CITY OF ELKTON, KENTUCKY

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ELKTON, KENTUCKY
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

TABLE OF CONTENTS

	Page
Financial Section	
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 -13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of Activities	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenditures, and Changes in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22 - 23
Notes to Financial Statements	24 - 39
Required Supplementary Information other than Management's Discussion and Analysis:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	40
Compliance Reporting:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*	41
Schedule of Findings and Questioned Costs	42

THURMAN CAMPBELL GROUP, PLC
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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Elkton, Kentucky

We have audited the accompanying basic 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Elkton, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to in the first paragraph 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting standards generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2010, on our consideration of the City of Elton, 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 and should be considered in assessing the results of our audit.

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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 through 12 and page 38 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkton, Kentucky's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Thurman Campbell Group, PLC

Hopkinsville, KY
December 29, 2010

CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR FISCAL YEAR ENDED JUNE 30, 2010

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, 2010. 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, 2010, the City's assets exceeded liabilities for total net assets of $9,078,917.
- Fund balance, a measure of current financial resources, increased in the governmental funds by $139,555 to a June 30, 2010 balance of $1,499,203. Of this amount, $1,160,460 is unreserved.
- The City's business-type activities (water, sewer and waste management) net assets as of June 30, 2010 totaled $6,013,153, a decrease of $1,267 from the prior year.
- The City's general fund balance as of June 30, 2010 was $1,048,232, an increase of $119,928 over the prior year. Of the total fund balance, $992,528 is unreserved. The unreserved general fund balance represents 83% 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 $7,600,443.

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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 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 three categories: governmental funds, proprietary funds and fiduciary 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 nine individual 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 eight governmental funds. Data in the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

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 one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise 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.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary 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.

Other information. The combining statements referred to earlier is presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activity assets exceeded liabilities by $3,065,764. Business-type activity assets exceeded liabilities by $6,013,153 for total net assets of $9,078,917 as of June 30, 2010.

Net Assets of Governmental and Business-Type Activities
June 30, 2010

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and other assets	1,553,779	1,438,572	1,289,827	1,243,255	2,843,606	2,681,827
Capital assets	1,592,450	1,647,915	6,007,993	5,996,802	7,600,443	7,644,717
Total assets	3,146,229	3,086,488	7,297,820	7,240,057	10,444,049	10,326,545
LIABILITIES						
Other liabilities	56,165	81,450	250,367	155,904	306,532	237,354
Long-term liabilities	24,300	45,256	1,034,300	1,069,733	1,058,600	1,114,989
Total liabilities	80,465	126,706	1,284,667	1,225,637	1,365,132	1,352,343
NET ASSETS						
Invested in capital assets (net of related debt)	1,549,244	1,585,839	5,023,016	4,904,135	6,572,260	6,489,975
Restricted assets	295,400	323,355	19,366	16,961	314,766	340,317
Unrestricted assets	1,221,121	1,050,587	970,771	1,093,323	2,191,892	2,143,910
Total net assets	$ 3,065,764	$ 2,959,782	$ 6,013,153	$ 6,014,420	$ 9,078,917	$ 8,974,202

In the City as a whole, the largest portion of net assets, $6,572,260 or 72%, 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.

Net assets of governmental activity funds were $3,065,764, with $1,549,244 or 51% being invested in capital assets and $1,221,121 or 40% unrestricted. The unrestricted net assets 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.

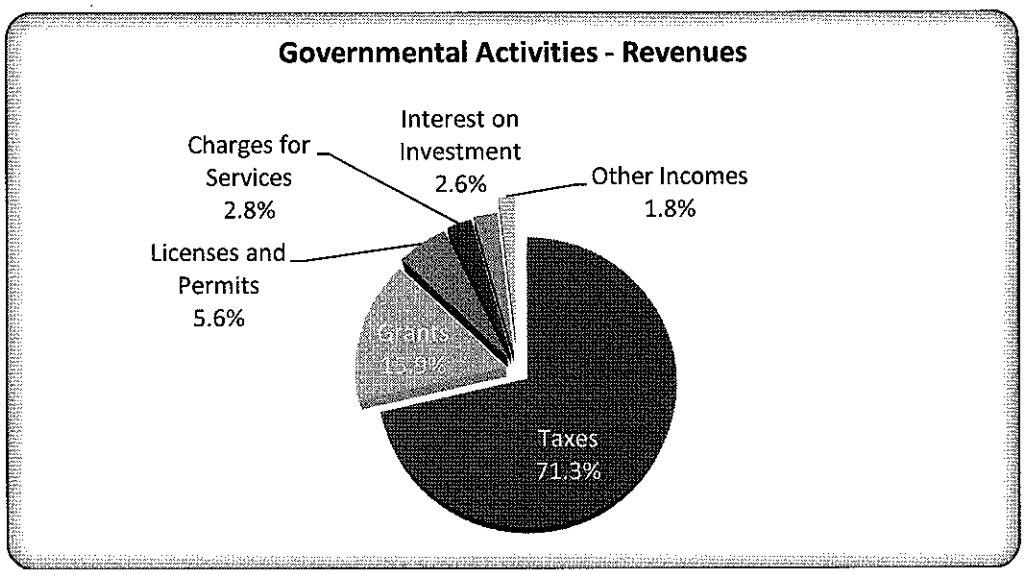
The net assets of the City's business-type activities are $6,013,153. Of these net assets, $5,023,016 or 84% is invested in capital assets and there is an unrestricted balance of $970,771 or 16%.

