

CITY OF LYNDON, KENTUCKY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

**CITY OF LYNDON, KENTUCKY
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2017**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	2 – 9
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities	11
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	15
NOTES TO FINANCIAL STATEMENTS.....	16 – 27
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	28
Budgetary Comparison Schedule – Special Revenue Fund.....	29
Schedule of the Proportionate Share of the Net Pension Liability	30
Schedule of Contributions.....	31
Notes to Required Supplementary Information.....	32
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	33 – 34

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Council Members
City of Lyndon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Lyndon, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Lyndon, 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.

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Lyndon, Kentucky, as of June 30, 2017, and the respective changes in financial position 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 and budgetary comparison information on pages 2-9 and 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2017, on our consideration of the City of Lyndon, 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 City of Lyndon, Kentucky's internal control over financial reporting and compliance.



Welenken CPAs

Louisville, Kentucky
October 3, 2017

CITY OF LYNDON, KENTUCKY MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

As management of the City of Lyndon (the City), 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, 2017.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2017 by \$14,893,654 (net position). Of this amount, \$5,029,364 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net position increased by \$170,718.
- The City completed \$194,000 in road re-paving and \$49,000 in sidewalk replacements
- The City's investments increased by \$996,000 from prior year.

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 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 the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and 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 (e.g., uncollected taxes and payroll taxes accrued but unpaid in current fiscal year).

The governmental activities of the City include general government, public safety, public works (roads, etc.), sanitation, and community development.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 are governmental 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 current sources and uses 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The City maintains two 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 special revenue fund (municipal road aid), each of which are considered to be major funds. No non-major funds exist.

The City adopts an annual appropriated budget for each fund as required by state statute. Budgetary comparison statements have been provided for each fund for the reader to demonstrate compliance with the adopted budget.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

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. The notes to the financial statements can be found on pages 16-27 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,893,654 as of June 30, 2017.

The largest portion of the City's net position, \$8,394,061 (56%), reflect its investment in capital assets (e.g., land, buildings and improvements, equipment, and infrastructure), less depreciation. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

