

CITY OF ELKTON, KENTUCKY
BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2013
And
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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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, 2013, 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, 2013, 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 - 12 and 42 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 November 5, 2013, 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

Princeton, Kentucky
November 5, 2013

**CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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, 2013, the City's assets exceeded liabilities for total net position of \$8,958,284.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$116,947 to a June 30, 2013 balance of \$1,657,468. Of this amount, \$1,113,101 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2013 totaled \$5,703,757, a decrease of \$70,990 from the prior year.
- The City's general fund balance as of June 30, 2013 was \$1,141,601, an increase of \$86,563 over the prior year. Of the total fund balance, \$1,113,101 is unassigned. The unassigned general fund balance represents 86% 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 \$7,276,630.

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.

Fund financial statements

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

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

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

The City maintains several individual accounts 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. Data in the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net 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 \$3,254,527. Business-type activity assets exceeded liabilities by \$5,703,757 for total net position of \$8,958,284 as of June 30, 2013.

Net Position of Governmental and Business-Type Activities						
June 30, 2013						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	1,722,530	1,667,664	1,422,009	1,362,049	3,144,539	3,029,713
Capital assets	1,597,825	1,611,442	5,604,538	5,799,688	7,202,363	7,411,150
Total assets	3,320,355	3,279,106	7,026,547	7,161,737	10,346,902	10,440,843
LIABILITIES						
Other liabilities	59,189	63,143	198,687	220,889	257,876	284,032
Long-term liabilities	6,639	19,783	1,124,103	1,166,098	1,130,742	1,185,881
Total liabilities	65,828	82,926	1,322,790	1,386,987	1,388,618	1,469,913
NET POSITION						
Invested in capital assets (net of related debt)	1,579,548	1,577,222	4,438,441	4,591,696	6,017,989	6,168,918
Restricted assets	264,566	278,274	1,011,765	991,824	1,276,331	1,270,098
Unrestricted assets	1,410,413	1,340,685	253,551	191,227	1,663,964	1,531,912
Total net assets	\$ 3,254,527	\$ 3,196,181	\$ 5,703,757	\$ 5,774,747	\$ 8,958,284	\$ 8,970,928

In the City as a whole, the largest portion of net position, \$6,017,989 or 67%, 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 \$3,254,527, with \$1,579,548 or 49% being invested in capital assets and \$1,410,413 or 43% unrestricted. The unrestricted net position of governmental funds include fund balances of the General Fund and various special

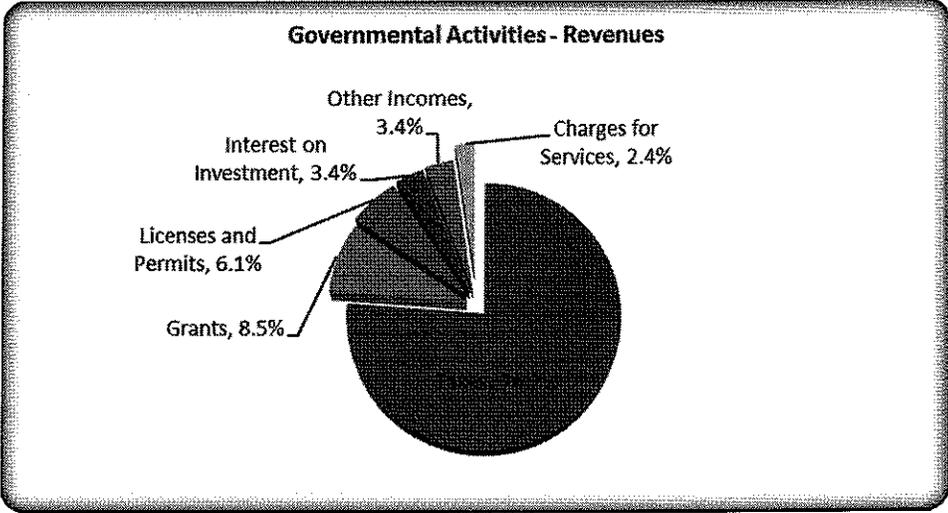
revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities are \$5,703,757. Of these net assets, \$4,438,441 or 78% is invested in capital assets and there is an unrestricted balance of \$253,551 or 4%.