City of Elkton Changes in Net Assets
June 30, 2010

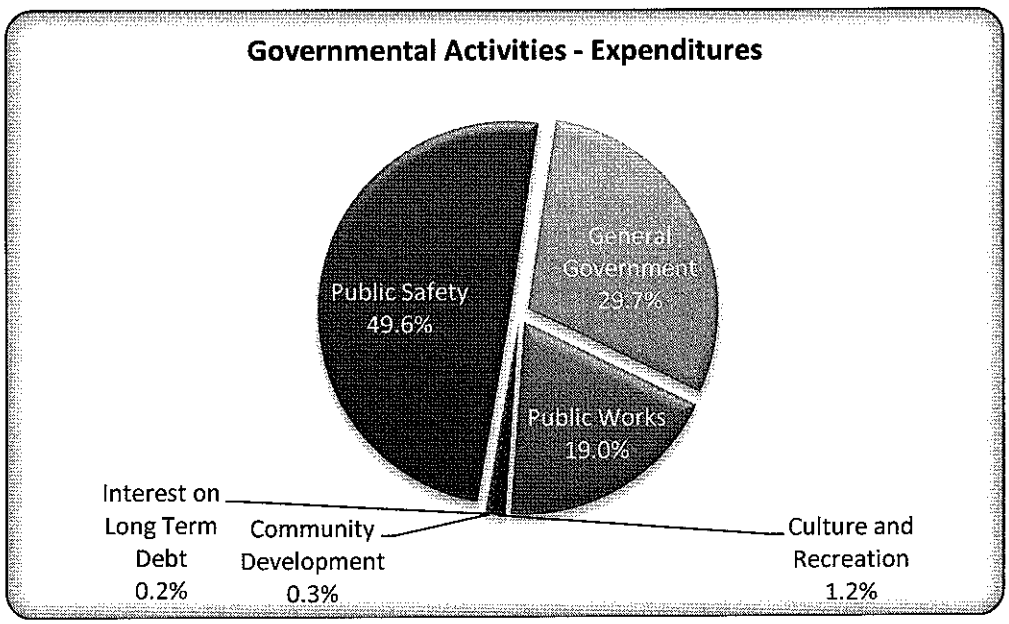
	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for Services	35,148	38,688	931,332	866,010	966,480	904,698
Operating Grants and Contributions	175,066	73,619			175,066	73,619
Capital Grants and Contributions			148,604	6,615	148,604	6,615
General Revenues:						
Taxes	898,116	801,667			898,116	801,667
Licenses and Permits	70,428	57,412			70,428	57,412
Grants and Contributions not restricted to Specific Programs	25,392	528,503			25,392	528,503
Interest on Investments	32,651	40,835	24,970	30,469	57,621	71,304
Gain on Sale of Fixed Assets	696	11,553	-	4,086	696	15,639
Other Income	28,618	21,663	19,096	15,622	47,714	37,285
Transfers	(7,200)	(7,200)	7,200	7,200	-	-
Special - Contribution to Permanent Fund					-	-
Total Revenues	1,258,914	1,566,740	1,131,202	930,002	2,390,116	2,496,742
Expenditures:						
General Government	342,962	368,573			342,962	368,573
Public Safety	572,147	558,625			572,147	558,625
Public Works	219,214	159,601			219,214	159,601
Community Development	3,000	89,008			3,000	89,008
Culture and Recreation	13,336	14,879			13,336	14,880
Interest on Long Term Debt	2,274	1,279			2,274	1,279
Water			512,002	546,016	512,002	546,016
Sewer			538,566	552,447	538,566	552,447
Solid Waste			81,901	82,624	81,901	82,624
Total Expenditures	$ 1,152,932	$ 1,191,966	$ 1,132,469	$ 1,181,087	$ 2,285,401	$ 2,373,053
Change in Net Assets	105,982	374,774	(1,267)	(251,084)	104,715	123,690
Net Assets, Beginning of Year	2,959,782	2,585,008	6,014,420	6,265,503	8,974,202	8,850,511
Net Assets, End of Year	$ 3,065,764	$ 2,959,782	$ 6,013,153	$ 6,014,419	$ 9,078,917	$ 8,974,201

Governmental Activities

Revenues for the City's governmental activities totaled $1,258,914. Taxes, which primarily include property and payroll taxes, totaled $898,116, or 71.3% of total revenue. Grants totaled $200,458 and accounted for about 15.9% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for $70,428 or 5.6% of the total. Charges for services accounted for 2.8% of revenues at $35,148. Interest on investments totaled $32,651, or about 2.6% of revenues. Finally, other incomes totaled $22,114, or 1.8% of revenues.

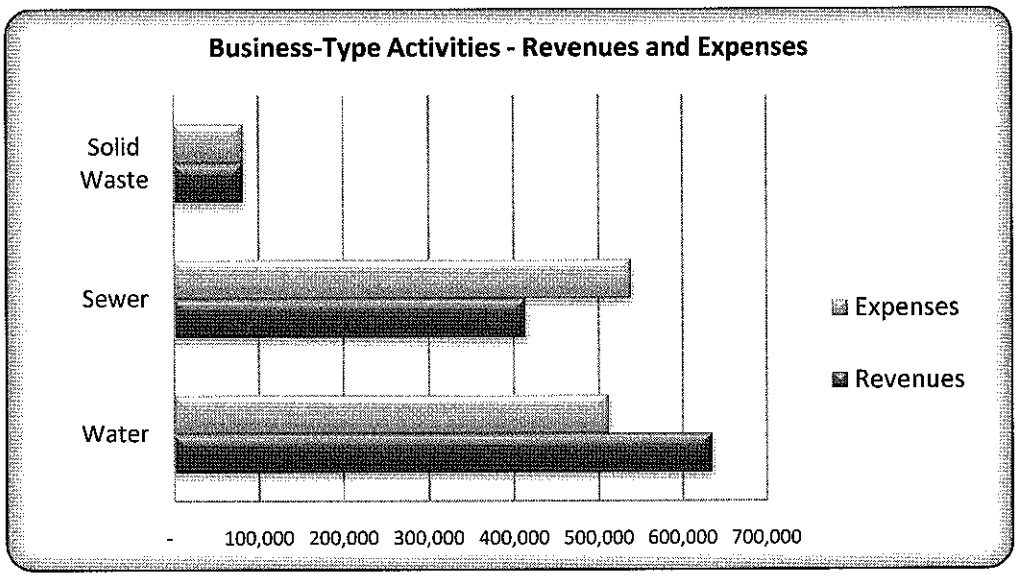


Total expenses of the City's governmental activities were $1,152,932. The largest expenditure at 49.6% of total expenses ($572,147) was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled $342,962 or 29.7% of expenses. Public works was third and totaled $219,214, or 19.0%. Culture and recreation expenses totaled $13,336, or 1.2% of the total. Community Development accounted for 0.3% of expenditures, or $3,000. Finally, interest on long term debt totaled $2,274, or .2% of total expenditures.