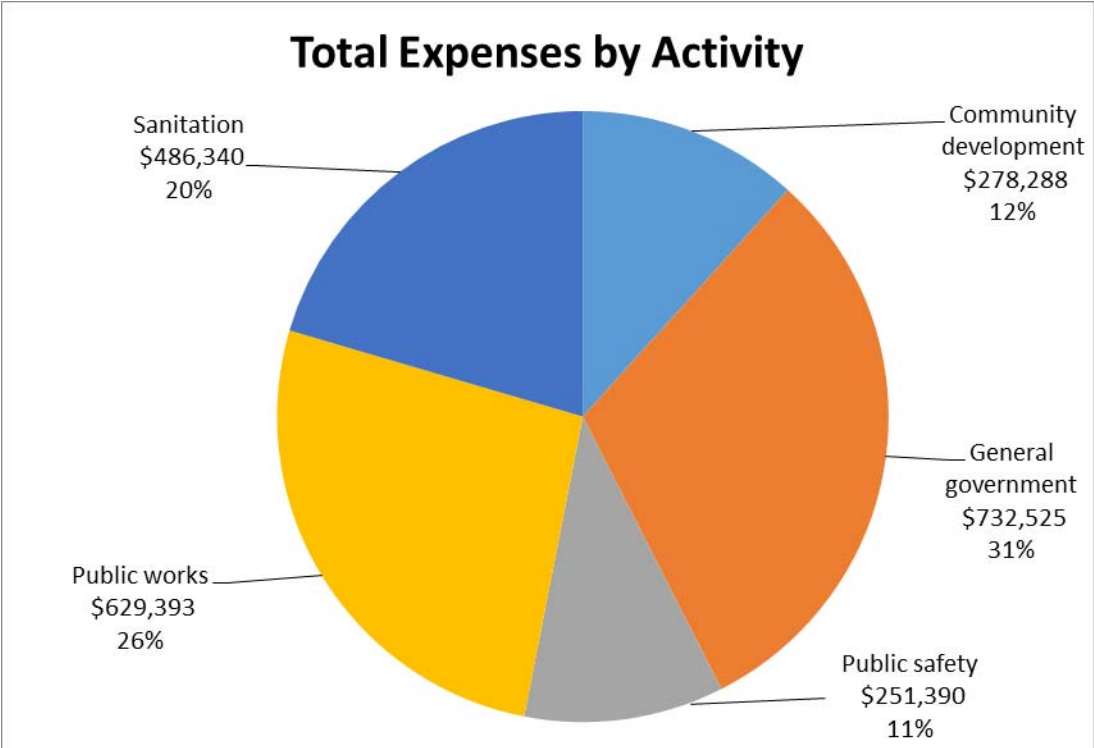
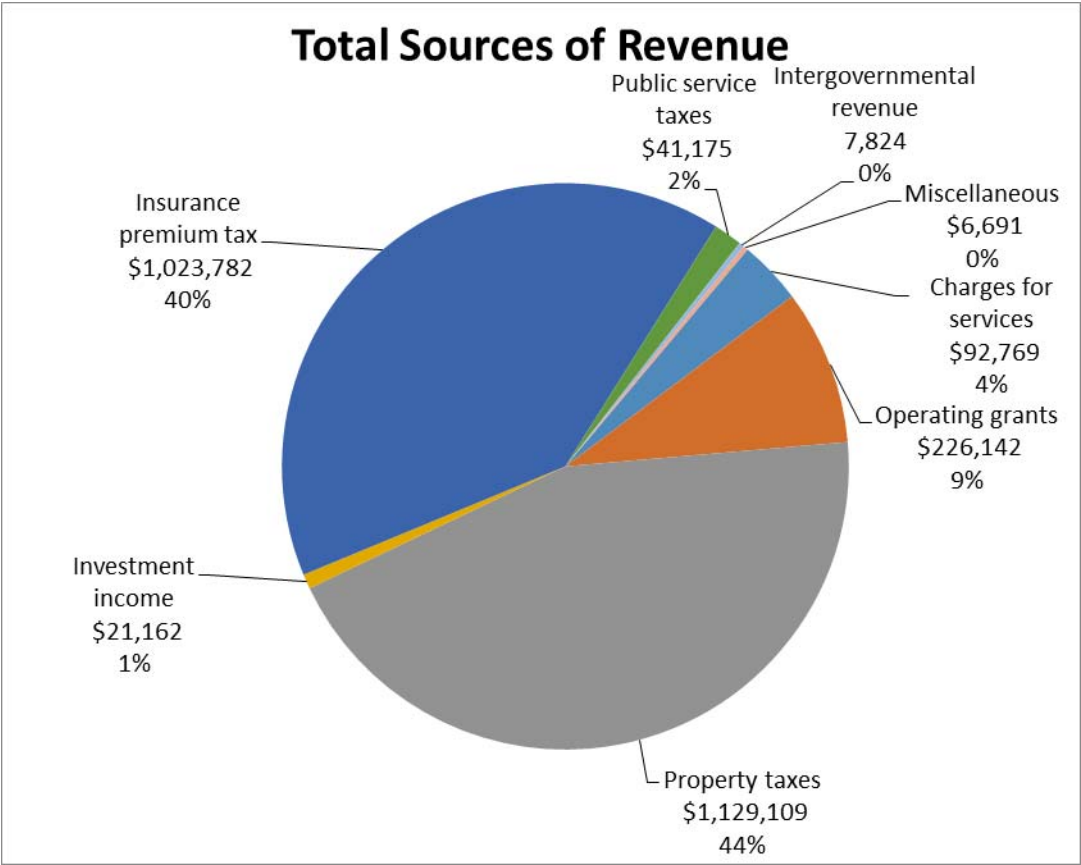
CONDENSED NET POSITION Governmental Activities

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 6,964,883	\$ 6,649,370
Capital assets, net of accumulated depreciation	8,394,061	8,573,777
Deferred outflows of resources	<u>107,666</u>	<u>82,460</u>
Total assets and deferred outflows	<u>15,466,610</u>	<u>15,305,607</u>
Current and other liabilities	539,574	512,697
Deferred inflows of resources	<u>33,382</u>	<u>69,974</u>
Total liabilities and deferred inflows	<u>572,956</u>	<u>582,671</u>
Net position:		
Invested in capital assets	8,394,061	8,573,777
Restricted	1,470,229	1,512,540
Unrestricted	<u>5,029,364</u>	<u>4,636,619</u>
Total net position	<u>\$ 14,893,654</u>	<u>\$ 14,722,936</u>

Analysis of City's operations – Governmental activities increased the City's net position by \$170,718. Total governmental activities revenues decreased \$35,379 from prior year. The most significant changes in revenue include an increase in insurance premium tax and a decrease in operating grants. Governmental activities expenses increased \$65,427. The majority of this increase was due to the completion of several projects. The following is a more detailed review of operations.

