

CITY OF ELKTON, KENTUCKY  
BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2014  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

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INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Elkton, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Elkton, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–13 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the City of Elkton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Elkton, Kentucky's internal control over financial reporting and compliance.

***Thurman Campbell Group, PLC***

Hopkinsville, Kentucky  
December 15, 2014

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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, 2014, the City's assets exceeded liabilities for total net position of \$8,837,460.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$9,585 to a June 30, 2014 balance of \$1,673,887. Of this amount, \$1,074,410 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2014 totaled \$5,600,052, a decrease of \$103,704 from the prior year.
- The City's general fund balance as of June 30, 2014 was \$1,108,073, a decrease of \$40,361 over the prior year. Of the total fund balance, \$1,074,410 is unassigned. The unassigned general fund balance represents 85.6% 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 \$7,347,828.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government, public safety, public works, community development and culture and recreation. The *business-type activities* of the city include water, sewer and solid waste.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual funds in addition to the general fund to make up the governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other governmental funds.

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

**Proprietary funds.** The City maintains three types 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.

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

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activity assets exceeded liabilities for a net position of \$3,237,408. Business-type activity assets exceeded liabilities by \$5,600,052 for total net position of \$8,837,460 as of June 30, 2014.

**Net Position of Governmental and Business-Type Activities  
June 30, 2014**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>						
Current and other assets	\$ 1,742,002	\$ 1,711,853	\$ 1,459,954	\$ 1,422,008	\$ 3,201,956	\$ 3,133,861
Capital assets	1,584,511	1,597,825	5,763,317	5,604,538	7,347,828	7,202,363
Total assets	3,326,513	3,309,678	7,223,271	7,026,546	10,549,784	10,336,224
<u>LIABILITIES</u>						
Other liabilities	74,757	59,189	220,564	198,687	295,321	257,876
Long-term liabilities	14,348	6,639	1,402,655	1,124,103	1,417,003	1,130,742
Total liabilities	89,105	65,828	1,623,219	1,322,790	1,712,324	1,388,618
<u>NET POSITION</u>						
Net investment in capital assets	1,556,257	1,579,548	4,303,971	4,438,441	5,860,228	6,017,989
Restricted	256,140	264,566	1,026,130	1,011,765	1,282,270	1,276,331
Unrestricted	1,425,011	1,399,736	269,951	253,550	1,694,962	1,653,286
Total net position	\$ 3,237,408	\$ 3,243,850	\$ 5,600,052	\$ 5,703,756	\$ 8,837,460	\$ 8,947,606

In the City as a whole, the largest portion of net position, \$5,860,228 or 66%, 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 position of governmental activity funds were \$3,237,408, with \$1,556,257 or 48% being invested in capital assets and \$1,425,011 or 44% unrestricted. The unrestricted net position of governmental funds include fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities was \$5,600,052. Of these net assets, \$4,303,971 or 77% were invested in capital assets and there was an unrestricted balance of \$269,951 or just under 5%.

**CITY OF ELKTON, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

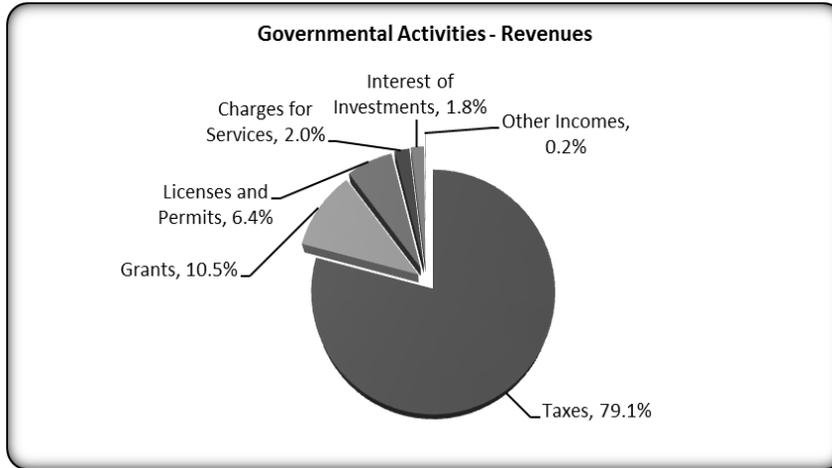
**City of Elkton Changes in Net Position**  
**June 30, 2014**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 27,812	\$ 32,205	\$ 986,263	\$ 990,163	\$ 1,014,075	\$ 1,022,368
Operating Grants and Contributions	124,248	86,820	1,979	-	126,227	86,820
General Revenues:						
Taxes	1,090,581	1,024,425	-	-	1,090,581	1,024,425
Licenses and Permits	86,698	82,950	-	-	86,698	82,950
Grants and Contributions not restricted to Specific Programs	19,279	29,426	-	-	19,279	29,426
Interest on Investments	24,046	46,059	16,952	35,114	40,998	81,173
Gain on Sale of Fixed Assets	(1,702)	(753)	(1,810)	-	(3,512)	(753)
Other Income	11,453	14,606	17,475	17,656	28,928	32,262
Transfers	(7,200)	(7,200)	7,200	7,200	-	-
Special - Contribution to Permanent Fund	-	39,550	-	-	-	39,550
Total Revenues	1,375,215	1,348,088	1,028,059	1,050,133	2,403,274	2,398,221
<b>Expenditures:</b>						
General Government	480,321	406,019	-	-	480,321	406,019
Public Safety	610,099	614,750	-	-	610,099	614,750
Public Works	269,905	264,696	-	-	269,905	264,696
Community Development	900	-	-	-	900	-
Culture and Recreation	19,699	16,589	-	-	19,699	16,589
Interest on Long Term Debt	733	1,276	-	-	733	1,276
Water	-	-	512,125	475,025	512,125	475,025
Sewer	-	-	537,245	564,112	537,245	564,112
Solid Waste	-	-	82,393	81,986	82,393	81,986
Total Expenditures	1,381,657	1,303,330	1,131,763	1,121,123	2,513,420	2,424,453
Change in Net Position	(6,442)	44,758	(103,704)	(70,990)	(110,146)	(26,232)
Net Position, Beginning of Year	3,243,850	3,199,092	5,703,756	5,774,747	8,947,606	8,973,839
Net Position, End of Year	\$ 3,237,408	\$ 3,243,850	\$ 5,600,052	\$ 5,703,756	\$ 8,837,460	\$ 8,961,639