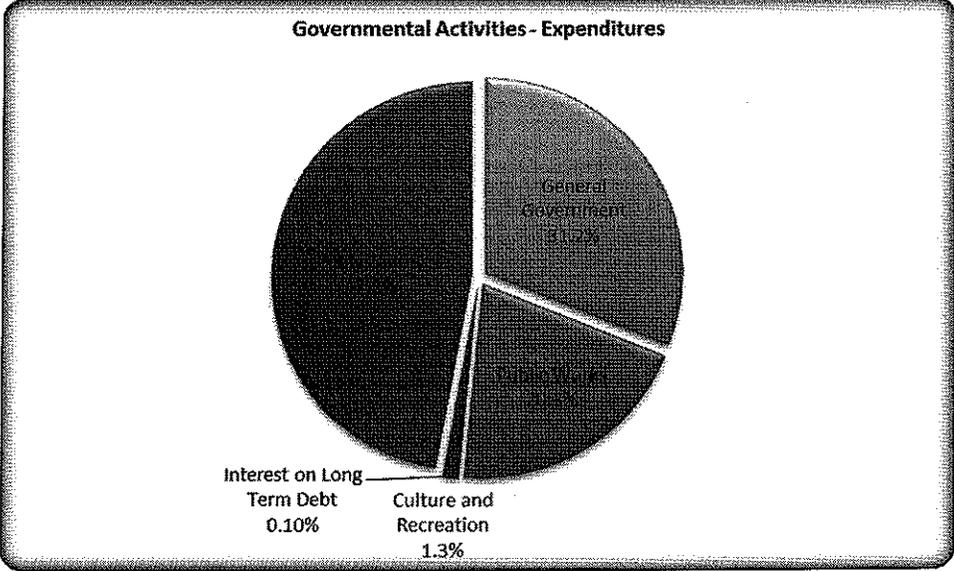
City of Elkton Changes in Net Position						
June 30, 2013						
	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services	32,205	27,542	990,163	1,025,141	1,022,368	1,052,683
Operating Grants and Contributions	86,820	88,579			86,820	88,579
Capital Grants and Contributions					-	-
General Revenues:						
Taxes	1,038,458	1,069,062			1,038,458	1,069,062
Licenses and Permits	82,950	86,974			82,950	86,974
Grants and Contributions not restricted						
to Specific Programs	29,426	87,263			29,426	87,263
Interest on Investments	46,059	45,419	35,114	33,042	81,173	78,461
Gain on Sale of Fixed Assets	(753)	(3,010)		10,296	(753)	7,286
Other Income	14,606	46,790	17,656	19,565	32,262	66,355
Transfers	(7,200)	(7,200)	7,200	7,200	-	-
Special - Contribution to Permanent Fund	39,550				39,550	-
Total Revenues	1,362,121	1,441,419	1,050,133	1,095,244	2,412,254	2,536,663
Expenditures:						
General Government	406,019	423,282			406,019	423,282
Public Safety	614,750	610,582			614,750	610,582
Public Works	264,696	299,256			264,696	299,256
Community Development		-			-	-
Culture and Recreation	16,589	64,954			16,589	64,954
Interest on Long Term Debt	1,276	601			1,276	601
Water			475,025	505,123	475,025	505,123
Sewer			564,112	580,322	564,112	580,322
Solid Waste			81,986	81,942	81,986	81,942
Total Expenditures	\$ 1,303,330	\$ 1,398,675	\$ 1,121,123	\$ 1,167,387	\$ 2,424,453	\$ 2,566,062
Change in Net Position	58,791	42,744	(70,990)	(72,143)	(12,199)	\$ (29,399)
Net Position, Beginning of Year	3,195,736	3,152,992	5,774,747	5,846,890	8,970,483	8,999,882
Net Position, End of Year	\$ 3,254,527	\$ 3,195,736	\$ 5,703,757	\$ 5,774,747	\$ 8,958,284	\$ 8,970,483

Governmental Activities

Revenues for the City's governmental activities totaled \$1,362,121. Taxes, which primarily include property and payroll taxes, totaled \$1,038,458, or 76.2% of total revenue. Grants totaled \$116,246 and accounted for about 8.5% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$82,950 or 6.1% of the total. Interest on investments totaled \$46,059, or about 3.4% of revenues. Other incomes totaled \$46,203, or 3.4% of revenues. Finally, charges for services accounted for 2.4% of revenues at \$32,205.

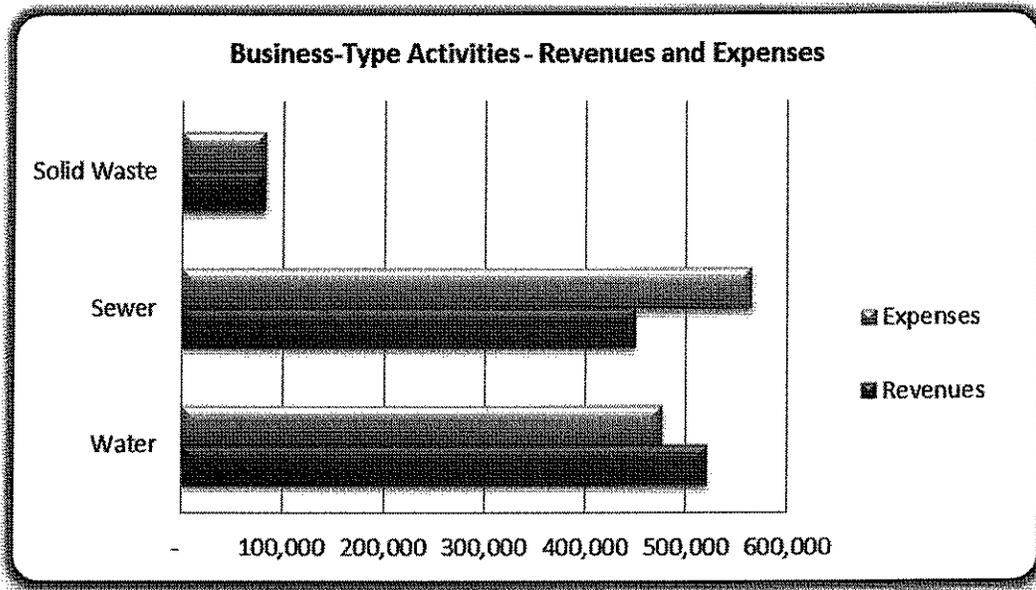


Total expenses of the City's governmental activities were \$1,303,330. The largest expenditure at 47.2% of total expenses (\$614,750) was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled \$406,019 or 31.2% of expenses. Public works was third and totaled \$264,696, or 20.3%. Culture and recreation expenses totaled \$16,589, or 1.3% of the total. Finally, interest on long term debt totaled \$1,276, or .10% of total expenditures.