CHANGES IN NET POSITION
Governmental Activities

	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues		
Charges for services	\$ 92,769	\$ 88,499
Operating grants	226,142	295,440
General Revenues:		
Property taxes, levied for general purpose	1,129,109	1,159,786
Insurance premium tax	1,023,782	979,739
Public services taxes	48,999	48,427
Investment income	21,162	10,093
Miscellaneous	<u>6,691</u>	<u>2,049</u>
Total Revenues	<u>2,548,654</u>	<u>2,584,033</u>
Expenses:		
Program Expenses:		
General government	732,525	1,136,275
Public safety	251,390	224,693
Public works	629,393	391,667
Sanitation	486,340	432,458
Community development	<u>278,288</u>	<u>127,416</u>
Total expenses	<u>2,377,936</u>	<u>2,312,509</u>
Increase in net position	170,718	271,524
Net position – beginning of year	14,722,936	14,692,935
Implementation of GASB Statement No. 68	(<u> - </u>)	(<u>241,523</u>)
Net position – end of year	<u>\$ 14,893,654</u>	<u>\$ 14,722,936</u>



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,758,792. Twenty-one percent (21%) or \$1,427,701 of this total is restricted due to external limitations on its use. Seven percent (7%) or \$500,000 is committed to The Library Foundation. The remaining seventy-two percent (72%) or \$4,831,091 is unassigned.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,831,091. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance and total fund balance to fund expenditures. Unassigned fund balance represents 255% of total general fund expenditures and total fund balance represents 281% of total general fund expenditures.

General Fund Budgetary Highlights - As noted in the following schedule, the City management increased budgeted revenues by 1.7% and decreased expenses by 21.6% for the fiscal year ended June 30, 2017. These changes primarily demonstrate a decrease in capital projects for the year.

The following is a more detailed review of the years' budget.

	<u>Amount</u>	<u>Percentage of Total</u>	<u>Increase/ (Decrease) from 2016</u>
Revenues:			
Charges for services	\$ 8,900	0.4%	(\$ 1,500)
Property taxes	1,154,500	57.6%	17,500
Insurance taxes	700,000	34.9%	(5,000)
Public service taxes	132,000	6.6%	22,500
Interest income	7,000	0.3%	-
Miscellaneous	<u>1,500</u>	0.1%	<u>-</u>
Total Budgeted Revenues	<u>\$2,003,900</u>		<u>\$ 33,500</u>
Expenses:			
General government	\$ 782,500	34.0%	(\$ 15,700)
Public safety	275,000	11.9%	23,300
Public works	362,500	15.7%	44,500
Sanitation	490,000	21.3%	55,000
Community development	188,000	8.2%	(12,000)
Capital projects	<u>205,000</u>	8.9%	<u>(730,000)</u>
Total Budgeted Expenses	<u>\$2,303,000</u>		<u>(\$634,900)</u>

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$8,394,061.

Major capital asset events during the current fiscal year included the following:

Completed projects

- Road re-paving \$194,000
- Sidewalk repairs \$ 49,000

Additional information on the City's capital assets can be found in Note 3 on page 22 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The local economy of the City remains strong. The number of businesses and property values remain stable.

In the fiscal year 2018 budget, general fund revenues are budgeted to increase by 6.13%. General fund property taxes make up approximately 58% of general fund budgeted revenues and are projected to increase 1.4% from fiscal year 2017. This is due to the City's ability to collect tax income from residents, even though the tax rate will slightly decrease. In adopting the budget for the ensuing fiscal year 2018, the City officials considered many factors in making decisions and estimates about the finances of the upcoming year. A primary objective of the Council was to continue to provide basic City services to the citizens while keeping the property tax rate the same.