Business-type Activities

Revenues for business-type activities totaled $1,131,202 for the fiscal year ended June 30, 2010. Of this total, 82% of total revenue received was from Charges for Services in the amount of $931,332. Grant revenue totaled $148,604, or 13%. Interest income accounted for 2% of total revenues, or $24,970. Expenses for business-type activities totaled $1,132,469. Water department expenses accounted for $512,002 of total expenditures, or 45%. Sewer department expenses accounted for 48% of total expenses, or $538,566. Finally, the solid waste department accounted for 7% of total business-type activities expenditures with $81,901 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 Cemetery 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, *unreserved 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, 2010 reflect a combined ending fund balance of $1,499,203, a decrease of nearly 10% ($139,555) from the prior year. Of the total fund balance, $1,160,460 is unreserved and is available for spending at the City's discretion. The remainder ($338,743) is reserved 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 $1,048,232, which represents nearly a 13% increase, or $119,928 more than the prior year. Of the total General Fund balance, 95% ($992,528) is *unreserved fund balance*. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total general fund revenues. Unreserved fund balance represented 83% of total general fund revenues.

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

General Fund - Revenues by Source

	FY 2010		FY 2009		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Revenues by Source						
Taxes	$ 897,767	75.4%	$ 802,155	52.4%	$ 95,612	11.92%
Licenses and Permits	71,238	6.0%	58,322	3.8%	12,916	22.15%
Intergovernmental Revenues	143,814	12.1%	552,339	36.1%	(408,525)	-73.96%
Charges for Services	13,764	1.2%	10,879	0.7%	2,885	26.52%
Interest Income	22,888	1.9%	31,047	2.0%	(8,159)	-26.28%
Other Income	35,242	3.0%	30,727	2.0%	4,515	-14.69%
Total Revenues	$ 1,184,713	99.5%	$ 1,493,305	97.1%	$ (300,755)	-20.25%
Total Other Financing (uses)	5,991	0.5%	41,577	2.9%	(38,158)	-86.43%
Total Revenues and Other Financing (uses)	$ 1,190,704	100.0%	$ 1,534,882	100.0%	$ (338,913)	-22.16%

- The General Fund saw just over 20% decrease in total revenue and other financing sources over last year. However, this decrease is mostly due to a nearly 74% decrease ($408,525) in Intergovernmental Revenues due to grants received to complete the Public Square Streetscape Project in the prior year.

- The largest percentage increase in revenue came from Charges for Services, which increased by 26%, or $2,885. The largest total increase in revenue was a 12% increase in Taxes in the amount of $95,612, which was due to an increase in occupational license tax rates effective July 1, 2009.

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

General Fund - Expenditures by Function

	FY 2010		FY 2009		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Expenditures by Function						
General Government	$ 313,926	29.3%	$ 429,240	24.6%	$ (115,314)	-26.86%
Public Works	154,697	14.4%	136,011	7.8%	18,686	13.74%
Public Safety	480,464	44.9%	490,572	28.1%	(10,108)	-2.06%
Culture and Recreation	11,489	1.1%	12,089	0.7%	(600)	-4.96%
Capital Outlay	110,200	10.3%	675,686	38.8%	(565,486)	-83.69%
Total Expenditures	$ 1,070,776	100.0%	$ 1,748,861	100.0%	$ (678,085)	-38.59%

- The largest decrease in expenditures was nearly 84%, or a $565,486 decrease in Capital Outlay. This decrease is due to the majority of the Public Square Streetscape Project being completed in the prior year.

- The only increase in expenditures at nearly a 14% was in the area of Public Works, with an increase in expenditures of $18,686 over last year. This increase was due to the Laster/Overholt Subdivision Drainage Project completed in 2010.

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

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets

	Water		Sewer		Solid Waste		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Operating Revenues	$ 470,312	$ 451,573	$ 398,629	$ 350,922	$ 81,487	$ 79,137	$ 950,428	$ 881,632
Operating Expenses	512,002	546,016	523,964	541,654	81,901	82,624	1,117,867	1,170,294
Operating Income (loss)	(41,690)	(94,443)	(125,335)	(190,732)	(414)	(3,487)	(167,439)	(288,662)
Non-operating revenues (expenses)	157,827	18,845	737	11,073	408	460	158,972	30,378
Income (loss) before transfers	116,137	(75,598)	(124,598)	(179,659)	(6)	(3,027)	(8,467)	(258,284)
Transfer in (out)	7,200	7,200	-	-	-	-	7,200	7,200
Net income (loss)	$ 123,337	$ (68,398)	$ (124,598)	$ (179,659)	$ (6)	$ (3,027)	$ (1,267)	$ (251,084)
Net assets, beginning of year	1,081,242	1,149,640	4,913,129	5,092,788	20,049	23,076	6,014,420	6,265,504
Net assets, end of year	$ 1,204,579	$ 1,081,242	$ 4,788,531	$ 4,913,129	$ 20,043	$ 20,049	$ 6,013,153	$ 6,014,420

- 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 $18,739. The water fund saw a decrease in operating expenditures of $34,014 mostly due to the retirement of a debt owed to the Todd County Water District for the old water plant. Overall, the water fund saw a net gain of $123,337. The gain can mainly be attributed to the fact that the Water Meter Replacement Project expenditure in the amount of $148,604 shows as capital expense on the Statement of Net Assets, but is not expensed in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The net assets of the water fund as of June 30, 2010 totaled $1,204,579.

- 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 $47,707 over the previous year, while operating expenses decreased by $17,690. The increase in revenue was due to a sewer rate increase that went into effect in June 2009. As of June 30, 2010, the sewer fund saw a net loss of $124,598 for total assets of $4,788,531.

- The ***solid waste*** fund accounts for contractual payments to Waste Management, Inc. for residential solid waste collection and disposal. The fund had a net loss of $6. Currently, the City bids solid waste collection every three years and passes the expense along to customers. The net assets as of June 30, 2010 for the solid waste fund are $20,043.

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 budget was decreased nearly 4%, or $46,300. The total expenditure budget was decreased by $109,200 or approximately 9%. These changes can be briefly summarized as follows:

- Changes to the original revenue budget estimates consisted of minor increases in taxes, charges for services, and grant income that were not anticipated when the original budget was adopted.

- One major change in the budget was reflected in revenues and expenditures because the South Streets Avenue Sidewalk Project was expected to begin in FY2010, however was delayed.

For the year, general fund actual revenues and other financing sources came in about $246 (less than .1%) less than expected. Actual expenditures were $51,724 less than expected, or nearly 5% below budgetary estimates.