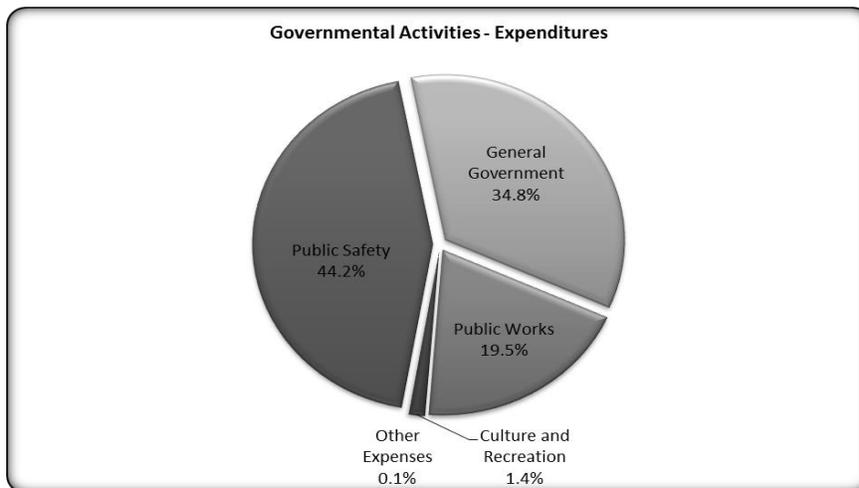
CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

**Governmental Activities**

Revenues for the City's governmental activities totaled \$1,375,215. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,090,581 which is 79.1% of total revenue. Grants totaled \$143,527 and accounted for about 10.5% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$86,698 or 6.4% of the total. Charges for services totaled \$27,812, or 2.0% of revenues. Interest on investments totaled \$24,046, or about 1.8% of revenues. Finally, other incomes totaled \$2,551, or 0.2% of revenues.



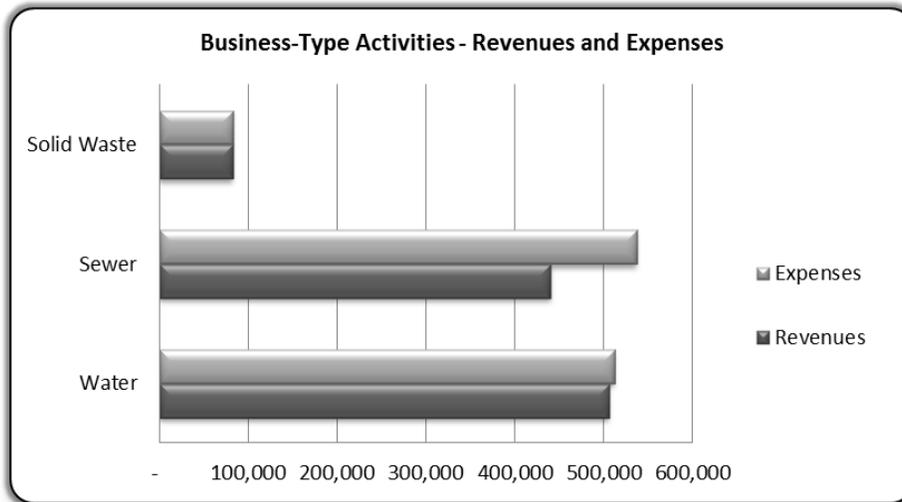
Total expenses of the City's governmental activities were \$1,381,657. The largest expenditure at 44.2% of total expenses \$610,099 was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled \$480,321 or 34.8% of expenses. Public works was third and totaled \$269,905, or 19.5%. Culture and recreation expenses totaled \$19,699, or 1.4% of the total. Finally, other expenses totaled \$1,633, or 0.1% of total expenditures.



CITY OF ELKTON, KENTUCKY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
 FOR THE YEAR ENDED JUNE 30, 2014

**Business-type Activities**

Revenues for business-type activities totaled \$1,028,059 for the fiscal year ended June 30, 2014. Of this total, 96% of total revenue received was from Charges for Services in the amount of \$986,263. Interest income accounted for 2% of total revenues, or \$16,952. Expenses for business-type activities totaled \$1,131,763. Water department expenses accounted for \$512,125 of total expenditures, or 45.2%. Sewer department expenses accounted for 47.5% of total expenses, or \$537,245. Finally, the solid waste department accounted for 7.3% of total business-type activities expenditures with \$82,393 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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds for the year ended June 30, 2014 reflect a combined ending fund balance of \$1,673,887, an increase of about \$9,585 from the prior year. Of the total fund balance, \$1,074,410 is unassigned and is available for spending at the City's discretion. The remainder \$599,477 is restricted 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 \$1,108,073, which is a decrease of \$40,361 from the prior year. Of the total General Fund balance, 96.9% (\$1,074,410) is *unassigned fund balance*. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represented 85.5% of total general fund revenues.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

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

**General Fund - Revenues by Source**

Revenues by Source	FY 2014		FY 2013		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
Taxes	\$ 1,083,317	84.5%	\$ 1,033,060	80.1%	\$ 50,257	4.86%
Licenses and Permits	86,698	6.8%	83,500	6.5%	3,198	3.83%
Intergovernmental Revenues	27,699	2.2%	87,914	6.8%	(60,215)	-68.49%
Charges for Services	27,812	2.2%	17,137	1.3%	10,675	62.29%
Interest Income	18,841	1.5%	35,361	2.7%	(16,520)	-46.72%
Other Income	11,453	0.9%	33,552	2.6%	(22,099)	-65.86%
Total Revenues	1,255,820	98.0%	1,290,524	100.1%	(34,704)	-2.69%
Total Other Financing (uses)	25,718	2.0%	(733)	-0.1%	26,451	-3608.59%
Total Revenues and Other Financing (uses)	<u>\$ 1,281,538</u>	<u>100.0%</u>	<u>\$ 1,289,791</u>	<u>100.0%</u>	<u>\$ (8,253)</u>	<u>-0.64%</u>

- The General Fund saw about a 1% decrease in total revenue and other financing sources over last year.
- The largest percentage increase in revenue came from Charges for Services, which increased by 62%, or \$10,675 over last year.
- The largest total increase in revenue was in Taxes, which increased in the amount of \$50,257, or about 5% over last year.
- The largest total decrease in revenue was a \$60,215 decrease in Intergovernmental Revenue, a decrease of 68%. This decrease in revenue is mainly attributed to receipt of less grant revenue.