Business-type Activities

Revenues for business-type activities totaled \$1,050,133 for the fiscal year ended June 30, 2013. Of this total, 94% of total revenue received was from Charges for Services in the amount of \$990,163. Interest income accounted for 3% of total revenues, or \$35,114. Expenses for business-type activities totaled \$1,121,123. Water department expenses accounted for \$475,025 of total expenditures, or 42.4%. Sewer department expenses accounted for 50.3% of total expenses, or \$564,112. Finally, the solid waste department accounted for 7.3% of total business-type activities expenditures with \$81,986 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, 2013 reflect a combined ending fund balance of \$1,657,468, an increase of about \$116,947 from the prior year. Of the total fund balance, \$1,285,182 is unassigned and is available for spending at the City's discretion. The remainder (\$372,286) 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 \$1,141,601, which is an increase of \$86,563 from the prior year. Of the total General Fund balance, 97.5% (\$1,113,101) 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 86% of total general fund revenues.

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

General Fund - Revenues by Source						
Revenues by Source	FY 2013		FY 2012		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
Taxes	\$1,033,060	80.1%	\$1,068,269	81.2%	\$ (35,209)	-3.30%
Licenses and Permits	83,500	6.5%	87,774	6.7%	(4,274)	-4.87%
Intergovernmental Revenues	87,914	6.8%	67,863	5.2%	20,051	29.55%
Charges for Services	17,137	1.3%	17,774	1.4%	(637)	-3.58%
Interest Income	35,361	2.7%	34,391	2.6%	970	2.82%
Other Income	33,552	2.6%	7,727	0.6%	25,825	334.22%
Total Revenues	\$1,290,524	100.1%	\$1,283,798	97.5%	\$ 6,726	0.52%
Total Other Financing (uses)	(733)	-0.1%	32,560	2.5%	(33,293)	-102.25%
Total Revenues and Other Financing (uses)	\$1,289,791	100.0%	\$1,316,358	100.0%	\$ (26,567)	-2.02%

- The General Fund saw about a 2% decrease in total revenue and other financing sources over last year.
- The largest percentage increase in revenue came from Other Income, which increased by 334%, or \$25,825 over last year. Intergovernmental Revenues also increased in the amount of \$20,051, or about 30% over last year.
- The largest total decrease in revenue was a \$35,209 decrease in Taxes. The largest percentage decrease was in Licenses and Permits, with a 5% decrease over last year, or about \$4,274. These decreases in revenue are mainly attributed to the lack of large construction projects in the city. Over the last 7-8 years, the construction of a new jail and the Justice Center, both of which are now completed, has boosted occupational tax revenue in the city in previous years.

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

General Fund - Expenditures by Function						
Expenditures by Function	FY 2013		FY 2012		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
General Government	\$ 358,547	29.8%	\$ 372,158	27.0%	\$ (13,611)	-3.66%
Public Works	190,400	15.8%	204,734	14.9%	(14,334)	-7.00%
Public Safety	527,636	43.9%	514,776	37.4%	12,860	2.50%
Culture and Recreation	19,981	1.7%	63,679	4.6%	(43,698)	-68.62%
Capital Outlay	89,444	7.4%	201,005	14.6%	(111,561)	-55.50%
Debt Service	17,220	1.4%	20,490	1.5%	(3,270)	-15.96%
Total Expenditures	\$ 1,203,228	100.0%	\$ 1,376,842	100.0%	\$ (173,614)	-12.61%

- Overall, General Fund expenditures decreased by about 13%, a total of \$173,614 less than last year.

- The only increase in expenditures at 3% was in the area of Public Safety with an increase in expenditures of \$12,860 over last year.
- The largest total decrease in expenditures was a \$111,561 decrease in Capital Outlay expenditures. The cause of the decrease was the receipt of several grants for equipment for the police and fire departments and the purchase of a building on South Allen Street in the previous year.
- The largest percentage decrease was in Culture and Recreation. The city spent 69% less, or about \$43,698 less than last year. This decrease was due to completion of renovation of the City-County Park restroom/concession building in the previous 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 one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for water, sewer and solid waste management.

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

Proprietary Funds								
Statement of Revenues, Expenses and Changes in Fund Net Position								
	Water		Sewer		Solid Waste		Total	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Operating Revenues	\$ 497,542	\$ 532,852	\$ 428,682	\$ 429,722	\$ 81,595	\$ 82,132	\$ 1,007,819	\$ 1,044,706
Operating Expenses	474,104	504,157	548,777	564,977	81,986	81,942	1,104,867	1,151,076
Operating Income (loss)	23,438	28,695	(120,095)	(135,255)	(391)	190	(97,048)	(106,370)
Non-operating revenues (expenses)	14,166	11,698	4,300	14,855	392	474	18,858	27,027
Income (loss) before transfers	37,604	40,393	(115,795)	(120,400)	1	664	(78,190)	(79,343)
Transfer in (out)	7,200	7,200	-	-	-	-	7,200	7,200
Net income (loss)	\$ 44,804	\$ 47,593	\$ (115,795)	\$ (120,400)	\$ 1	\$ 664	\$ (70,990)	\$ (72,143)
Net Position, beginning of year	1,216,966	1,169,373	4,536,909	4,657,309	20,872	20,208	5,774,747	6,014,420
Net Position, end of year	\$1,261,770	\$1,216,966	\$4,421,114	\$4,536,909	\$ 20,873	\$ 20,872	\$ 5,703,757	\$ 5,774,747

- 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 \$35,310. This decrease in operating revenue was due to an unexpected decrease in water sales. The water fund also saw a decrease in operating expenditures by \$30,053. Overall, the water fund saw a net gain of \$44,804. The net position of the water fund as of June 30, 2013 increased to a total of \$1,261,770.
- 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 a decrease of \$1,040 over the previous year, while operating expenses also decreased by \$16,200. As of June 30, 2013, the sewer fund saw a net loss of \$115,795 for a net position of \$4,421,114.
- 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 \$1. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2013 for the solid waste fund are \$20,873.