General fund expenditures are budgeted to increase by 27.9% in fiscal year 2018. Increased expenditures are primarily due to increase in community development for a grant to the library foundation.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lyndon's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the City Treasurer, 515 Wood Road, Louisville, KY 40222.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LYNDON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,937,984
Investments	1,741,000
Property taxes receivable, net of allowance	50,090
Other receivables	235,809
Capital assets, net of accumulated depreciation	8,394,061
	<hr/>
Total Assets	15,358,944
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred differences in pension experience	1,814
Deferred pension investment earnings	39,066
Deferred changes in pension assumptions	22,014
Deferred changes in proportionate share of liability	11,247
Deferred pension contributions	33,525
	<hr/>
Total Deferred Outflows of Resources	107,666
	<hr/>
LIABILITIES	
Accounts payable	117,724
Accrued expenses	6,296
Net pension liability	415,554
	<hr/>
Total Liabilities	539,574
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
License fee revenue applicable to future years	33,382
	<hr/>
Total Deferred Inflows of Resources	33,382
	<hr/>
NET POSITION	
Invested in capital assets	8,394,061
Restricted	1,427,701
Unrestricted	5,071,892
	<hr/>
Total Net Position	\$ 14,893,654
	<hr/> <hr/>

See accompanying notes to financial statements.

**CITY OF LYNDON, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

PRIMARY GOVERNMENT	Governmental Activities			Total
	Expenses	Charges for Services	Operating Grants	
<u>FUNCTIONS/PROGRAMS</u>				
General government	\$ (732,525)	\$ 82,594	\$ -	\$ (649,931)
Public safety	(251,390)	-	-	(251,390)
Public works	(629,393)	-	221,062	(408,331)
Sanitation	(486,340)	-	-	(486,340)
Community development	(278,288)	10,175	5,080	(263,033)
Total Primary Government	(2,377,936)	92,769	226,142	(2,059,025)
GENERAL REVENUES				
Property taxes				1,129,109
Insurance taxes				1,023,782
Public service taxes				41,175
Intergovernmental revenues				7,824
Interest income				21,162
Miscellaneous				6,691
Total general revenues				2,229,743
CHANGE IN NET POSITION				170,718
NET POSITION, BEGINNING OF YEAR				14,722,936
NET POSITION, END OF YEAR				<u>\$ 14,893,654</u>

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

CITY OF LYNDON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

ASSETS

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 3,717,755	\$ 1,220,229	\$ 4,937,984
Investments	1,491,000	250,000	1,741,000
Property taxes receivable, net of allowance	50,090	-	50,090
Other receivables	<u>235,809</u>	<u>-</u>	<u>235,809</u>
 Total Assets	 <u>\$ 5,494,654</u>	 <u>\$ 1,470,229</u>	 <u>\$ 6,964,883</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

Liabilities			
Accounts payable	\$ 75,196	\$ 42,528	\$ 117,724
Accrued expenses	<u>6,296</u>	<u>-</u>	<u>6,296</u>
 Total Liabilities	 <u>81,492</u>	 <u>42,528</u>	 <u>124,020</u>
 Deferred Inflows of Resources			
Unavailable revenue - property taxes	48,689	-	48,689
License fee revenue applicable to future years	<u>33,382</u>	<u>-</u>	<u>33,382</u>
 Total Deferred Inflows of Resources	 <u>82,071</u>	 <u>-</u>	 <u>82,071</u>
 Fund Balances			
Restricted - Special Revenue Fund	-	1,427,701	1,427,701
Committed - The Library Foundation	500,000		500,000
Unassigned	<u>4,831,091</u>	<u>-</u>	<u>4,831,091</u>
 Total Fund Balances	 <u>5,331,091</u>	 <u>1,427,701</u>	 <u>6,758,792</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 <u>\$ 5,494,654</u>	 <u>\$ 1,470,229</u>	 <u>\$ 6,964,883</u>

See accompanying notes to financial statements.

CITY OF LYNDON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances for governmental funds	\$	6,758,792
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Total net position reported for governmental activities
in the statement of net position is different because:

Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund		8,394,061
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Deferred outflows and inflows of resources related to pensions are
applicable to future periods and , therefore, are not reported in
the funds:

Deferred differences in pension experience		1,814
Deferred pension investment earnings		39,066
Deferred changes in pension assumptions		22,014
Deferred changes in proportionate share of liability		11,247
Deferred pension contributions		33,525

The City's proportionate share of the collective net pension liability, as of June 30, 2016 (measurement date) for the pension plan are not due and payable at June 30, 2017 and, therefore, are not reported in the funds		(415,554)
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Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds		<div style="border-top: 1px solid black; display: inline-block;">48,689</div>
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Total net position of governmental activities	\$	<div style="border-bottom: 3px double black; display: inline-block;">14,893,654</div>
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See accompanying notes to financial statements.