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

**General Fund - Expenditures by Function**

Expenditures by Function	FY 2014		FY 2013		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
General Government	\$ 446,328	33.8%	\$ 358,547	29.8%	\$ 87,781	24.48%
Public Works	173,968	13.2%	190,400	15.8%	(16,432)	-8.63%
Public Safety	535,896	40.5%	527,636	43.9%	8,260	1.57%
Culture and Recreation	21,809	1.6%	19,981	1.7%	1,828	9.15%
Capital Outlay	123,138	9.3%	89,444	7.4%	33,694	37.67%
Debt Service	20,760	1.6%	17,220	1.4%	3,540	20.56%
Total Expenditures	<u>\$ 1,321,899</u>	<u>100.0%</u>	<u>\$ 1,203,228</u>	<u>100.0%</u>	<u>\$ 118,671</u>	<u>9.86%</u>

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

- Overall, General Fund expenditures increased by 9.8%, a total of \$118,671 over last year.
- The only decrease in expenditures at 8.6% was in the area of Public Works with a decrease in expenditures of \$16,432 from last year.
- The largest total increase in expenditures was an \$87,781 increase in General Government expenditures. The increase was mainly due to more expenditure for industrial and economic development of \$52,100 more than last year.
- The largest percentage increase was in Capital Outlay. The city spent 37.6% more, or about \$33,694 more than last year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. As noted earlier, the City maintains three 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 position from operations for the fiscal year as well as comparison from prior year:

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

	Water		Sewer		Solid Waste		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Operating Revenues	\$ 491,020	\$ 497,542	\$ 432,486	\$ 428,682	\$ 82,211	\$ 81,595	\$ 1,005,717	\$ 1,007,819
Operating Expenses	509,911	474,104	522,179	548,777	82,393	81,986	1,114,483	1,104,867
Operating Income (loss)	(18,891)	23,438	(89,693)	(120,095)	(182)	(391)	(108,766)	(97,048)
Non-operating revenues (expenses)	5,212	14,166	(7,507)	4,300	157	392	(2,138)	18,858
Income (loss) before transfer:	(13,679)	37,604	(97,200)	(115,795)	(25)	1	(110,904)	(78,190)
Transfer in (out)	7,200	7,200	-	-	-	-	7,200	7,200
Net income (loss)	(6,479)	44,804	(97,200)	(115,795)	(25)	1	(103,704)	(70,990)
Net Position, beginning of year	1,261,771	1,216,966	4,421,113	4,536,909	20,872	20,871	5,703,756	6,014,420
Net Position, end of year	\$ 1,255,292	\$ 1,261,771	\$ 4,323,913	\$ 4,421,113	\$ 20,847	\$ 20,872	\$ 5,600,052	\$ 5,703,756

- 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 decreased by \$6,522. This decrease in operating revenue was due to decrease in water sales. The water fund saw an increase in operating expenditures by \$35,807. Most of the increase is due to increase in purchased water attributed mostly to water loss and the water funds taking over some personnel expenditures to relieve the sewer funds. Overall, the water fund saw a net loss of \$6,479. Therefore, net position of the water fund as of June 30, 2014 decreased to a total of \$1,255,292.
- 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 \$3,804 over the previous year, while operating expenses also decreased by \$26,598. The decrease in expenditures was mostly due to transferring more personnel expenditures to the water fund as mentioned above. As of June 30, 2014, the sewer fund saw a net loss of \$97,200 for a net position of \$4,323,913.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

- The **solid waste** fund accounts for contractual payments to Waste Management, Inc. for residential solid waste collection and disposal. The fund had a net increase of \$25. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2014 for the solid waste fund is \$20,847.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City Council revised the General Fund's budget one time in order to make adjustments in revenues and expenditures that were not anticipated when the budget was first adopted. In all, the original revenue and other financing sources budget decreased by about 12.5%, or \$183,795. The total expenditure budget was decreased by \$147,550 or approximately 9.6%. These changes can be briefly summarized as follows:

- Although there were several minor changes throughout the budget, the main modification to the budget was reflected in decreases in revenues (Intergovernmental) and expenditures (Capital Outlay) because construction of the South Streets Avenue Sidewalk Project was expected to begin in FY2014, however was delayed.

For the year, general fund actual revenues and other financing sources came in about \$9,117 less than expected. Actual expenditures were \$74,405 less than expected, or nearly 5.3% below budgetary estimates.

**CAPITAL ASSETS**

The City's capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2014 totaled \$1,584,511 a decrease of \$13,314 over last year. For business-type activities, total capital assets amount to \$5,763,317, an increase of \$158,779 over last year. The City's total capital assets as of June 30, 2014 increased by \$145,465 over last year for a net capital assets of \$7,347,828.

**City of Elkton Capital Assets  
As of June 30, 2014**

	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Totals</b>
Land	\$ 130,545	\$ 138,500	\$ 269,045
Park and Land Improvements	468,741	-	468,741
Buildings and Improvements	757,979	-	757,979
Equipment	166,017	112,323	278,340
Vehicles	61,229	-	61,229
Plant and Lines	-	5,177,250	5,177,250
Construction in Progress	-	335,244	335,244
<b>Total</b>	<b>\$ 1,584,511</b>	<b>\$ 5,763,317</b>	<b>\$ 7,347,828</b>

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

**DEBT ADMINISTRATION**

At the end of the fiscal year, the City had a total outstanding debt of \$1,487,600. Of the total debt, \$28,254 is payable from the City's General Fund. \$6,579 of this debt is from the purchase of a 2012 Ford Explorer that was purchased in November 2011 for the Police Department. The remaining General Fund debt in the amount of \$21,675 is from the purchase of a 2014 Ford Explorer made in August 2013.

The total outstanding debt for Business Type Activities totaled \$1,459,346 as of June 30, 2014. The largest portion this long-term debt in the amount of \$606,000 is payable from the Sewer Fund for repayment of a 0% interest loan the City received from the Kentucky Infrastructure Authority (KIA) in 2006 to pay off the 1990 Series Sewer Revenue Bonds. The City also has a low interest loan through KIA with a remaining balance of \$67,159 for the purchase of new radio read water meters that was completed in July 2010. The sewer system also has an outstanding debt in the amount of \$333,000 from the 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project. The sewer system also received a 1% interest loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$117,943. Finally, in June 2014, the city received a low interest loan through KIA to separate the water distribution system from intersecting lines with the Todd County Water District and to replace an old water line on Goebel Avenue with a total balance of \$335,244 as of June 30, 2014.

