
(UNAUDITED)

Notes Related to the Schedule of Contributions – County Employee Retirement System

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 28 years |
| Asset valuation | 5-year smoothed market |
| Inflation | 3.25% |
| Salary increases | 4.00%, average, including inflation |
| Investment Rate of Return | 7.50%, net of pension plan investment expense, including inflation |



THURMAN CAMPBELL GROUP, PLC
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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 City Council
City of Elkton, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements and have issued our report thereon dated January 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elkton, 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 Elkton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elkton, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the 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. We did identify A deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness 2016-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkton, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Elkton, Kentucky's Response to Findings

City of Elkton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Elkton, 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 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.

Thurman Campbell Group, PLC

Hopkinsville, Kentucky
January 15, 2017

CITY OF ELKTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of City of Elkton, Kentucky.
2. One material weakness relating to the audit of the financial statements is reported in the 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.
3. No instances of noncompliance material to the financial statements of City of Elkton, Kentucky were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2016-1 Accounting:

Condition: Certain transactions were not properly recorded in the general ledger on a timely basis.

Criteria: Accounting department staff record all transactions required by generally accepted accounting principles on a timely basis.

Effect: The lack of timely recording of all transactions resulted in several audit adjustments necessary to present the financial statements in accordance with generally accepted accounting principles.

Recommendation: The city should implement internal controls necessary to insure financial statements are presented in accordance with generally accepted accounting principles.

Response: The city will review internal controls over financial reporting to determine if cost-effective procedures can be implemented to correct this deficiency.