CITY OF LYNDON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 1,127,101	\$ -	\$ 1,127,101
Insurance taxes	1,023,782	-	1,023,782
Licenses, permits and fees	123,769	-	123,769
Intergovernmental revenues	12,184	221,782	233,966
Rental income	10,175	-	10,175
Interest income	18,945	2,216	21,161
Miscellaneous	9,015	-	9,015
	<u>2,324,971</u>	<u>223,998</u>	<u>2,548,969</u>
EXPENDITURES			
General government	700,136	-	700,136
Public safety	251,390	-	251,390
Public works	286,704	45,620	332,324
Sanitation	486,340	-	486,340
Community development	122,767	-	122,767
Capital projects	49,682	243,837	293,519
	<u>1,897,019</u>	<u>289,457</u>	<u>2,186,476</u>
Excess of revenues over expenditures	<u>427,952</u>	<u>(65,459)</u>	<u>362,493</u>
Net change in fund balances	<u>427,952</u>	<u>(65,459)</u>	<u>362,493</u>
Fund balances - beginning	<u>4,903,139</u>	<u>1,493,160</u>	<u>6,396,299</u>
Fund balances - ending	<u>\$ 5,331,091</u>	<u>\$ 1,427,701</u>	<u>\$ 6,758,792</u>

See accompanying notes to financial statements.

**CITY OF LYNDON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Changes in fund balances - governmental funds	\$ 362,493
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The change in net position reported for governmental activities
in the statement of net position is different because:

Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds	2,008
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Pension expense in the statement of activities is recognized as the City's proportionate share of the collective pension expense for the plan whereas governmental funds recognize pension expense as the contribution made in the fiscal year.	(14,066)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	293,519
Depreciation expense	(470,912)
Gain on disposal	<u>(2,324)</u>

Change in net position of governmental activities	<u><u>\$ 170,718</u></u>
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See accompanying notes to financial statements.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Lyndon, Kentucky (the City) was founded in 1871 and was incorporated in 1965 and operates under the Kentucky Revised Statutes, as amended. The City operates under the Mayor-Council form of government and provides the following services as authorized by its charter: municipal services, including care and maintenance of streets, police protection, garbage collection, and administrative services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City.

B. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the fiscal year ended June 30, 017, the City implemented *GASB Statement No. 82, Pension Issues* (GASB 82), which addresses 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, which is effective for fiscal year 2018, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. The adoption of this standard did not have a material effect on the City's financial statements.

C. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

The government-wide financial statements consist of the statement of net position and the statement of activities and report information on all of the non-fiduciary activities of the Primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety, public works, sanitation and community development..

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and 2) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements or a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENTS FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 180 days after year-end, except for property taxes, which the City considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources and the legally authorized activities of the City, except those required to be accounted for in other specialized funds.

The Special Revenue Fund (Municipal Road Aid) is used to account for the proceeds or specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Cash and Cash Equivalents - The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less (certificates of deposit) to be cash and cash equivalents.

Investments - Investments are state at amortized cost, which approximates fair value. The City maintains investments in certificates of deposit with maturities varying from twelve to eighteen months.

Property Taxes and Other Receivables - Property taxes and other receivables are recorded at gross amount less uncollectible amounts recognized under the allowance method.

The allowance for doubtful accounts was \$15,074 at June 30, 2017. By statute, the City is only allowed to collect the amounts from the prior 11 years, which is the full balance listed. The outstanding balances could still be paid by those taxpayers who have outstanding balances.

Capital Assets - Capital assets, which include land, buildings and improvements, equipment and infrastructure (i.e. roads, sidewalks, traffic lights and signals, street lights, signage, etc.), are reported in the governmental activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2017.

Capital assets of the City are depreciated using the straight-line method over their estimated useful lives.