**City of Elkton Outstanding Debt  
As of June 30, 2014**

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Totals</u>
Notes Payable:			
Elkton Bank and Trust - 2012 Ford Explorer	\$ 6,579	\$ -	\$ 6,579
Elkton Bank and Trust - 2014 Ford Explorer	21,675	-	21,675
Revenue Bonds:			
KIA Loan - Water Meter Project	-	67,159	67,159
Rural Development Loan - Sewer Plant	-	333,000	333,000
KIA Loan - Sewer Plant Debt Retirement	-	606,000	606,000
KIA Loan - Sewer Extension Projects	-	117,943	117,943
KIA Loan - Water Separation and Goebel Extension	-	335,244	335,244
Total	<u>\$ 28,254</u>	<u>\$ 1,459,346</u>	<u>\$ 1,487,600</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

An ongoing issue the city has been dealing with for many years is water loss, or water that is leaking from the system or not being accurately billed to customer. Several years ago, the Utility Department found and repaired a large leak in a water main that brought the city's water loss down to about 10% annually. In FY2014, the water loss increased to about 13.3%. The savings to the water department are nearly \$60,000 per year. However, the average water loss for similar systems is approximately 15-20%, so maintaining a water loss below this average is highly unlikely.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014

**REQUESTS FOR INFORMATION**

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2014

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
<b>Current assets:</b>			
Cash	\$ 503,495	\$ 298,490	\$ 801,985
Investments	910,886	-	910,886
<b>Receivables:</b>			
Taxes, net	26,839	-	26,839
Accounts	-	121,400	121,400
Other	14,417	14,406	28,823
Internal balances, net	472	(472)	-
Prepaid expenses	1,948	-	1,948
Total current assets	<u>1,458,057</u>	<u>433,824</u>	<u>1,891,881</u>
<b>Restricted assets:</b>			
Restricted cash	27,805	149,055	176,860
Restricted investments	190,299	877,075	1,067,374
Total restricted assets	<u>218,104</u>	<u>1,026,130</u>	<u>1,244,234</u>
<b>Noncurrent assets:</b>			
Mortgages receivable	65,841	-	65,841
Capital assets (not being depreciated)	130,545	473,744	604,289
Capital assets, net	<u>1,453,966</u>	<u>5,289,573</u>	<u>6,743,539</u>
Total noncurrent assets	<u>1,650,352</u>	<u>5,763,317</u>	<u>7,413,669</u>
Total assets	<u>3,326,513</u>	<u>7,223,271</u>	<u>10,549,785</u>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Accounts payable	33,149	37,133	70,282
Accrued liabilities	27,702	27,264	54,966
Withholdings and other payables	-	300	300
Customer deposits	-	99,176	99,176
Current maturities of long-term debt	<u>13,906</u>	<u>56,691</u>	<u>70,597</u>
Total current liabilities	<u>74,757</u>	<u>220,564</u>	<u>295,321</u>
<b>Noncurrent liabilities:</b>			
Long-term debt	<u>14,348</u>	<u>1,402,655</u>	<u>1,417,003</u>
Total noncurrent liabilities	<u>14,348</u>	<u>1,402,655</u>	<u>1,417,003</u>
Total liabilities	<u>89,105</u>	<u>1,623,219</u>	<u>1,712,324</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	1,556,257	4,303,971	5,860,228
<b>Restricted for:</b>			
Mortgages receivable	65,841	-	65,841
Cemetery perpetual care:			
Cash	3,070	-	3,070
Investment	187,229	-	187,229
Special funds	-	1,026,130	1,026,130
Unrestricted	<u>1,425,011</u>	<u>269,951</u>	<u>1,694,962</u>
Total net position	<u>\$ 3,237,408</u>	<u>\$ 5,600,052</u>	<u>\$ 8,837,460</u>

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Government activities:							
General government	\$ 480,321	\$ 13,894	\$ 42,196	\$ -	\$ (424,231)	\$ -	\$ (424,231)
Public safety	610,099	13,918	8,250	-	(587,931)	-	(587,931)
Public works	269,905	-	73,507	-	(196,398)	-	(196,398)
Community development	900	-	-	-	(900)	-	(900)
Culture and recreation	19,699	-	295	-	(19,404)	-	(19,404)
Interest on long term debt	733	-	-	-	(733)	-	(733)
Total government activities	<u>1,381,657</u>	<u>27,812</u>	<u>124,248</u>	<u>-</u>	<u>(1,229,597)</u>	<u>-</u>	<u>(1,229,597)</u>
Business-type activities:							
Water	512,125	473,545	-	-	-	(38,580)	(38,580)
Sewer	537,245	430,507	-	1,979	-	(104,759)	(104,759)
Solid Waste	82,393	82,211	-	-	-	(182)	(182)
Total business activities	<u>1,131,763</u>	<u>986,263</u>	<u>-</u>	<u>1,979</u>	<u>-</u>	<u>(143,521)</u>	<u>(143,521)</u>
Total city	<u>\$ 2,513,420</u>	<u>\$ 1,014,075</u>	<u>\$ 124,248</u>	<u>\$ 1,979</u>	<u>(1,229,597)</u>	<u>(143,521)</u>	<u>(1,373,118)</u>
General revenues:							
Taxes					1,090,581	-	1,090,581
Licenses and permits					86,698	-	86,698
Non-program grants and contributions					19,279	-	19,279
Interest on investments					24,046	16,952	40,998
Gain (loss) on sale of fixed asset					(1,702)	(1,810)	(3,512)
Other income					11,453	17,475	28,928
Transfers					(7,200)	7,200	-
Total general revenues and transfers					<u>1,223,155</u>	<u>39,817</u>	<u>1,262,972</u>
Change in net position					<u>(6,442)</u>	<u>(103,704)</u>	<u>(110,146)</u>
Net position, beginning (restated)					<u>3,243,850</u>	<u>5,703,756</u>	<u>8,947,606</u>
Net position, ending					<u>\$ 3,237,408</u>	<u>\$ 5,600,052</u>	<u>\$ 8,837,460</u>

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

CITY OF ELKTON, KENTUCKY  
BALANCE SHEET  
GOVERNEMENTAL FUNDS  
JUNE 30, 2014

<u>ASSETS</u>	General	Other Governmental Funds	Total Governmental Funds
Cash	\$ 205,824	\$ 297,671	\$ 503,495
Investments	910,886	-	910,886
Receivables:			
Taxes, net	26,839	-	26,839
Other	12,312	2,105	14,417
Prepaid expenses	1,948	-	1,948
Mortgages receivable	-	65,841	65,841
Due from other funds	5,642	11,998	17,640
Restricted cash	24,735	3,070	27,805
Restricted investments	-	190,299	190,299
	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,188,186	\$ 570,984	\$ 1,759,170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES</u>			
Accounts payable	\$ 33,149	\$ -	\$ 33,149
Accrued liabilities	27,702	-	27,702
Due to other funds	11,998	5,170	17,168
	<hr/>	<hr/>	<hr/>
Total liabilities	72,849	5,170	78,019
	<hr/>	<hr/>	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenues-Taxes	7,264	-	7,264
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	7,264	-	7,264
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u>			
Nonspendable:			
Prepaid expenses	1,948	-	1,948
Restricted	-	256,140	256,140
Committed	31,715	309,674	341,389
Unassigned	1,074,410	-	1,074,410
	<hr/>	<hr/>	<hr/>
Total fund balance	1,108,073	565,814	1,673,887
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 1,188,186	\$ 570,984	\$ 1,759,170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