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 10.9%, or \$157,716. The total expenditure budget was decreased by \$114,914 or approximately 8%. 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 (Public Works) because construction of the South Streets Avenue Sidewalk Project was expected to begin in FY2013, however was delayed.

For the year, general fund actual revenues and other financing sources came in about \$1,857 more than expected. Actual expenditures were \$122,508 less than expected, or nearly 9.2% below budgetary estimates.

CAPITAL ASSETS

The City's capital assets (net of depreciation) for governmental activities as of June 30, 2013 totaled \$1,597,825 an decrease of \$13,616 over last year. For business-type activities, total capital assets amount to \$5,604,538, a decrease of \$195,151 over last year. The City's total capital assets as of June 30, 2013 decreased by \$208,767 over last year for a net capital assets of \$7,202,363.

City of Elkton Capital Assets			
As of June 30, 2013			
	Governmental	Business-Type	
	Activities	Activities	Totals
Land	130,545	138,500	269,045
Park and Land Improvements	498,775		498,775
Buildings and Improvements	751,321		751,321
Equipment	170,744	104,652	275,396
Vehicles	46,440	1	46,441
Plant and Lines		5,361,385	5,361,385
Construction in Progress			-
Total	\$ 1,597,825	\$ 5,604,538	\$ 7,202,363

DEBT ADMINISTRATION

At the end of the fiscal year, the City had a total outstanding debt of \$1,184,374. Of the total debt, \$18,277 is payable from the City's General Fund. \$3,986 of this debt is from a low interest loan made in 2003 with the Kentucky Fire Commission to purchase a new fire truck.

The City has committed its portion of State Fire Aid revenue through fiscal year 2014 to pay off this debt. The remaining General Fund debt in the amount of \$14,291 is from the purchase of a 2012 Ford Explorer that was purchased in November 2011 for the Police Department.

The largest portion of the City's long-term debt in the amount of \$632,934 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 \$70,885 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 \$338,000 from the 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project. Finally, the sewer system received a 1% interest loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$124,278 as of June 30, 2013.

City of Elkton Outstanding Debt			
As of June 30, 2013			
	Governmental	Business	
	Activities	Activities	Totals
Notes Payable:			
2012 Ford Explorer	14,291		14,291
Fire Truck Low Interest Loan	3,986		3,986
Revenue Bonds:			
KIA Loan - Water Meter Project		70,885	70,885
Rural Development Loan - Sewer Plant		338,000	338,000
KIA Loan - Sewer Plant Debt Retirement		632,934	632,934
KIA Loan - Sewer Extension Projects		124,278	124,278
Total	\$ 18,277	\$ 1,166,097	\$ 1,184,374

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. 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 10% water loss in the city is highly unlikely.

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, 2013

ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash	\$ 495,083	\$ 288,181	\$ 783,264
Investments	899,037	-	899,037
Receivables:			
Taxes (net of allowance for uncollectible)	16,139	-	16,139
Accounts	-	122,063	122,063
Other	27,617	-	27,617
Prepaid expenses	1,948	-	1,948
Total current assets	<u>1,439,824</u>	<u>410,244</u>	<u>1,850,068</u>
Restricted assets:			
Restricted cash	18,140	249,830	267,970
Restricted investments	190,299	761,935	952,234
Total restricted assets	<u>208,439</u>	<u>1,011,765</u>	<u>1,220,204</u>
Noncurrent assets:			
Mortgages receivable	74,267	-	74,267
Capital Position (not being depreciated)	130,545	138,500	269,045
Capital Position (net of accumulated depreciation)	1,467,280	5,466,038	6,933,318
Total noncurrent assets	<u>1,672,092</u>	<u>5,604,538</u>	<u>7,276,630</u>
Total assets	<u>3,320,355</u>	<u>7,026,547</u>	<u>10,346,902</u>
LIABILITIES			
Current liabilities:			
Accounts payable	23,326	32,189	55,515
Accrued liabilities	24,225	26,192	50,417
Customer deposits	-	98,312	98,312
Current maturities of long-term debt	11,638	41,994	53,632
Total current liabilities	<u>59,189</u>	<u>198,687</u>	<u>257,876</u>
Noncurrent liabilities:			
Long-term debt	6,639	1,124,103	1,130,742
Total noncurrent liabilities	<u>6,639</u>	<u>1,124,103</u>	<u>1,130,742</u>
Total liabilities	<u>65,828</u>	<u>1,322,790</u>	<u>1,388,618</u>
NET POSITION			
Net investment in capital assets	1,579,548	4,438,441	6,017,989
Restricted for:			
Mortgages receivable	74,267	-	74,267
Cemetery perpetual care:			
Nonexpendable	190,299	-	190,299
Special fund	-	1,011,765	1,011,765
Unrestricted	<u>1,410,413</u>	<u>253,551</u>	<u>1,663,964</u>
Total net position	<u>\$ 3,254,527</u>	<u>\$ 5,703,757</u>	<u>\$ 8,958,284</u>

CITY OF ELKTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Government activities:					
General government	\$ 406,019	\$ 157	\$ (392,925)	\$ -	\$ (392,925)
Public safety	614,750	8,250	(587,232)	-	(587,232)
Public works	264,696	78,314	(186,382)	-	(186,382)
Culture and recreation	16,589	99	(16,490)	-	(16,490)
Interest on long term debt	1,276	-	(1,276)	-	(1,276)
Total government activities	1,303,330	86,820	(1,184,305)	-	(1,184,305)
Business-type activities:					
Water	475,025	-	-	4,861	4,861
Sewer	564,112	-	-	(135,430)	(135,430)
Solid Waste	81,986	-	-	(391)	(391)
Total business activities	1,121,123	-	-	(130,960)	(130,960)
Total city	\$ 2,424,453	\$ 86,820	(1,184,305)	(130,960)	(1,315,265)
General revenues:					
Taxes			1,038,458	-	1,038,458
Licenses and permits			82,950	-	82,950
Grants and contributions not restricted to specific programs			29,426	-	29,426
Interest on investments			46,059	35,114	81,173
Gain (loss) on sale of fixed Position			(753)	-	(753)
Other income			14,606	17,656	32,262
Extraordinary revenue					
Contribution of CDBG property			39,550	-	39,550
Total general revenues, transfers, and extraordinary items			1,250,296	52,770	1,303,066
Transfers			(7,200)	7,200	-
Change in net position			58,791	(70,990)	(12,199)
Net position, beginning			3,195,736	5,774,747	8,970,483
Net position, ending			\$ 3,254,527	\$ 5,703,757	\$ 8,958,284