Deferred Outflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net positions that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has five items that qualify for reporting in this category, four relate to the pension plan and one item is employer contributions to pension plan subsequent to the Measurement Date (June 30, 2016). All items are reported on the government wide financial statements.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (continued)

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and the balance sheet - governmental funds report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For the statement of net position and the balance sheet - governmental fund, the City has one item that qualifies for reporting in this category, license fee revenue applicable to future years. For the balance sheet - governmental funds, the City has another item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from certain property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position/Fund Balances

Government-Wide Statements

In the statement of net position, the difference between the City's assets and liabilities is recorded as net position. The three components of net position are as follows:

Invested in Capital Assets – This category records capital assets net of accumulated depreciation and related debt.

Restricted Net Position – Net position that is restricted by external sources or by law are reported separately as restricted net position. When assets are required to be retained in perpetuity, the non-expendable net position is recorded separately from expendable net position. These are components of restricted net position. The City has restricted net position related to municipal road aid monies received from the State of Kentucky.

Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

In the balance sheet of governmental funds, fund balances are segregated as follows:

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, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of the other governments.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (continued)

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Council. The 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 the 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 Council adopted policy, only the 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 functions.

Budgetary Accounting - The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City including any authorized revisions

Compensated Absences – Employees are allowed to accumulate 100 days of sick leave at the rate of one sick day per 60 working days. Sick days can be carried over indefinitely but can only be used for illness. All accumulated sick days are forfeited upon resignation or termination. Since the employee's accumulating rights are contingent upon future events that cannot be reasonably estimated, no liability or expense has been recorded.

Management's Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 2 – DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local banks. This investment plan subjects the City to custodial credit risk, the risk that in the event of bank failure the City's deposits may not be recovered. However, the City considers this risk immaterial.

The City categorizes deposits at local financial institutions to give an indication of the level of custodial credit risk assumed by the City at fiscal year end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized.

Deposits, categorized by level of risk as June 30, 2017 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash and cash equivalents	\$4,930,403	\$ 250,000	\$4,680,403	\$ -	\$4,930,403
Investments	<u>1,741,000</u>	<u>1,741,000</u>	<u>-</u>	<u>-</u>	<u>1,741,000</u>
	<u>\$6,671,403</u>	<u>\$1,991,000</u>	<u>\$4,680,403</u>	<u>\$ -</u>	<u>\$6,671,403</u>

At June 30, 2017, the breakdown of investments in certificates of deposit with maturities were as follows:

<u>Total</u>	<u>Investment Maturities</u>	
	<u>Less than 1 year</u>	<u>1-5 years</u>
<u>\$1,741,000</u>	<u>\$ -</u>	<u>\$1,741,000</u>

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 3 – CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

	Year Ending June 30, 2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Equipment - vehicles	\$ 66,705	\$ -	(\$25,649)	\$ 41,056
Equipment – park	805,236	4,747	-	809,983
Office equipment	84,867	-	(24,580)	60,287
Equipment – streets	76,438	-	-	76,438
City Hall – land & building	770,872	-	-	770,872
Land improvement – park	31,262	-	-	31,262
Land – park	200,131	-	-	200,131
Romara Place	1,308,297	-	-	1,308,297
Improvements – Romara Place	876,541	30,233	-	906,774
Infrastructure	11,005,685	258,539	-	11,264,224
Streetscape Phase II	<u>587,702</u>	<u>-</u>	<u>-</u>	<u>587,702</u>
Total Cost	15,813,736	293,519	(50,229)	16,057,026
Less: accumulated depreciation	(7,239,958)	(470,912)	47,905	(7,662,965)
Net Fixed Assets	<u>\$8,573,778</u>	<u>(\$177,393)</u>	<u>(\$2,324)</u>	<u>\$8,394,061</u>

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 18,323
Public works	297,068
Community development	<u>155,521</u>
	<u>\$470,912</u>

Note 4 – PROPERTY TAXES

As generally provided in the Constitution of the Commonwealth of Kentucky, the City's property tax is levied each July 1 on the assessed value listed as of the prior January 1 for all real property located in the City. The Jefferson County Property Valuation Administrator establishes assessed values. The tax payments are due and payable when levied. The City adopted a tax rate of \$.12 per \$100 of property assessed for taxation.

Property tax revenues are recognized when they become available. A discount of 10% shall be allowed on tax bills paid prior to August 1. Bills paid after that date but before October 1 are not allowed a discount or subject to a penalty. All bills paid after September 30 are charged a penalty of 10% plus interest at the rate of 1.5% per month, or part thereof, until paid. The City files a tax lien in the Office of the Clerk of the Jefferson County Court after February 1 of the following year.