CITY OF ELKTON, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2014

Total fund balance - total government funds	\$ 1,673,887
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities activities are not financial resources and therefore are not reported in the funds.	1,584,511
Other revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds.	7,264
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(28,254)</u>
Net position of governmental activities	<u><u>\$ 3,237,408</u></u>

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,083,317	\$ -	\$ 1,083,317
Licenses and permits	86,698	-	86,698
Intergovernmental revenues	27,699	115,828	143,527
Charges for services	27,812	-	27,812
Interest income	18,841	5,205	24,046
Other income	11,453	-	11,453
Total revenues	<u>1,255,820</u>	<u>121,033</u>	<u>1,376,853</u>
Expenditures:			
Current:			
General government	446,328	-	446,328
Public works	173,968	45,729	219,697
Public safety	535,896	22,293	558,189
Culture and recreation	21,809	-	21,809
Capital outlay	123,138	-	123,138
Debt service:			
Principal	19,876	-	19,876
Interest	884	-	884
Total expenditures	<u>1,321,899</u>	<u>68,022</u>	<u>1,389,921</u>
Revenues over (under) expenditures	<u>(66,079)</u>	<u>53,011</u>	<u>(13,068)</u>
Other financing sources (uses):			
Debt proceeds	29,853	-	29,853
Operating transfers in	3,065	-	3,065
Operating transfers out	(7,200)	(3,065)	(10,265)
Total other financing (uses)	<u>25,718</u>	<u>(3,065)</u>	<u>22,653</u>
Net change in fund balance	(40,361)	49,946	9,585
Fund balance, beginning of year (restated)	<u>1,148,434</u>	<u>515,868</u>	<u>1,664,302</u>
Fund balance, end of year	<u>\$ 1,108,073</u>	<u>\$ 565,814</u>	<u>\$ 1,673,887</u>

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

CITY OF ELKTON, KENTUCKY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balance - total governmental funds	\$ 9,585
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 (\$134,751) was more than the capital outlays and disposals (net of related loss) of \$121,437 in the current period.	(13,314)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	7,264
Debt proceeds provide current financial resources in the governmental funds, but create a long-term liability on the statement of net position.	(29,853)
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.	<u>19,876</u>
Change in net position of governmental activities	<u><u>\$ (6,442)</u></u>

CITY OF ELKTON, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

<u>ASSETS</u>	Business-Type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
Current assets:				
Cash	\$ 193,681	\$ 83,886	\$ 20,923	\$ 298,490
Accounts receivable, net	121,344	56	-	121,400
Other receivables	14,406	-	-	14,406
Due from other funds	-	33,628	6,756	40,384
Total current assets	329,431	117,570	27,679	474,680
Restricted assets:				
Restricted cash	103,073	45,982	-	149,055
Restricted investments	367,860	509,215	-	877,075
Total restricted assets	470,933	555,197	-	1,026,130
Noncurrent assets:				
Capital assets (not being depreciated)	390,244	83,500	-	473,744
Capital assets, net	640,613	4,648,960	-	5,289,573
Total noncurrent assets	1,030,857	4,732,460	-	5,763,317
Total assets	1,831,221	5,405,227	27,679	7,264,127
 <u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	\$ 22,131	\$ 8,170	\$ 6,832	\$ 37,133
Accrued liabilities	11,417	15,847	-	27,264
Payroll withholdings and other payables	300	-	-	300
Due to other funds	40,504	352	-	40,856
Customer deposits	99,176	-	-	99,176
Current portion of note	18,360	38,331	-	56,691
Total current liabilities	191,888	62,700	6,832	261,420
Noncurrent liabilities:				
Note payable	384,041	1,018,614	-	1,402,655
Total liabilities	575,929	1,081,314	6,832	1,664,075
 <u>NET POSITION</u>				
Net investment in capital assets	628,456	3,675,515	-	4,303,971
Restricted for:				
Special funds	470,933	555,197	-	1,026,130
Unrestricted	155,903	93,201	20,847	269,951
Total of net position	\$ 1,255,292	\$ 4,323,913	\$ 20,847	\$ 5,600,052

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
Operating revenues:				
Charges for services	\$ 473,545	\$ 430,507	\$ 82,211	\$ 986,263
Operating grant income	-	1,979	-	1,979
Miscellaneous	17,475	-	-	17,475
Total operating revenue	<u>491,020</u>	<u>432,486</u>	<u>82,211</u>	<u>1,005,717</u>
Operating expenses:				
Personal services	180,835	179,547	-	360,382
Purchased water	216,871	-	-	216,871
Materials and supplies	69,835	177,002	407	247,244
Depreciation	42,370	164,132	-	206,502
Contractual services	-	1,498	81,986	83,484
Total operating expenses	<u>509,911</u>	<u>522,179</u>	<u>82,393</u>	<u>1,114,483</u>
Operating income (loss)	(18,891)	(89,693)	(182)	(108,766)
Nonoperating revenue (expenses):				
Gain (loss) on sale of assets	-	(1,810)	-	(1,810)
Interest income	7,426	9,369	157	16,952
Interest expense	(2,214)	(15,066)	-	(17,280)
Total nonoperating revenues (expenses)	<u>5,212</u>	<u>(7,507)</u>	<u>157</u>	<u>(2,138)</u>
Income (loss) before transfers	(13,679)	(97,200)	(25)	(110,904)
Transfer in	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>7,200</u>
Total change in net position	(6,479)	(97,200)	(25)	(103,704)
Net position, beginning of year	<u>1,261,771</u>	<u>4,421,113</u>	<u>20,872</u>	<u>5,703,756</u>
Net position, end of year	<u>\$ 1,255,292</u>	<u>\$ 4,323,913</u>	<u>\$ 20,847</u>	<u>\$ 5,600,052</u>