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2013

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 254,911	\$ 240,172	\$ 495,083
Investments	899,037	-	899,037
Receivables:			
Taxes	611	-	611
Other	18,863	6,771	25,634
Prepaid expenses	1,948	-	1,948
Mortgages receivable	-	74,267	74,267
Due from other funds	2,350	6,707	9,057
Restricted cash	18,138	1	18,139
Restricted investments	-	190,299	190,299
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,195,858</u>	<u>\$ 518,217</u>	<u>\$ 1,714,075</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Accounts payable	\$ 23,326	\$ -	\$ 23,326
Accrued liabilities	24,224	-	24,224
Due to other funds	6,707	2,350	9,057
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>54,257</u>	<u>2,350</u>	<u>56,607</u>
 Fund Balance:			
Nonspendable:			
Prepaid expenses	1,948	-	1,948
Restricted	-	370,338	370,338
Committed	26,552	145,529	172,081
Unassigned	1,113,101	-	1,113,101
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,141,601</u>	<u>515,867</u>	<u>1,657,468</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 1,195,858</u>	<u>\$ 518,217</u>	<u>\$ 1,714,075</u>

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balance - total government funds \$ 1,657,468

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

Capital assets (net of depreciation) used in governmental activities are not
financial resources and therefore are not reported in the funds. 1,597,825

Certain imposed nonexchange receivables (property taxes and fire runs) were not
recognized in the funds because they were not available at June 30, 2013. 17,511

Long-term liabilities are not due and payable in the current period and therefore
are not reported in the funds. (18,277)

Net position of governmental activities \$ 3,254,527

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,033,060	\$ -	\$ 1,033,060
Licenses and permits	83,500	-	83,500
Intergovernmental revenues	87,914	78,314	166,228
Charges for services	17,137	-	17,137
Interest income	35,361	10,698	46,059
Other income	33,552	100	33,652
Total revenues	1,290,524	89,112	1,379,636
Expenditures:			
Current:			
General government	358,547	-	358,547
Public works	190,400	25,543	215,943
Public safety	527,636	26,718	554,354
Culture and recreation	19,981	-	19,981
Capital outlay	89,444	-	89,444
Debt service:			
Principal	15,944	-	15,944
Interest	1,276	-	1,276
Total expenditures	1,203,228	52,261	1,255,489
Excess of revenues over expenditures	87,296	36,851	124,147
Other financing sources (uses):			
Operating transfers in	6,467	-	6,467
Operating transfers out	(7,200)	(6,467)	(13,667)
Total other financing (uses)	(733)	(6,467)	(7,200)
Net change in fund balance	86,563	30,384	116,947
Fund balance, beginning of year	1,055,038	485,483	1,540,521
Fund balance, end of year	\$ 1,141,601	\$ 515,867	\$ 1,657,468

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, 2013

Net change in fund balance - total governmental funds \$ 116,947

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 (\$141,859) was more than the capital outlays and disposals
 (net of related loss) of \$128,242 in the current period. (13,617)

Revenues in the statement of activities that do not provide current financial
 resources are not reported as revenues in the funds. (60,483)

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. 15,944

Change in net position of governmental activities \$ 58,791

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
ASSETS				
Current assets:				
Cash	\$ 186,672	\$ 87,357	\$ 14,152	\$ 288,181
Accounts receivable	122,057	-	-	122,057
Due from other funds	-	32,935	6,722	39,657
Total current assets	<u>308,729</u>	<u>120,292</u>	<u>20,874</u>	<u>449,895</u>
Restricted Assets:				
Restricted cash	100,818	149,012	-	249,830
Restricted cash - CD	361,935	400,000	-	761,935
Total restricted Assets	<u>462,753</u>	<u>549,012</u>	<u>-</u>	<u>1,011,765</u>
Noncurrent Assets:				
Capital assets (not being depreciated)	55,000	83,500	-	138,500
Capital assets (net of accumulated depreciation)	675,155	4,790,883	-	5,466,038
Total noncurrent assets	<u>730,155</u>	<u>4,874,383</u>	<u>-</u>	<u>5,604,538</u>
Total assets	<u>\$ 1,501,637</u>	<u>\$ 5,543,687</u>	<u>\$ 20,874</u>	<u>\$ 7,066,198</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 22,099	\$ 10,093	\$ -	\$ 32,192
Accrued liabilities	8,919	17,272	-	26,191
Due to other funds	39,657	-	-	39,657
Payable from restricted cash - customer deposits	98,312	-	-	98,312
Current portion of note	3,726	38,268	-	41,994
Total current liabilities	<u>172,713</u>	<u>65,633</u>	<u>-</u>	<u>238,346</u>
Noncurrent liabilities:				
Note payable	67,158	1,056,945	-	1,124,103
Total liabilities	<u>239,871</u>	<u>1,122,578</u>	<u>-</u>	<u>1,362,449</u>
NET POSITION				
Net investment in capital assets	659,271	3,779,170	-	4,438,441
Restricted for:				
Special fund (expendable)	462,753	549,012	-	1,011,765
Unrestricted	139,746	92,932	20,873	253,551
Total of net position	<u>\$ 1,261,770</u>	<u>\$ 4,421,114</u>	<u>\$ 20,873</u>	<u>\$ 5,703,757</u>