CAPITAL ASSETS

The City's capital assets (net of depreciation) for governmental activities as of June 30, 2010 totaled $1,592,450 a decrease of $55,465 over last year. For business-type activities, total capital assets amount to $6,007,993, an increase of $19,731 over last year. The City's total capital assets as of June 30, 2010 decreased by $35,732 over last year for a net capital assets of $7,600,443.

City of Elkton Capital Assets
As of June 30, 2010

	Governmental Activities	Business-Type Activities	Totals
Land	130,545	138,500	269,045
Park and Land Improvements	566,162		566,162
Buildings and Improvements	659,997		659,997
Equipment	132,551	133,296	265,847
Vehicles	103,194	28,103	131,297
Plant and Lines		5,559,490	5,559,490
Construction in Progress		148,604	148,604
Total	$ 1,592,450	$ 6,007,993	$ 7,600,443

DEBT ADMINISTRATION

At the end of the fiscal year, the City had a total outstanding debt of $1,108,940. Of the total debt, $43,207 is payable from the City's General Fund. $26,319 of this debt is from a low interest loan made in 2003 with the Kentucky Fire Commission to purchase a new fire truck. The City has committed its portion of State Fire Aid revenue through fiscal year 2014 to pay off this debt. $7,987 of General Fund debt is from the purchase of a 2010 Ford Crown Victoria police cruiser in September 2008. The remaining General Fund debt in the amount of $8,901 is from the purchase of a 2008 Ford Explorer that was purchased in November 2007 for the Police Department. The largest portion of the City's long-term debt in the amount of $713,733 is payable from the Sewer Fund for repayment of a 0% interest loan the City received from the Kentucky Infrastructure Authority in 2006 to pay off the 1990 Series Sewer Revenue Bonds. The remaining outstanding debt in the amount of $352,000 is from the 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project.

City of Elkton Outstanding Debt
As of June 30, 2010

	Governmental Activities	Business Activities	Totals
Notes Payable:			
2009 Ford Crown Victoria	7,987		7,987
2008 Ford Explorer	8,901		8,901
Fire Truck Low Interest Loan	26,319		26,319
Revenue Bonds:			
Rural Development Loan		352,000	352,000
KIA Debt Retirement Loan		713,733	713,733
Total	$ 43,207	$ 1,065,733	$ 1,108,940

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.

Over the last several years, the city has continued to see a decrease in revenues while expenses to maintain services continue to grow. Effective July 1, 2009, the city council increased the occupational license tax on payroll and gross receipts to generate additional revenue to maintain current levels of city services.

A major factor that will affect future budgets is the State's projected increases in required contributions to the Kentucky Retirement Systems, especially Hazardous Duty Retirement for the Elkton Police Department. In FY 2010, the City was required to contribute 33.25% of gross wages for all hazardous duty participants. This contribution rate is expected to increase to nearly 50% by FY 2018. Recently, due to retirement reform at the state level, the city was able to choose not to participate in hazardous duty for future new hires in the police department. Potentially, this could save the city $85,000 by FY 2018.

Finally, an issue the city has been dealing with for many years is water loss, or water that is leaking from the system or not being accurately billed to customer. In FY 2010, the average water loss was 35%. The City recently purchased new radio read water meters to accurately measure customer usage and master meters will be installed to help locate water leaks. The use of the radio read meters will not only allow the city to monitor customer usage more closely, but will save the system many hours of labor each month by not walking to every meter to get a reading. This will allow more time to focus on finding water leaks in the system. Larger water meters will be testing for accuracy and replaced as needed.

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 ASSETS
JUNE 30, 2010

ASSETS	Governmental Activities	Business Activities	Total
Current assets:			
Cash	$ 473,729	$ 1,021,342	$ 1,495,071
Investments	734,959	-	734,959
Receivables:			
Taxes (net of allowance for uncollectible)	7,938	-	7,938
Accounts	13,224	104,328	117,552
Other	15,210	47,582	62,792
Total current assets	1,245,060	1,173,252	2,418,312
Restricted assets:			
Restricted cash	23,813	116,575	140,388
Restricted investments	190,299	-	190,299
Total restricted assets	214,112	116,575	330,687
Noncurrent assets:			
Mortgages receivable	94,607	-	94,607
Capital assets (not being depreciated)	130,545	138,500	269,045
Capital assets (net of accumulated depreciation)	1,461,905	5,869,493	7,331,398
Total noncurrent assets	1,687,057	6,007,993	7,695,050
Total assets	3,146,229	7,297,820	10,444,049
LIABILITIES			
Current liabilities:			
Accounts payable	10,812	103,362	114,174
Accrued liabilities	25,914	25,970	51,884
Withholdings and other payables	532	2,078	2,610
Customer deposits	-	87,524	87,524
Current maturities of long-term debt	18,907	31,433	50,340
Total current liabilities	56,165	250,367	306,532
Noncurrent liabilities:			
Long-term debt	24,300	1,034,300	1,058,600
Total noncurrent liabilities	24,300	1,034,300	1,058,600
Total liabilities	80,465	1,284,667	1,365,132
NET ASSETS			
Invested in capital assets, net of related debt	1,549,244	5,023,016	6,572,260
Restricted for:			-
Mortgages receivable	94,607	-	94,607
Cemetery perpetual care:			-
Expendable	10,494	-	10,494
Nonexpendable	190,299	-	190,299
Special fund	-	19,366	19,366
Unrestricted	1,221,120	970,771	2,191,891
Total net assets	$ 3,065,764	$ 6,013,153	$ 9,078,917

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities	Total
Government activities:							
General government	$ 342,962	$ 12,610	$ 4,830	$ -	$ (325,522)	$ -	$ (325,522)
Public safety	572,147	22,538	36,083	-	(513,526)	-	(513,526)
Public works	219,214	-	132,723	-	(86,491)	-	(86,491)
Community development	3,000	-	-	-	(3,000)	-	(3,000)
Culture and recreation	13,336	-	1,430	-	(11,906)	-	(11,906)
Interest on long term debt	2,274	-	-	-	(2,274)	-	(2,274)
Total government activities	1,152,932	35,148	175,066	0	(942,718)	0	(942,718)
Business activities:							
Water	512,002	451,241	-	148,604	-	87,843	87,843
Sewer	538,566	398,604	-	-	-	(139,962)	(139,962)
Solid Waste	81,901	81,487	-		-	(414)	(414)
Total business activities	1,132,469	931,332	-	148,604	-	(52,533)	(52,533)
Total city	$ 2,285,401	$ 966,480	$ 175,066	$ 148,604	$ (942,718)	$ (52,533)	$ (995,251)
General revenues:							
Taxes					898,116	-	898,116
Licenses and permits					70,428	-	70,428
Grants and contributions not restricted to specific programs					25,392	-	25,392
Interest on investments					32,651	24,970	57,621
Gain (loss) on sale of fixed assets					696	-	696
Other income					28,618	19,096	47,714
Total general revenues, transfers, and special items					1,055,900	44,066	1,099,966
Transfers					(7,200)	7,200	-
Change in net assets					105,982	(1,267)	104,715
Net assets, beginning					2,959,782	6,014,420	8,974,202
Net assets, ending					$ 3,065,764	$ 6,013,153	$ 9,078,917