CITY OF ELKTON, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	\$ 492,597	\$ 432,430	\$ 82,211	\$ 1,007,238
Cash payments for operating expenses	(284,176)	(180,421)	(75,561)	(540,158)
Cash payments to employees	(180,535)	(180,972)	-	(361,507)
Net cash provided (used) by operating activities	<u>27,886</u>	<u>71,037</u>	<u>6,650</u>	<u>105,573</u>
Cash flows from non-capital financing activities:				
Operating transfers in/(out) from other funds	<u>8,048</u>	<u>(341)</u>	<u>(36)</u>	<u>7,671</u>
Net cash provided (used) by noncapital financing activities	<u>8,048</u>	<u>(341)</u>	<u>(36)</u>	<u>7,671</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(343,072)	(25,829)	-	(368,901)
Sale of fixed assets	-	1,810	-	1,810
Proceeds from long-term debt	320,841	-	-	320,841
Principal paid on long-term debt	(3,726)	(38,268)	-	(41,994)
Interest paid on long term debt	(2,214)	(15,066)	-	(17,280)
Net cash provided (used) by capital and related financing activities	<u>(28,171)</u>	<u>(77,353)</u>	<u>-</u>	<u>(105,524)</u>
Cash flows from investing activities:				
Interest on cash and investments	<u>7,426</u>	<u>9,369</u>	<u>157</u>	<u>16,952</u>
Net cash provided by investing activities	<u>7,426</u>	<u>9,369</u>	<u>157</u>	<u>16,952</u>
Net (decrease) increase in cash and cash equivalents	15,189	2,712	6,771	24,672
Cash and cash investments, beginning of year	<u>287,490</u>	<u>128,511</u>	<u>14,152</u>	<u>430,153</u>
Cash and cash investments, end of year	<u>\$ 302,679</u>	<u>\$ 131,223</u>	<u>\$ 20,923</u>	<u>\$ 454,825</u>
Reconciliation of total cash and cash investments:				
Current assets - cash	\$ 193,681	\$ 83,886	\$ 20,923	\$ 298,490
Restricted assets - cash	<u>103,073</u>	<u>45,982</u>	<u>-</u>	<u>149,055</u>
Total cash and cash investments	<u>\$ 296,754</u>	<u>\$ 129,868</u>	<u>\$ 20,923</u>	<u>\$ 447,545</u>

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	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)	\$ (18,891)	\$ (89,693)	\$ (182)	\$ (108,766)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	42,370	164,132	-	206,502
(Increase) decrease in:				
Accounts receivable	713	(56)	-	657
Increase (decrease) in:				
Accounts payable	33	(1,921)	6,832	4,944
Other withholdings and payables	300	-	-	300
Customer deposits	864	-	-	864
Accrued liabilities	2,497	(1,425)	-	1,072
Net cash provided (used) by operating activities	<u>\$ 27,886</u>	<u>\$ 71,037</u>	<u>\$ 6,650</u>	<u>\$ 105,573</u>

CITY OF ELKTON, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

**Form of government** - The City of Elkton, Kentucky is incorporated under provisions of the Commonwealth of Kentucky. The City operates under a council - mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (streets and highways and cemetery), health and welfare, culture and recreation, public improvements, water 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, 2014, and had no material financial activities for the year then ended.

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation**

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

**Fund Accounting**

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

**Governmental Funds**

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

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

**Proprietary Funds**

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Measurement Focus**

**Government-wide and Proprietary Financial Statements**

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

**Fund Financial Statements**

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

This approach differs from the manner in which government-wide statements are presented; therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental 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 Position. The Statement of Changes in Fund Net Position presents increases (i.e. revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of the proprietary funds.

**C. Basis of Accounting**

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

**Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements, and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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

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

Unearned Revenue

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**D. Deposits and Investments**

For purposes of financial statement presentation, all highly liquid investments (including restricted cash 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;

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (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
- (f) Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency
- (h) Bonds or certificates of indebtedness of the state of Kentucky and of its agencies and instrumentalities
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- (j) Shares of mutual funds, each of which shall have the following characteristics:
  - 1. The mutual fund shall be an open-ended diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
  - 2. The management company of the investment company shall have been in operation for at least five years.
  - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section

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

**E. Prepaid items**

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items.

**F. Inventories**

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

**G. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received by the City.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 estimated 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, 2014 there were no infrastructure asset additions.

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

<u>Assets</u>	<u>Estimated Lives</u>
Buildings	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.

**H. Interfund Balances**

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

**I. Compensated Absences**

The City accrues vacation leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2014. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. Unearned Revenue**

Unearned revenue in the governmental funds represents grant proceeds received prior to meeting all eligibility requirements as of June 30, 2014.

**K. 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.

**L. Net Position**

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

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

**M. Fund Balances:**

Governmental funds classify fund balances in the following five components:

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

As of June 30, 2014, fund balance components other than unassigned fund balances are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General	\$ 1,948	\$ -	\$ 31,715	\$ 1,074,410	\$ 1,108,073
Other Funds	<u>-</u>	<u>256,140</u>	<u>309,674</u>	<u>-</u>	<u>565,814</u>
Total	<u>\$ 1,948</u>	<u>\$ 256,140</u>	<u>\$ 341,389</u>	<u>\$ 1,074,410</u>	<u>\$ 1,673,887</u>

**N. Interfund Activity**

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

**O. Estimates**

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

**P. Stewardship, Compliance and Accountability**

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

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

**Q. Accounts Receivable**

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**R. Restricted and Unrestricted Resources**

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

**S. New Pronouncements**

Effective for the fiscal year ending June 30, 2014, the City adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

**NOTE 2 – CASH AND INVESTMENTS**

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

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund.

These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the City, includes disclosure of the following:

- Risks related to custodial credit risk of bank deposits;

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2014, the carrying amount of City’s deposits (including certificates of deposit) was \$2,957,105 and the bank balance of \$2,962,562 was categorized as follows:

Insured by FDIC	\$ 250,664
Uninsured and collateralized with securities	
Held by the pledging financial institution’s	
Agent but not in the City’s name	2,711,898
Total	\$ 2,962,562

As of June 30, 2014, the City had petty cash on hand of \$757.

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.

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

**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, 2014 are as follows:

Real property - \$0.247	per \$100 value
Personal property - \$0.206	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 year end. The allowance account at June 30, 2014 is \$4,663.

**B. Mortgages Receivable**

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

**Mortgage loans** - Mortgage loans totaling \$80,974 have been granted through June 30, 2014. 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, 2014 was \$25,733 for loans made with funds from a grant for the Main Street project and \$40,108 for loans made with funds from a grant project for the Marion Street area.

**C. Utility Receivable**

The City maintains a utility fund for the billing and collecting of water, sewer and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2014, the balance of the receivable account is \$121,400 which consists of billings for June service billed in July. The City maintains a high level of collectability and therefore does not maintain an allowance against this amount.

Other receivables in the amount of \$14,406 consist of grants receivable due to the City at June 30, 2014.

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

**NOTE 4 – INTERFUND ACTIVITIES**

Individual fund activities at June 30, 2014 were as follows:

	Interfund Receivable	Interfund Payable	Interfund Transfers in	Interfund Transfers out
General fund	\$ 5,642	\$ (11,998)	\$ (3,065)	\$ 7,200
KLEFPF		(2,105)	-	-
RLF	11,998	-	-	-
Perpetual Care	-	(3,065)		3,065
Water fund	-	(40,504)	(7,200)	-
Sewer	33,628	(352)	-	-
Solid Waste	6,756	-	-	-
Total	<u>\$ 58,024</u>	<u>\$ (58,024)</u>	<u>\$ (10,265)</u>	<u>\$ 10,265</u>

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

**NOTE 5 – CONTINGENCIES**

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

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 - CLAIMS AND JUDGEMENTS**

The City is party to a pending suit as of June 30, 2014. While the outcome of this suit 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.