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	
Operating Revenues:				
Charges for services	\$ 479,886	\$ 428,682	\$ 81,595	\$ 990,163
Miscellaneous	17,656	-	-	17,656
Total operating revenue	497,542	428,682	81,595	1,007,819
Operating expenses:				
Personal services	160,175	197,289	-	357,464
Purchased water	205,600	-	-	205,600
Materials and supplies	65,267	174,417	-	239,684
Depreciation	43,062	175,507	-	218,569
Contractual services	-	1,564	81,986	83,550
Total Operating Expenses	474,104	548,777	81,986	1,104,867
Operating income (loss)	23,438	(120,095)	(391)	(97,048)
Nonoperating revenue (expenses):				
Interest income	15,087	19,635	392	35,114
Interest expense	(921)	(15,335)	-	(16,256)
Total nonoperating revenues (expenses)	14,166	4,300	392	18,858
Income (loss) before transfers	37,604	(115,795)	1	(78,190)
Transfer in	7,200	-	-	7,200
Total change in net position	44,804	(115,795)	1	(70,990)
Net position, beginning of year (restated)	1,216,966	4,536,909	20,872	5,774,747
Net position, end of year	\$ 1,261,770	\$ 4,421,114	\$ 20,873	\$ 5,703,757

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Water	Sewer	Solid Waste	
Cash flows from operating activities:				
Cash received from customers	\$ 499,449	\$ 428,682	\$ 81,595	\$ 1,009,726
Cash payments for operating expenses	(285,420)	(178,755)	(81,986)	(546,161)
Cash payments to employees	(161,424)	(198,743)	-	(360,167)
Net cash provided (used) by operating activities	<u>52,605</u>	<u>51,184</u>	<u>(391)</u>	<u>103,398</u>
Cash flows from non-capital financing activities:				
Operating transfers in/out from other funds	<u>8,077</u>	<u>(689)</u>	<u>(188)</u>	<u>7,200</u>
Net cash provided (used) by noncapital financing activities	<u>8,077</u>	<u>(689)</u>	<u>(188)</u>	<u>7,200</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(5,336)	(18,092)	-	(23,428)
Principal paid on long-term debt	(3,689)	(38,206)	-	(41,895)
Interest paid on long term debt	(921)	(15,335)	-	(16,256)
Net cash provided (used) by capital and related financing activities	<u>(9,946)</u>	<u>(71,633)</u>	<u>-</u>	<u>(81,579)</u>
Cash flows from investing activities:				
Interest on cash and investments	<u>15,087</u>	<u>19,635</u>	<u>392</u>	<u>35,114</u>
Net cash provided by investing activities	<u>15,087</u>	<u>19,635</u>	<u>392</u>	<u>35,114</u>
Net (decrease) increase in cash and cash equivalents	65,823	(1,503)	(187)	64,133
Cash and cash equivalents, beginning of year	<u>583,602</u>	<u>637,872</u>	<u>14,339</u>	<u>1,235,813</u>
Cash and cash equivalents, end of year	<u>\$ 649,425</u>	<u>\$ 636,369</u>	<u>\$ 14,152</u>	<u>\$ 1,299,946</u>
Reconciliation of total cash and cash investments:				
Current assets - cash	\$ 186,672	\$ 87,357	\$ 14,152	\$ 288,181
Restricted assets - cash	<u>462,753</u>	<u>549,012</u>	<u>-</u>	<u>1,011,765</u>
Total cash and cash investments	<u>\$ 649,425</u>	<u>\$ 636,369</u>	<u>\$ 14,152</u>	<u>\$ 1,299,946</u>

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2013

	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)	\$ 23,438	\$ (120,095)	\$ (391)	\$ (97,048)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	43,061	175,507	-	218,568
(Increase) decrease in:				
Accounts receivable	(148)	-	-	(148)
Prepaid expense	1,804	2,524	-	4,328
Increase (decrease) in:				
Accounts payable	(14,329)	(5,298)	-	(19,627)
Other withholdings and payables	(1,249)	(1,854)	-	(3,103)
Customer deposits	2,055	-	-	2,055
Accrued liabilities	(2,027)	400	-	(1,627)
Net cash provided (used) by operating activities	<u>\$ 52,605</u>	<u>\$ 51,184</u>	<u>\$ (391)</u>	<u>\$ 103,398</u>

CITY OF ELKTON, KY
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 more significant accounting policies are described below.

A. Reporting Entity

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

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

Excluded from the reporting entity:

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

These units have no assets, liabilities and fund equity at June 30, 2013, 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 as a component unit from these financial statements because the City is not financially accountable over this agency and the agency is fiscally independent of the City of Elkton.

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

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

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

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

Fund Financial Statements – The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and 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.

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

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

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

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

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 government fund statements.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net 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.

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements, and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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.

Deferred Revenue

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

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;
- (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 of local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- (j) Shares of mutual funds, each of which shall have the following characteristics:
 - 1. The mutual fund shall be an open-ended diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - 2. The management company of the investment company shall have been in operation for at least five years.

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013 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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received by the City. The City maintains a capitalization policy of \$250. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The City capitalizes interest cost incurred as part of the cost of constructing fixed assets, when material. All reported assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets.