Note 5 – INSURANCE PREMIUMS TAXES

The City levies an insurance premium tax on non-health and worker's compensation insurance products sold to City residents. The assessed tax is 5% of gross premiums payable on a quarterly basis.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 6 – INTERGOVERNMENTAL REVENUE

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for police incentive training and other miscellaneous operating costs during the year ended June 30, 2017 that are recorded in the General Fund.

Note 7 – RELATED PARTY TRANSACTIONS

The City leases one building to an employee. Rental payments received are \$200 a month. The lease expires on 11/30/17. Rental income totaled \$2,400 for the fiscal year ended June 30, 2017.

Note 8 - COMMITMENTS

The City maintains contractual relationships relating to services provided for the benefit of the City. These commitments include annual contractual obligations for sanitation, cable television, and maintenance services. All contracts are current and no invoices are outstanding.

Note 9 – EMPLOYEE BENEFITS

General Information about the Pension Plan

Plan description - The City has elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees. A stand-alone financial report can be obtained by going to the Kentucky Retirement System website.

Benefits provided – CERS provides retirement, disability, and death benefits. Retirement benefits are determined based on member participation. For members who began their participation prior to January 1, 2014, benefits are based on the formula final compensation X benefit factor X years of service credit = annual benefit. For members who began their participation on or after January 1, 2014, members will participate in a hybrid cash balance plan, which is a type of defined benefit plan that combines the elements of a traditional defined benefit plan with elements typically associated with a defined contribution plan. The benefit paid upon retirement is calculated based on the member's accumulated account balance at the time of retirement. Employees who have met the 60 months of service requirement are eligible for disability benefits. Disability and death benefits vary and are determined based on date of participation.

Contributions – The employee contribution rate is set by statute. Employees will contribute 5% of all their creditable compensation to KRS. Due to legislation enacted by the 2008 Special Session of the General Assembly, employees with a participation date on or after September 1, 2008 will also contribute an additional non-refundable 1% of their creditable compensation. Employers contribute at the rate determined by the Board of Trustees to be necessary for the actuarial soundness of KRS as required by Kentucky Revised Statute 61.565 and 61.702. The City's contractually required contribution rate for the year ended June 30, 2017, was 18.68 percent. Contributions to the pension plan from the City were \$33,525 for the year ended June 30, 2017. There are no non-employer contributing entities to this plan.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 9 – EMPLOYEE BENEFITS (continued)

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

At June 30, 2017, the City reported a liability of \$415,554 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date. No updated procedures were used to determine the TPL. There were no changes in benefit terms since the prior measurement period. There were no changes between the measurement date of the collective net pension liability and the employer's reporting date. As of June 30, 2016, the City's proportion was .008440%.

The changes in assumption since the last measurement date which are reported on the Required Supplementary Information.

For the year ended June 30, 2017, the City recognized pension expense of \$47,591. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience	\$ 1,814	\$ -
Net difference between projected and actual investment earnings on pension plan investments	39,066	-
Changes of assumptions	22,014	-
Changes in proportion and differences between City contributions and proportionate share of contributions	11,247	-
City contributions subsequent to the Measurement Date	<u>33,525</u>	<u>-</u>
Total	<u>\$ 107,666</u>	<u>\$ -</u>

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 9 – EMPLOYEE BENEFITS (continued)

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

At June 30, 2017, \$33,525 was reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred outflows and inflows related to difference between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2018	\$23,362
2019	15,630
2020	15,223
2021	8,679
2022	-
Total	<u>\$62,894</u>

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (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.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 9 – EMPLOYEE BENEFITS (continued)

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

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 December 3, 2015. 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%)
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The discount rate determination does not use a municipal bond rate. The projection of 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 in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected future benefit payments for all current plan members were projected through 2117.

**CITY OF LYNDON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

Note 9 – EMPLOYEE BENEFITS (continued)

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following represents the City's proportionate share of the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$518,000	\$416,000	\$328,000

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is available at <https://kyret.ky.gov>.

Note 10 – RECLASSIFICATIONS

Certain reclassifications have been made to the 2016 financial statements to conform with the 2017 presentation.

Note 11 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through October 3, 2017, the date the financial statements were available to be issued.