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

**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

<u>Government Activities</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
Capital Assets Not Being Depreciated:				
Land	\$ 130,545	\$ -	\$ -	\$ 130,545
Capital Assets Being Depreciated:				
Buildings & Improvements	1,135,998	44,255	-	1,180,253
Park and Land Improvements	650,499	625	-	651,124
Equipment	554,670	47,196	(10,476)	591,390
Vehicles	369,749	31,063	-	400,812
 Total Capital Assets	 <u>2,841,461</u>	 <u>123,139</u>	 <u>(10,476)</u>	 <u>2,954,124</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(384,677)	(37,597)	-	(422,274)
Park and Land Improvements	(151,724)	(30,659)	-	(182,383)
Equipment	(383,926)	(50,221)	8,774	(425,373)
Vehicles	(323,309)	(16,274)	-	(339,583)
 Total Accumulated Depreciation	 <u>(1,243,636)</u>	 <u>(134,751)</u>	 <u>8,774</u>	 <u>(1,369,613)</u>
 Governmental Activities - Capital Assets, net	 <u>\$ 1,597,825</u>	 <u>\$ (11,612)</u>	 <u>\$ (1,702)</u>	 <u>\$ 1,584,511</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 32,783
Public Safety	51,910
Public Works	<u>50,058</u>
 Total Depreciation Expense	 <u>\$ 134,751</u>

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

**NOTE 9 – CAPITAL ASSETS (continued)**

Business-Type Activities	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Construction in process	-	335,244	-	335,244
Capital Assets Being Depreciated:				
Plant & lines	8,568,663	4,200	(4,955)	8,567,908
Equipment	559,606	28,949	(148,258)	440,297
Vehicles	119,892	-	(18,250)	101,642
<b>Total Capital Assets</b>	<b>9,386,661</b>	<b>368,393</b>	<b>(171,463)</b>	<b>9,583,591</b>
Less Accumulated Depreciation				
Plant & lines	(3,207,278)	(185,362)	1,982	(3,390,658)
Equipment	(454,954)	(21,140)	148,120	(327,974)
Vehicles	(119,892)	-	18,250	(101,642)
<b>Total Accumulated Depreciation</b>	<b>(3,782,124)</b>	<b>(206,502)</b>	<b>168,352</b>	<b>(3,820,274)</b>
Business-Type Activities				
Capital Assets, net	<u>\$ 5,604,537</u>	<u>\$ 161,891</u>	<u>\$ (3,111)</u>	<u>\$ 5,763,317</u>

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

Water	\$ 42,370
Sewer	<u>164,132</u>
<b>Total Depreciation Expense</b>	<u><u>\$ 206,502</u></u>

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

**NOTE 10 – PENSION PLAN AND DEFERRED COMPENSATION**

**County Employees' Retirement System Plan Description:**

**Plan Description:**

The City is a participant in the County Employees' Retirement System (CERS), a cost sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Under the provision of Kentucky Revised Statute 61.645, the Board of trustees of Kentucky Retirement Systems administers the CERS. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 564-4646.

**Funding Policy:**

Hazardous position employees are required to contribute 8% to the plan and nonhazardous position employees are required to contribute 5% of their creditable compensation by State statute. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account. The City is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the years ended June 30, 2014, 2013 and 2012, the City contributed 35.70%, 37.60%, and 35.76%, respectively, of each hazardous employee's creditable compensation and 18.89%, 19.55%, and 18.96%, respectively, of each nonhazardous employee's creditable compensation. These actuarially determined rates are set by the Board of Trustees of Kentucky Retirement Systems.

Schedule of Employer Contributions are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
June 30, 2014	\$ 163,527	\$ 163,527	100%
June 30, 2013	\$ 148,268	\$ 148,268	100%
June 30, 2012	\$ 153,731	\$ 153,731	100%

**Postretirement Healthcare Benefits:**

In addition to the pension benefits described above, the Kentucky Retirement System (KRS) provides postretirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund.

For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more years	100%
15 - 19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

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

**NOTE 10 – PENSION PLAN AND DEFERRED COMPENSATION (continued)**

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participant on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years. The increases commenced with the 1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

**NOTE 11 – 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, 2014. The City is currently liable for compensated absences of the following:

	June 30, 2014
City of Elkton - General Fund	\$ 6,611
Water Fund	5,978
Sewer Fund	4,609
	\$ 17,198

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

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

**NOTE 12 – LONG-TERM OBLIGATIONS**

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Current</u>
<u>Governmental Activities:</u>					
Note Payable-KY Commission	\$ 3,986	\$ -	\$ 3,986	\$ -	\$ -
Note Payable - Elkton Bank & Trust	14,291	-	7,712	6,579	6,579
Note Payable - Elkton Bank & Trust	-	29,853	8,178	21,675	7,327
	<u>\$ 18,277</u>	<u>\$ 29,853</u>	<u>\$ 19,876</u>	<u>\$ 28,254</u>	<u>\$ 13,906</u>
 <u>Business-Type Activities:</u>					
KIA Loan \$808,000	\$ 632,933	\$ -	\$ 26,933	\$ 606,000	\$ 26,933
KIA Loan \$80,233	70,885	-	3,726	67,159	3,763
Bond Issue \$360,000	338,000	-	5,000	333,000	5,000
KIA Loan \$136,761	124,278	-	6,335	117,943	6,398
KIA Loan \$346,243	-	335,244	-	335,244	14,597
	<u>\$ 1,166,096</u>	<u>\$ 335,244</u>	<u>\$ 41,994</u>	<u>\$ 1,459,346</u>	<u>\$ 56,691</u>

Debt service requirement on long-term obligations at June 30, 2014 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 13,906	\$ 1,224	\$ 56,692	\$ 23,066
2016	7,639	690	57,550	22,514
2017	6,709	278	57,914	21,843
2018	-	-	58,284	21,173
2019	-	-	59,659	20,494
2020-2024	-	-	306,132	91,392
2025-2029	-	-	324,427	71,387
2030-2034	-	-	294,355	49,490
2035-2039	-	-	130,333	31,676
2040-2044	-	-	78,000	17,325
2045-2046	-	-	36,000	2,248
Totals	<u>\$ 28,254</u>	<u>\$ 2,192</u>	<u>\$ 1,459,346</u>	<u>\$ 372,608</u>

Interest expense for the year ended June 30, 2014

Governmental Activities:	\$ 884
Business-type Activities:	<u>17,280</u>
Total	<u>\$ 18,164</u>

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

**NOTE 12 – LONG-TERM OBLIGATIONS (continued)**

**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 \$7,535 including 3% interest through April 2015 and is secured by the vehicle.