The City was not required to capitalize infrastructure assets used in general government operations including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to July 1, 2003. Infrastructure assets acquired since July 1, 2003 will be recorded at cost, and classified as "Infrastructure". As allowed by accounting principles generally accepted in the United States, the City has elected not to record infrastructure values retroactively. For the year ended June 30, 2013 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/Balance Sheet. Depreciation is computed using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Estimated Lives</u>
Land	N/A
Buildings	30 years
Equipment	7-10 years
Vehicles	5 years
Utility Plant	50 years

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013. The entire compensated absence liability is reported on the government-wide financial statements.

J. Unearned Revenue

Unearned revenue in the governmental funds represents grant proceeds received prior to meeting all eligibility requirements as of June 30, 2013.

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.

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Position

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

- Invested in capital assets, net of related debt – 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 “invested in capital assets, net of related debt”.

M. Fund Balances:

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

As of June 30, 2013, 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	\$ -	\$ 26,552	\$ 1,113,101	\$ 1,141,601
Other Funds	<u>-</u>	<u>370,338</u>	<u>145,529</u>	<u>-</u>	<u>515,867</u>
Total	<u>\$ 1,948</u>	<u>\$ 370,338</u>	<u>\$ 172,081</u>	<u>\$ 1,113,101</u>	<u>\$ 1,657,468</u>

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Interfund Activity

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

O. Estimates

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

P. Stewardship, Compliance and Accountability

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

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

Q. Accounts Receivable

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

NOTE 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.

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 – CASH AND INVESTMENTS (continued)

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

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

- Risks related to custodial credit risk of bank deposits;
- Interest rate risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2013, the carrying amount of City’s deposits (including certificates of deposit) was \$2,901,797 and the bank balance of \$2,926,016 was categorized as follows:

Insured by FDIC	\$	348,524
Uninsured and collateralized with securities Held by the pledging financial institution’s Agent but not in the City’s name		2,577,492
Total	\$	2,926,016

As of June 30, 2013, the City had petty cash on hand of \$708.

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

NOTE 3 – RECEIVABLES

A. Property Taxes

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City’s tax rates for the year ended June 30, 2013 are as follows:

Real property - \$0.236	per \$100 value
Personal property - \$0.247	per \$100 value
Motor Vehicles and Watercraft - \$0.303	per \$100 value

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 – RECEIVABLES (Continued)

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, 2013 is \$31,304.

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, 2013. 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, 2013 was \$29,537 for loans made with funds from a grant for the Main Street project and \$44,730 for loans made with funds from a grant project for the Marion Street area.

NOTE 4 – INTERFUND ACTIVITIES

Individual fund activities at June 30, 2013 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Transfers in</u>	<u>Interfund Transfers out</u>
General fund		\$ (6,707)		\$ 7,200
KLEFPF	2,350	(2,350)		
CDBG				
RLF	6,707			
Todd County Musuem				
Perpetual Care			(6,467)	6,467
Water fund		(39,657)	(7,200)	
Sewer	32,935			
Solid Waste	6,722			
Total	<u>\$ 48,714</u>	<u>\$ (48,714)</u>	<u>\$ (13,667)</u>	<u>\$ 13,667</u>

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

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2013</u>
<u>Government Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 130,545	\$ -	\$ -	\$ 130,545
Capital Assets Being Depreciated:				
Buildings & Improvements	1,096,448	39,550		1,135,998
Park and Land Improvements	650,499			650,499
Equipment	476,217	89,444	(10,991)	554,670
Vehicles	369,749			369,749
Total Capital Assets	<u>2,723,458</u>	<u>128,994</u>	<u>(10,991)</u>	<u>2,841,461</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(349,932)	(34,745)	-	(384,677)
Park and Land Improvements	(120,171)	(31,553)	-	(151,724)
Equipment	(346,003)	(48,162)	10,239	(383,926)
Vehicles	(295,910)	(27,399)	-	(323,309)
Total Accumulated Depreciation	<u>(1,112,016)</u>	<u>(141,859)</u>	<u>10,239</u>	<u>(1,243,636)</u>
Governmental Activities - Capital Assets, net	<u>\$ 1,611,442</u>	<u>\$ (12,865)</u>	<u>\$ (752)</u>	<u>\$ 1,597,825</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 34,070
Public Safety	59,036
Public Works	<u>48,753</u>
Total Depreciation Expense	<u>\$ 141,859</u>

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 – CAPITAL ASSETS (continued)

	Balance 6/30/2012	Additions	Retirements	Balance 6/30/2013
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Capital Assets Being Depreciated:				
Plant & lines	8,560,780	7,883	-	8,568,663
Equipment	544,069	15,537	-	559,606
Vehicles	119,892	-	-	119,892
Total Capital Assets	9,363,241	23,420		9,386,661
Less Accumulated Depreciation:				
Plant & lines	(3,022,134)	(185,144)	-	(3,207,278)
Equipment	(430,194)	(24,760)	-	(454,954)
Vehicles	(111,226)	(8,665)	-	(119,891)
Total Accumulated Depreciation	(3,563,554)	(218,569)	-	(3,782,123)
Governmental Activities - Capital Assets, net	\$ 5,799,687	\$ (195,149)	\$ -	\$ 5,604,538

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

Water	\$ 43,062
Sewer	175,507
Total Depreciation Expense	\$ 218,569

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 – 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, 2012, 2011 and 2010, the City contributed 37.60%, 35.76%, and 33.25%, respectively, of each hazardous employee's creditable compensation and 19.55%, 18.96%, and 16.93%, 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:

City of Elkton:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
June 30, 2013	\$ 148,268	\$ 148,268	100%
June 30, 2012	\$ 153,731	\$ 153,761	100%
June 30, 2011	\$ 132,568	\$ 132,568	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.