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2010

ASSETS	General	Other Governmental Funds	Total Governmental Funds
Cash	$ 312,913	$ 161,389	$ 474,302
Investments	734,959	-	734,959
Receivables:			
Taxes	1,450	-	1,450
Other	14,670	2,361	17,031
Prepaid expenses	-	-	-
Mortgages receivable	-	94,607	94,607
Due from other funds	12,361	4,182	16,543
Restricted cash	13,319	10,494	23,813
Restricted investments	-	190,299	190,299
Total Assets	$ 1,089,672	$ 463,332	$ 1,553,004
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 10,812	$ -	$ 10,812
Accrued liabilities	25,914	-	25,914
Other withholdings and payables	532	-	532
Due to other funds	4,182	12,361	16,543
Total liabilities	41,440	12,361	53,801
Fund Balance:			
Reserved:			
Prepaid expenses	55,704	-	55,704
Mortgages receivable	-	94,607	94,607
Cemetery perpetual care	-	188,432	188,432
Unreserved:			
Designated - capital outlay CD	717,459	-	717,459
Undesignated	275,069	167,932	443,001
Total fund balance	1,048,232	450,971	1,499,203
Total liabilities and fund balance	$ 1,089,672	$ 463,332	$ 1,553,004

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 ASSETS
JUNE 30, 2010

Total fund balance - total government funds	$ 1,499,203
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.	1,592,450
Certain imposed nonexchange receivables (property taxes and fire runs) were not recognized in the funds because they were not available at June 30, 2010.	17,891
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(43,780)
Net assets of governmental activities	$ 3,065,764

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 897,767	$ -	$ 897,767
Licenses and permits	71,238	-	71,238
Intergovernmental revenues	143,814	65,916	209,730
Charges for services	13,764	-	13,764
Interest income	22,888	9,763	32,651
Other income	35,242	1,366	36,608
Total revenues	1,184,713	77,045	1,261,758
Expenditures:			
Current:			
General government	313,926	-	313,926
Public works	154,697	17,269	171,966
Public safety	480,464	27,833	508,297
Culture and recreation	11,489	-	11,489
Capital outlay	110,200	-	110,200
Community development	-	-	-
Total expenditures	1,070,776	45,102	1,115,878
Excess of revenues over expenditures	113,937	31,943	145,880
Other financing sources (uses):			
Sale of fixed assets	875	-	875
Operating transfers in	10,000	(2,316)	7,684
Operating transfers out	(4,884)	(10,000)	(14,884)
Total other financing (uses)	5,991	(12,316)	(6,325)
Net change in fund balance	119,928	19,627	139,555
Fund balance, beginning of year	928,304	431,344	1,359,648
Fund balance, end of year	$ 1,048,232	$ 450,971	$ 1,499,203

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, 2010

Net change in fund balance - total governmental funds	$ 139,555
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. This is the amount by which depreciation ($165,665) was less than the capital outlays $110,200 in the current period.	(55,465)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,596
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	18,296
Change in net assets of governmental activities	$ 105,982

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
ASSETS	Water	Sewer	Solid Waste	Total
Current assets:				
Cash	$ 146,841	$ 205,044	$ 19,457	$ 371,342
Accounts receivable	104,328	-	-	104,328
Other receivables	47,582	-	-	47,582
Due from other funds	-	39,265	7,418	46,683
Total current assets	298,751	244,309	26,875	569,935
Restricted assets:				
Restricted cash	91,057	25,518	-	116,575
Restricted cash - CD	250,000	400,000		650,000
Total retricted assets	341,057	425,518	-	766,575
Noncurrent assets:				
Capital assets (not being depreciated)	55,000	83,500	-	138,500
Capital Assets (net of accumulated depreciation)	739,779	5,129,714	-	5,869,493
Total noncurrent assets	794,779	5,213,214	-	6,007,993
Total assets	1,434,587	5,883,041	26,875	7,344,503
Liabilities				
Current liabilities:				
Accounts payable	85,417	11,113	6,832	103,362
Acrrued liabilities	9,797	16,173	-	25,970
Payroll witholdings and other payables	587	1,491	-	2,078
Due to other funds	46,683	-	-	46,683
Payable from restricted cash - customer deposits	87,524	-	-	87,524
Current portion of note	-	31,433	-	31,433
Total current liabilities	230,008	60,210	6,832	297,050
Noncurrent liabilities:				
Note payable	-	1,034,300	-	1,034,300
Total liabilities	230,008	1,094,510	6,832	1,331,350
NET ASSETS				
Invested in capital assets, net of related debt	666,196	4,356,820	-	5,023,016
Restricted for:				
Special fund (nonexpendable)	3,607	15,759	-	19,366
Unrestricted	534,776	415,952	20,043	970,771
Total of net assets	$ 1,204,579	$ 4,788,531	$ 20,043	$ 6,013,153

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

City of Elkton, Kentucky
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended June 30, 2010