**Note Payable – Elkton Bank & Trust**

The City purchased a new police car on December 2, 2011 and issued a note payable in the amount of \$30,000. This note is due in annual installments of \$8,325 including 4.250% interest through December 2014 and is secured by the vehicle.

**Note Payable – Elkton Bank & Trust**

The City purchased a new Ford Explorer on October 24, 2013 and issued a note payable in the amount of \$29,853. This note is due in annual installments of \$8,329 including 4.250% interest through October 2017 and is secured by the vehicle.

**Kentucky Infrastructure Authority Loan**

In December 2006, the city received a thirty year, 1% interest loan from the Kentucky Infrastructure Authority, in the amount of \$808,000 to retire the existing sewer bonds. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. Annual principal payments of \$26,933 will be required through December 2037. The loan requires the city to maintain a "Maintenance and Replacement Reserve" account. The account is to be funded on or before each payment date an amount equal to 10% of each loan payment until the amount on deposit is equal to 5% of the original principal amount of 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, 2014, the reserve account totaled \$21,511.

**City of Elkton Sewer System Revenue Bonds – Series 2007**

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

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

The City is required to transfer into the Sinking Fund an amount equal to one sixth of the next succeeding six-month interest payment and one twelfth of the principal maturing on the next succeeding principal payment date. In addition the City is required to transfer to the Depreciation Fund \$160 per month until \$19,200 has accumulated. As of June 30, 2014 the depreciation fund balance was \$14,271.

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

**NOTE 12 – LONG-TERM OBLIGATIONS (continued)**

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

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

**Kentucky Infrastructure Authority Loan**

On December 1, 2009 the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account had a June 30, 2014 balance of \$4,150.

**Kentucky Infrastructure Authority Loan**

In June 2011, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$136,761. The purpose of the agreement was to assist the city with the cost of the sewer line extension project completed in August 2011. The terms of the loan are 1% interest rate with a 20 year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account had a June 30, 2014 balance of \$10,200.

**Kentucky Infrastructure Authority Loan**

In October 2013, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$346,243. The purpose of the agreement was to assist the city with the cost of the Elkton, Todd County Water District Separation Project, to be completed in 2014. The terms of the loan are 1.75% interest rate with a 20 year payout. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$17,600. No contributions to the "M&R" account were required for the year ended June 30, 2014.

**NOTE 13 – 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.

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

**NOTE 14 – LEASES**

The City of Elkton rents a building to the Todd County Water District. The agreement sets forth a monthly rental arrangement and is renewed monthly.

The following is an analysis of property referred to above at June 30, 2014:

Buildings	\$ 252,000
Less: Accumulated Depreciation	85,050
Net Book Value	<u><u>\$ 166,950</u></u>

Depreciation expense for the year ended June 30, 2014 on property leased to others was \$6,300.

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 15 – PRIOR PERIOD ADJUSTMENT**

For the year ended June 30, 2014 certain old, outstanding items were removed from the city's ledgers creating a change in net position. The city removed \$3,356 in outstanding items causing an increase of book cash, net position and fund balance of \$3,356.

For the year ended June 30, 2013 the City adopted GASB Statement No. 65. In accordance with this statement the City recorded all their receivables on the governmental fund level and recorded the unavailable portion to show the portion of receivables beyond 60 days. The change in recording the receivables and unavailable revenue created a change in net position and fund balance. Net position decreased by \$14,033 while fund balance increased by \$3,478.

**NOTE 16 – DEFERRED INFLOWS OF RESOURCES**

Effective for the fiscal year ending June 30, 2014, the City adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In addition to liabilities, the statement of net position/balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as revenue until that time. The City has one type of item that arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet as deferred inflows of resources.

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance - Favorable
	Original	Final		(Unfavorable)
<b>Revenues:</b>				
Taxes	\$ 1,076,500	\$ 1,067,200	\$ 1,083,317	\$ 16,117
Licenses and permits	88,100	85,100	86,698	1,598
Intergovernmental revenues	196,950	71,955	27,699	(44,256)
Charges for services	14,300	14,300	27,812	13,512
Interest income	14,000	18,500	18,841	341
Other income	38,200	42,200	11,453	(30,747)
<b>Total revenues</b>	<u>1,428,050</u>	<u>1,299,255</u>	<u>1,255,820</u>	<u>(43,435)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	426,650	511,400	446,328	65,072
Public works	153,300	136,200	173,968	(37,768)
Public safety	606,780	570,080	535,896	34,184
Culture and recreation	56,524	57,424	21,809	35,615
Capital outlay	296,500	117,100	123,138	(6,038)
<b>Debt service:</b>				
Principal	4,000	4,000	19,876	(15,876)
Interest	100	100	884	(784)
<b>Total expenditures</b>	<u>1,543,854</u>	<u>1,396,304</u>	<u>1,321,899</u>	<u>74,405</u>
<b>Revenues over (under) expenditures</b>	<u>(115,804)</u>	<u>(97,049)</u>	<u>(66,079)</u>	<u>30,970</u>
<b>Other financing sources (uses):</b>				
Debt proceeds	-	-	29,853	29,853
Operating transfers in	57,100	2,100	3,065	965
Operating transfers out	(10,700)	(10,700)	(7,200)	3,500
<b>Total other financing sources (uses)</b>	<u>46,400</u>	<u>(8,600)</u>	<u>25,718</u>	<u>34,318</u>
<b>Net change in fund balance</b>	<u>\$ (69,404)</u>	<u>\$ (105,649)</u>	<u>(40,361)</u>	<u>\$ 65,288</u>
Fund balance, beginning of year (restated)			<u>1,148,434</u>	
Fund balances, end of year			<u>\$ 1,108,073</u>	



**THURMAN CAMPBELL GROUP, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Members:

American Institute of  
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Kentucky Society of  
Certified Public Accountants

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

To the City Council  
City of Elkton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Elkton, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Elkton, Kentucky's basic financial statements and have issued our report thereon dated December 15, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency 2014-1 described in the accompanying schedule of findings and responses to be a material weakness.

**Compliance and Other Matters**

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

### **City of Elkton, Kentucky's Response to Findings**

City of Elkton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Elkton, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Thurman Campbell Group, PLC*

Hopkinsville, Kentucky  
December 15, 2014

CITY OF ELKTON, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014

**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 material weakness relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of City of Elkton, Kentucky were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

2014-1 Accounting:

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

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

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

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

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