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 – PENSION PLAN AND DEFERRED COMPENSATION (continued)

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%

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 7 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation pay, the City has accrued a liability for pay, which has been earned but not taken by employees as of June 30, 2013. The City is currently liable for compensated absences of the following:

	<u>June 30, 2013</u>
City of Elkton - General Fund	\$ 8,794
Water Fund	3,813
Sewer Fund	<u>5,831</u>
	<u>\$ 18,438</u>

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

CITY OF ELKTON, KY
 NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 – LONG-TERM OBLIGATIONS

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Current</u>
<u>Governmental Activities:</u>					
Note payable-KY comm. On Fire Protection	\$ 12,545	\$ -	\$ 8,559	\$ 3,986	\$ 3,986
Note payable-Leasing One	-	-	-	-	-
Note Payable - Elkton Bank & Trust	21,675	-	7,385	14,291	7,652
	<u>\$ 34,220</u>	<u>\$ -</u>	<u>\$ 15,944</u>	<u>\$ 18,277</u>	<u>\$ 11,638</u>
<u>Business-Type Activities:</u>					
KIA Loan \$808,000	\$ 659,867	\$ -	\$ 26,933	\$ 632,934	\$ 26,933
KIA Loan \$80,233	74,574	-	3,689	70,885	3,726
Bond Issue \$360,000	343,000	-	5,000	338,000	5,000
KIA Loan \$136,761	130,551	-	6,273	124,278	6,335
	<u>\$ 1,207,992</u>	<u>\$ -</u>	<u>\$ 41,895</u>	<u>\$ 1,166,097</u>	<u>\$ 41,994</u>

Debt service requirement on long-term obligations at June 30, 2013 are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest Incurred & Expensed</u>
2014	\$ 11,638	\$ 794
2015	6,639	344
Totals	<u>\$ 18,277</u>	<u>\$ 1,138</u>

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 41,994	\$ 17,542
2015	42,095	17,159
2016	42,697	16,774
2017	42,799	16,368
2018	42,903	15,961
2019-2023	222,112	73,516
2024-2028	232,371	61,063
2029-2033	216,860	47,362
2034-2038	154,766	34,346
2039-2043	74,500	20,398
2044-2046	53,000	4,435
Totals	<u>\$ 1,166,097</u>	<u>\$ 324,924</u>

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 – 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 truck.

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 police car.

Kentucky Infrastructure Authority Loan

In December 2006, the city received a thirty year, zero percent interest loan from the Kentucky Infrastructure Authority, in the amount of \$808,000 to retire the existing sewer bonds. 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, 2013, the reserve account totaled \$18,670.

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 System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued.

The City is required to transfer into the Sinking Fund an amount equal to one sixth of the next succeeding six-month interest payment and one twelfth of the principal maturing on the next succeeding principal payment date. In addition the City is required to transfer to the Depreciation Fund \$160 per month until \$19,200 has accumulated. As of June 30, 2013 the depreciation fund balance was \$12,251.

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.

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 – LONG-TERM OBLIGATIONS (continued)

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, 2013 balance of \$2,774.

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.

NOTE 9 – OTHER MATTERS

The City has, over several years, appropriated funds to civic and charitable organizations which, while being made for civic purposes and public welfare, may not be in accordance with Section 179 of the Kentucky Constitution.

NOTE 10 – LEASES

As of June 30, 2013, the City of Elkton and Todd County Water District were in the process of extending the multi-year lease for the building that houses the water district office. As June 30, 2013, the water district was paying monthly rent, however, a lease was not in place. The city expects that a lease will be signed in the next year.

The following is an analysis of property referred to above at June 30, 2013:

Buildings	\$ 252,000
Less: Accumulated Depreciation	78,750
Net Book Value	<u>\$ 173,250</u>

Depreciation expense for the year ended June 30, 2013 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.

CITY OF ELKTON, KY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 – CONTINGENCIES

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

NOTE 12 – RISK MANAGEMENT

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

NOTE 14 - CLAIMS AND JUDGEMENTS

The City is party to a pending suit as of June 30, 2013. 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
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Taxes	\$ 1,048,700	\$ 1,066,500	\$ 1,033,060	\$ (33,440)
Licenses and permits	84,100	84,100	83,500	(600)
Intergovernmental revenues	198,250	69,934	87,914	17,980
Charges for services	15,800	15,100	17,137	2,037
Interest income	-	-	35,361	35,361
Other income	51,000	56,800	33,552	(23,248)
Total revenues	1,397,850	1,292,434	1,290,524	(1,910)
Expenditures:				
Current:				
General government	436,600	449,486	358,547	90,939
Public works	439,700	258,400	190,400	68,000
Public safety	548,350	601,850	527,636	74,214
Culture and recreation	-	-	19,981	(19,981)
Capital outlay	-	-	89,444	(89,444)
Debt service:				
Principal	14,700	14,600	15,944	(1,344)
Interest	1,300	1,400	1,276	124
Total expenditures	1,440,650	1,325,736	1,203,228	122,508
Excess of revenues over (under) expenditures	(42,800)	(33,302)	87,296	120,598
Other financing sources (uses):				
Operating transfers in	58,500	6,200	6,467	267
Operating transfers out	(10,700)	(10,700)	(7,200)	3,500
Total other financing sources (uses)	47,800	(4,500)	(733)	3,767
Net change in fund balance	5,000	(37,802)	86,563	124,365
Fund balance, beginning of year	1,000,000	1,098,813	1,055,038	(43,775)
Fund balances, end of year	\$ 1,005,000	\$ 1,061,011	\$ 1,141,601	\$ 80,590

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



THURMAN CAMPBELL GROUP, PLC
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, 2013, 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 November 5, 2013.

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 a material weakness.

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 2013-1 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

Princeton, Kentucky
November 5, 2013

**CITY OF ELKTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

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 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

2013-1 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 principals on a timely basis.

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

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

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