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
Operating Revenues:	Water	Sewer	Solid Waste	Total
Charges for services	$ 451,241	398,604	$ 81,487	$ 931,332
Miscellaneous	19,071	25	-	19,096
Total operating revenue	470,312	398,629	81,487	950,428
Operating expenses:				
Personal services	132,936	201,755	-	334,691
Purchased water	283,884	-	-	283,884
Materials and supplies	67,150	148,220	-	215,370
Depreciation	28,032	172,521	-	200,553
Contractual services	-	1,468	81,901	83,369
Total Operating Expenses	512,002	523,964	81,901	1,117,867
Operating income (loss)	(41,690)	(125,335)	(414)	(167,439)
Nonoperating revenue (expenses):				
Grant revenue	148,604	-	-	148,604
Interest income	9,223	15,339	408	24,970
Interest expense	-	(14,602)	-	(14,602)
Total nonoperating revenues (expenses)	157,827	737	408	158,972
Income (loss) before transfers	116,137	(124,598)	(6)	(8,467)
Transfer in	7,200	-	-	7,200
Income before special items	123,337	(124,598)	(6)	(1,267)
Water contract expense	-	-	-	-
Change in net assets	123,337	(124,598)	(6)	(1,267)
Net assets, beginning of year	1,081,242	4,913,129	20,049	6,014,420
Net assets, end of year	$ 1,204,579	4,788,531	$ 20,043	$ 6,013,153

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, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	$ 467,458	$ 398,629	$ 81,487	$ 947,574
Cash payments for operating expenses	(270,969)	(148,820)	(81,954)	(501,743)
Cash payments to employees	(132,976)	(202,229)	-	(335,205)
Net cash provided (used) by operating activities	63,513	47,580	(467)	110,626
Cash flows from non-capital financing activities:				
Operating grant	103,123	3,361	-	106,484
Operating transfers in from other funds	24,732	170	(547)	24,355
Net cash provided (used) by noncapital financing activities	127,855	3,530	(547)	130,839
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(156,617)	(55,130)	-	(211,747)
Interest paid on long term debt	-	(13,153)	-	(13,153)
Net cash provided (used) by capital and related financing activities	(156,617)	(68,283)	-	(224,900)
Cash flows from investing activities:				
Interest on cash and investments	9,223	15,339	408	24,970
Net cash provided by investing activities	9,223	15,339	408	24,970
Net (decrease) increase in cash and cash equivalents	43,975	(1,834)	(606)	41,534
Cash and cash equivalents, beginning of year	$ 443,923	$ 632,396	$ 20,064	1,096,383
Cash and cash equivalents, end of year	$ 487,898	$ 630,562	$ 19,457	$ 1,137,917
Reconciliation of total cash and cash investments:				
Current assets - cash	$ 146,841	$ 205,044	$ 19,457	$ 371,342
Restricted assets - cash	341,057	425,518	-	766,575
Total cash and cash investments	$ 487,898	$ 630,562	$ 19,457	$ 1,137,917

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ (41,690)	$ (125,335)	$ (414)	$ (167,439)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	28,032	172,521	-	200,553
(Increase) decrease in:				
Accounts receivable	(8,158)	-	-	(8,158)
Prepaid expense	18,964	26,278	-	45,242
Increase (decrease) in:				
Accounts payable	61,101	(25,410)	(53)	35,638
Other withholdings and payables	(40)	(474.13)	-	(514)
Customer deposits	5,304	-	-	5,304
Accrued liabilities				-
Net cash provided (used) by operating activities	$ 63,513	$ 47,580	$ (467)	$ 110,626

The accompanying notes are an integral part of these 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. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The government's more 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 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, 2010, 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 the accompanying component unit 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' s operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

Government-wide Financial Statements – The statements of net assets 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 net assets 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 enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

B. 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 to City residents.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 Assets.

Fund Financial Statements
All governmental funds are accounted for using a flow of current financial resources management 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 sources) of current financial resources.

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

Like the government-wide statements, all 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 Assets. The Statement of Changes in Fund Net Assets presents increases (i.e. revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of the proprietary funds.

E. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

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 by 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.

Deferred Revenue

Deferred 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.

F. Deposits and Investments

For purposes of financial statement presentation, all highly liquid investments (including restricted cash assets) with original maturities of three months or less when purchased by the City are considered to be cash equivalents.

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
(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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Deposits and Investments (continued)

(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 of 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.

G. Prepaid items

Payments made to vendors for services that will benefit periods beyond June 30, 2010 are recorded as prepaid items.

H. 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.

I. 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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received 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 fixed assets, when material. All reported assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets.

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, 2010 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 Assets and each proprietary fund's Statement of Net Assets/Balance Sheet. Depreciation is computed using the straight-line method over the following useful lives:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets (continued)

Assets	Estimated Lives
Land	N/A
Buildings	30 years
Equipment	7-10 years
Vehicles	5 years
Utility Plant	50 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 enterprise funds are carried at cost and depreciation is calculated using the straight line method.

J. 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 assets.

K. Compensated Absences

The City accrues vacation and sick 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, 2010. The entire compensated absence liability is reported on the government-wide financial statements.

L. Unearned Revenue

Unearned revenue in the governmental funds represents grant proceeds received prior to meeting all eligibility requirements as of June 30, 2010.

M. 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.

N. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. 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.

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the 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.

R. 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.

S. Accounts Receivable

The city grants credit to it's customers, all of whom are residents or businesses located in Elkton and Todd County. The City's policy is to write-off uncollectible accounts in the year they are deemed to be uncollectible. The City determined that no need existed to provide for an allowance for uncollectible accounts at June 30, 2010.

NOTE 2 – CASH AND INVESTMENTS

The City has 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;
- Interest rate risk

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, 2010, the carrying amount of City's deposits (including certificates of deposit) was $2,560,717 and the bank balance of $2,660,185 was categorized as follows:

Insured by FDIC		$ 528,022
Uninsured and collateralized with securities Held by the pledging financial institution's Agent but not in the City's name		2,132,163
	Total	$ 2,660,185

As of June 30, 2010, the City had petty cash on hand of $50.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the city's investment policy limits its investments, in general, to maturities of less than two years. However, the city may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity. Reserve funds may be invested in securities exceeding five years, if maturity of the investments are made to coincide as nearly as practicable with the expected use of the funds.

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, 2010 are as follows:

Real property - $0.249	per $100 value
Personal property - $0.444	per $100 value
Motor Vehicles and Watercraft - $0.303	per $100 value

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 yearend.

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 person of low- and 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 $94,607 have been granted through June 30, 2010. 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, 2010 was $37,762 for loans made with funds from a grant for the Main Street project and $56,845 for loans made with funds from a grant project for the Marion Street area.