Subsequent to June 30, 2017, the City committed \$500,000 to The Library Foundation for the purchase of books and other materials for the new Northeast Regional Library. This amount has been recorded as committed fund balance in the Balance Sheet – Governmental Funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LYNDON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Resources (inflows):				
Property taxes	\$ 1,154,500	\$ 1,154,500	\$ 1,127,101	\$ (27,399)
Insurance taxes	700,000	700,000	1,023,782	323,782
Licenses, permits and fees	119,500	119,500	123,769	4,269
Intergovernmental revenues	12,500	12,500	12,184	(316)
Rental income	8,900	8,900	10,175	1,275
Interest income	7,000	7,000	18,945	11,945
Miscellaneous	1,500	1,500	9,015	7,515
Total revenues	<u>2,003,900</u>	<u>2,003,900</u>	<u>2,324,971</u>	<u>321,071</u>
Charges to appropriations (outflows):				
General government	782,500	782,500	700,136	82,364
Public safety	275,000	275,000	251,390	23,610
Public works	362,500	362,500	286,704	75,796
Sanitation	425,000	490,000	486,340	3,660
Community development	188,000	188,000	122,767	65,233
Capital projects	205,000	205,000	49,682	155,318
Total expenditures	<u>2,238,000</u>	<u>2,303,000</u>	<u>1,897,019</u>	<u>405,981</u>
Net change in fund balance	(234,100)	(299,100)	427,952	727,052
Fund balance - beginning	<u>4,903,139</u>	<u>4,903,139</u>	<u>4,903,139</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,669,039</u>	<u>\$ 4,604,039</u>	<u>\$ 5,331,091</u>	<u>\$ 727,052</u>

CITY OF LYNDON, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Resources (inflows):				
Municipal road aid	\$ 150,850	\$ 150,850	\$ 221,782	\$ 70,932
Interest income	-	-	2,216	2,216
Total revenues	<u>150,850</u>	<u>150,850</u>	<u>223,998</u>	<u>73,148</u>
Charges to appropriations (outflows):				
Streets and roads	<u>735,500</u>	<u>735,500</u>	<u>289,457</u>	<u>446,043</u>
Total expenditures	<u>735,500</u>	<u>735,500</u>	<u>289,457</u>	<u>446,043</u>
Net change in fund balance	(584,650)	(584,650)	(65,459)	519,191
Fund balance - beginning	<u>1,493,160</u>	<u>1,493,160</u>	<u>1,493,160</u>	<u>-</u>
Fund balance - ending	<u>\$ 908,510</u>	<u>\$ 908,510</u>	<u>\$ 1,427,701</u>	<u>\$ 519,191</u>

CITY OF LYNDON, KENTUCKY
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017

	6/30/2017 (Measurement Date of 6/30/16)	6/30/2016 (Measurement Date of 6/30/15)	6/30/2015 (Measurement Date of 6/30/14)
City's proportion of the net pension liability	0.008440%	0.008426%	0.007725%
City's proportionate share of the net pension liability	\$ 415,554	\$ 362,000	\$ 251,000
City's covered payroll	\$ 179,470	\$ 230,941	\$ 196,593
City's proportionate share of the net pension liability as a percentage of its covered payroll	231.55%	156.75%	127.67%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	59.97%	66.80%

Note: The schedule is intended to show information for the last 10 fiscal years. Additional information will be added as it becomes available.

See accompanying notes to required supplementary information.

**CITY OF LYNDON, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Contractually required contribution	\$ 34,348	\$ 34,348	\$ 37,477
Contributions in relation to the contractually required contribution	<u>34,348</u>	<u>34,348</u>	<u>37,477</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 179,470	\$ 230,941	\$ 196,593
City's contributions as a percentage of covered payroll	19.14%	14.87%	19.06%

Note: The schedule is intended to show information for the last 10 fiscal years. Additional information will be added as it becomes available.

See accompanying notes to required supplementary information.

CITY OF LYNDON, KENTUCKY
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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 7.5%.
- 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 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 Retirements, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions – The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. 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	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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

To the Honorable Mayor and Council Members
City of Lyndon, Kentucky

We have audited, 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, the financial statements of the governmental activities and each major fund of City of Lyndon, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 3, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Welenken CPAs". The script is cursive and fluid.

Welenken CPAs

Louisville, Kentucky
October 3, 2017