Forgivable deferred mortgages - Forgivable deferred mortgages totaling $718,010 have been granted through June 30, 2010. These interest free loans contain a five-year reducing clause. The loans are forgiven at the rate of 20% a year. The term of the forgivable deferred loan begins with the date of the certificate of final inspection. The owner must retain ownership and maintenance of the mortgaged property during the entire five-year reduction period. Failure to retain ownership will cause the reduction clause to stop and the current balance to be due in full. Due to the complexities and variables in determining the collectability of these mortgages, the balance has not been reflected on the financial statements at June 30, 2010.

NOTE 4 – INTERFUND ACTIVITIES

Individual fund activities at June 30, 2010 were as follows:

	Interfund Receivable	Interfund Payable	Interfund Transfers in	Interfund Transfers out
General fund	$ 12,361	$ (4,182)	$ (12,316)	$ -
KLEFPF	-	(2,361)	-	-
RLF	4,182	-	-	2,316
Perpetual Care	-	(10,000)	-	10,000
Water fund	-	(46,683)	(477,591)	477,591
Sewer	39,265	-	-	-
Solid Waste	7,418	-	-	-
Total	$ 63,226	$ (63,226)	$ (489,907)	$ 489,907

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 collect in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

Government Activities	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010
Capital Assets Not Being Depreciated:				
Land	$ 130,545	$ -	$ -	$ 130,545
Capital Assets Being Depreciated:				
Buildings & Improvements	952,042	2,000	-	954,042
Park and Land Improvements	628,814	-		628,814
Equipment	374,675	66,442	(35,209)	405,909
Vehicles	318,513	41,758	(13,000)	347,271
Total Capital Assets	2,404,590	110,200	(48,209)	2,466,582
Less Accumulated Depreciation:				
Buildings & Improvements	(260,832) -	(33,213)	-	(294,045)
Park and Land Improvements	(24,351)	(38,301)	-	(62,652)
Equipment	(253,818)	(54,569)	35,029	(273,358)
Vehicles	(217,674)	(39,403)	13,000	(244,077)
Total Accumulated Depreciation	(756,675)	(165,486)	48,029	(874,131)
Governmental Activities - Capital Assets, net	$ 1,647,915	$ (55,286)	$ (179)	$ 1,592,450

Depreciation expense was charged to the governmental functions as follows:

General Government	$ 28,925
Public Safety	84,419
Public Works	52,142
Total Depreciation Expense	$ 165,486

NOTE 5 – CAPITAL ASSETS (continued)

Business-Type Activities	Balance 6/30/2009	Additions	Retirements	Balance 6/30/2010
Capital Assets Not Being Depreciated:				
Land	$ 138,500	$ -	$ -	$ 138,500
Construction in process	(8,541)	157,145	-	148,604
Capital Assets Being Depreciated:				
Plant & lines	8,224,359	-	-	8,224,359
Equipment	450,544	63,139	(7,915)	505,768
Vehicles	119,892	-	-	119,892
Total Capital Assets	8,924,754	220,284	(7,915)	9,137,123
Less Accumulated Depreciation:				
Plant & lines	(2,500,403)	- (164,466)	-	(2,664,869)
Equipment	(356,576)	(23,811)	7,915	(372,472)
Vehicles	(79,513)	(12,276)	-	(91,789)
Total Accumulated Depreciation	(2,936,492)	(200,553)	7,915	(3,129,130)
Business Type Activities - Capital Assets, net	$ 5,988,262	$ 19,731	$ -	$ 6,007,993

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

Water	$ 28,032
Sewer	172,521
Total Depreciation Expense	$ 200,553

NOTE 6 – PENSION PLAN AND DEFERRED COMPENSATION

County Employees Retirement System - The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employee retirement system which covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement Systems.

NOTE 6 – PENSION PLAN AND DEFERRED COMPENSATION (continued)

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest of 3 percent compounded annually through June 30, 1980, 6 percent thereafter through June 30, 1986, and 4 percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by Board.

CERS covered employees under the non-hazardous duty retirement plan are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 16.16% of gross pay for the year ended June 30, 2010. Effective September 1, 2002, the City elected to participate in the hazardous duty retirement system for police officers. CERS covered employees under the hazardous duty retirement plan are required to contribute an amount equal to 8.00% of gross pay and the employer was required to contribute an amount equal to 32.97% of gross pay for the year ended June 30, 2010.

Trend Information:

Schedules of Employer Contributions

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2010	$ 127,572	$ 127,572	100%
June 30, 2009	$ 117,126	$ 117,126	100%
June 30, 2008	$ 126,631	$ 126,631	100%

Additional information can be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Kentucky Public Employee's Deferred Compensation – The City participates in the Kentucky Public Employee's Deferred Compensation plan. Employees have the ability to chose between a section 457 plan and a section 401(k) plan. Both plans allow employees to defer a portion of their salary until future years. The City does not match contributions of this plan on behalf of the employees. Participation in the plan is optional and participants in the plan are allowed to choose the investments for their deferrals from various fund types offered under the plan. Investment options include stock funds, bond funds, government funds and money market accounts, including various risk alternatives. The funds held in the deferred compensation plan are not available to employees until termination, retirement, attainment of certain age requirements, death or unforeseeable emergencies or hardships. Administration for the plan is performed by the Board of Trustees of the Kentucky Public Employees' Deferred Compensation Authority. Enrollment services and communications are performed by Nationwide Retirement Solutions, Inc. and Nationwide Investment Services Corporation.

NOTE 7 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation pay, the City has accrued a liability for pay, which has been earned but not taken by employees as of June 30, 2010. The City is currently liable for compensated absences of the following:

	June 30, 2010
City of Elkton - General Fund	$ 11,659
Water Fund	5,728
Sewer Fund	5,825
	$ 23,213

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.

NOTE 8 – LONG-TERM OBLIGATIONS

	June 30, 2009	Additions	Expenditures	June 30, 2010
Governmental Activities:				
Note payable-KY comm. On Fire Protection	$ 32,921	$ -	$ 6,602	$ 26,319
Note payable-Leasing One	-	-	-	-
Note payable-Leasing One	12,815	-	3,914	8,901
Note payable-Leasing One	16,340	-	8,353	7,987
	$ 62,076	$ -	$ 18,869	$ 43,207
Business-Type Activities:				
KIA Loan	740,666	-	26,933	713,733
Bond Issue	356,000	-	4,000	352,000
	$ 1,096,666	$ -	$ 30,933	$ 1,065,733

Debt service requirement on long-term obligations at June 30, 2010 are as follows:

	Governmental activities			
	Note payable - Ky Comm. On Fire Protection		Note payable - Leasing One	
	Principal	Interest	Principal	Interest
2011	6,694	841	12,258	822
2012	6,895	640	4,630	-
2013	7,154	381		
2014	5,576	271	-	-
Totals	$ 26,319	$ 2,132	$ 16,888	$ 822

NOTE 8 – LONG-TERM OBLIGATIONS (continued)

	Business-type activities	
	Kentucky Infrastructure Authority Loan	
	Principal	Interest
2011	31,433	15,934
2012	31,433	15,695
2013	31,933	15,455
2014	31,933	15,195
2015	31,933	14,935
2016 - 2020	164,167	70,525
2021 - 2025	170,667	62,578
2026 - 2030	178,667	53,146
2031 - 2035	188,167	42,023
2036 - 2050	205,400	43,826
Totals	$ 1,065,733	$ 349,312

Note Payable – KY Commission on Fire Protection

The City purchased a new fire pumper truck on April 3, 2003 and issued a note payable in the amount of $75,000. This note is due in annual installments of $7,534.66 including 3% interest through April 2015 and is secured by the truck.

Note Payable – Leasing One

The City purchased a new police car on November 12, 2007 and issued a note payable in the amount of $20,699. This note is due in annual installments of $4,630 including 3.784% interest through November 2011 and is secured by the police car.

The City purchased a new police car on September 8, 2008 and issued a note payable in the amount of $24,745. This note is due in annual installments of $8,405 including 4.31% interest through September 2011 and is secured by the police car.

Kentucky Infrastructure Authority Loan

In December 2006, the city received a thirty year, zero percent interest loan from the Kentucky Infrastructure Authority, in the amount of $808,000 to retire the existing sewer bonds. 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 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, 2010, the reserve account totaled $5,940.

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

NOTE 8 – LONG-TERM OBLIGATIONS (continued)

120% of average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, 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.

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 prepayment 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 wit the schedule presented above as business-type activities.

NOTE 9 – 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.

NOTE 10 – LEASES

During August 2001, a building owned by the City was leased to the Todd County Water District for an initial term of 10 years. The monthly lease amount is $500. The lease is renewable for an additional 10 year period at the end of the initial term. Rental revenue totaled $6,000 for the year ended June 30, 2010.

The following is an analysis of property leased under the above lease at June 30, 2010:

Buildings	$ 252,000
Less: Accumulated Depreciation	60,375
Net Book Value	$ 191,625

Depreciation expense for the year ended June 30, 2010 on property leased to others was $7,350.

The following is a schedule of future minimum rental income from operating leases at June 30, 2010:

2011	6,000
2012	1,000
Total Minimum Lease Receipts	$ 7,000

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 11 – 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 12 – 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 13 – JOINT VENTURE

In August 2002, the City of Elkton entered into an Interlocal Agreement with the cities of Trenton and Guthrie to establish the Silver Triangle Main Street Corporation, a nonprofit corporation. The three communities agreed to contribute funds for the operation of the Silver Triangle to help develop the Renaissance programs of the three communities. Other funding to operate the Silver Triangle will come from the Kentucky Heritage Council and local memberships. The Silver Triangle will work with the City to write and administer grants and will assist the City in promoting historic preservation and encourage economic growth and vitality in the Renaissance area.

Initially, each City appointed three members to the Board of Directors of the Silver Triangle Main Street Corporation. One member from each City will rotate off the Board annually. The vacancies on the Board will be filled from nominees made by the Board of Directors. Nominees must be chosen from the membership of Silver Triangle Main Street program. The membership of the Silver Triangle will elect the three Board members at the annual membership meeting. After the initial appointment, the City has no control over new appointments to the Board.

NOTE 14 - CLAIMS AND JUDGEMENTS

The City is party to pending suits as of June 30, 2010. While the outcome of these suits can not 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 15 – SUBSEQUENT EVENTS

Subsequent events were evaluated through December 29, 2010, which is the date the financial statements were available to be issued. There were no subsequent events effecting the financials, as of this date.

Required Supplementary Information

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Taxes	$ 819,700	$ 892,600	$ 897,767	$ 5,167
Licenses and permits	63,800	64,300	71,238	6,938
Intergovernmental revenues	232,250	141,350	143,814	2,464
Charges for services	9,200	14,900	13,764	(1,136)
Interest income	28,000	28,000	22,888	(5,112)
Other income	26,300	36,300	35,242	(1,058)
Total revenues	1,179,250	1,177,450	1,184,713	7,263
Expenditures:				
Current:				
General government	332,350	355,350	313,926	41,424
Public works	350,500	132,000	154,697	(22,697)
Public safety	504,750	579,550	480,464	99,086
Culture and recreation	44,100	55,600	11,489	44,111
Capital outlay	-	-	110,200	(110,200)
Total expenditures	1,231,700	1,122,500	1,070,776	51,724
Excess of revenues over (under) expenditures	(52,450)	54,950	113,937	58,987
Other financing sources (uses):				
Sale of fixed assets	-	-	875	875
Operating transfers in	58,000	13,500	10,000	(3,500)
Operating transfers out	-	-	(4,884)	(4,884)
Total other financing sources (uses)	58,000	13,500	5,991	(7,509)
Net change in fund balance	5,550	68,450	119,928	51,478
Fund balance, beginning of year	928,304	928,304	928,304	-
Fund balances, end of year	$ 933,854	$ 996,754	$ 1,048,232	$ 51,478

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

Accompanying Information

Members:

American Institute of
Certified Public Accountants

Kentucky Society of
Certified Public Accountants

Tennessee Society of
Certified Public Accountants

THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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 Mayor and City Council
City of Elkton, Kentucky

We have audited 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, 2010, and have issued our report thereon dated December 29, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Elkton, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkton, Kentucky's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2010-1. 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.

Compliance and Other Matters

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

The City of Elkton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Elkton, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the City Council of the City of Elkton, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLC

December 29, 2010

City of Elkton, Kentucky
Schedule of Findings and Questioned Costs
For the year ended June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Elkton, Kentucky.

2. One significant deficiency relating to the audit of the financial statements is reported in the 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.

4. City of Elkton, Kentucky did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2010-1 Accounting:

Condition: Certain transactions were not properly recorded in subsidiary ledgers on timely basis.

Criteria: Accounting department staff record all transactions required by generally accepted accounting principals 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 principals.

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

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