CITY OF ELKTON, KENTUCKY
BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2012
And
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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THURMAN CAMPBELL GROUP, PLC
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Elkton, KY

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, KY, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Elkton, KY's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, KY, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, on our consideration of the City of Elkton, KY's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 through 13 and 40 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.

Thurman Campbell Group, PLC

Princeton, KY
January 23, 2013

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CITY OF ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR FISCAL YEAR ENDED JUNE 30, 2012

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, 2012. 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, 2012, the City's assets exceeded liabilities for total net assets of $8,970,483.
- Fund balance, a measure of current financial resources, decreased in the governmental funds by $56,081 to a June 30, 2012 balance of $1,540,521. Of this amount, $1,024,964 is unassigned.
- The City's business-type activities (water, sewer and waste management) net assets as of June 30, 2012 totaled $5,774,747, a decrease of $72,143 from the prior year.
- The City's general fund balance as of June 30, 2012 was $1,055,038, a decrease of $60,484 over the prior year. Of the total fund balance, $1,027,480 is unassigned. The unassigned general fund balance represents 78% 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 $7,411,130.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Fund financial statements

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

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

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

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other eight governmental funds. Data in the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activity assets exceeded liabilities by $3,196,181. Business-type activity assets exceeded liabilities by $5,774,747 for total net assets of $8,970,928 as of June 30, 2012.

Net Assets of Governmental and Business-Type Activities
June 30, 2012

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	1,667,219	1,661,254	1,362,049	1,269,423	3,029,268	2,930,677
Capital assets	1,611,442	1,558,184	5,799,688	5,917,379	7,411,130	7,475,563
Total assets	3,278,661	3,219,438	7,161,737	7,186,802	10,440,398	10,406,240
LIABILITIES						
Other liabilities	63,144	53,807	220,889	194,464	284,033	248,271
Long-term liabilities	19,783	12,639	1,166,098	1,077,440	1,185,881	1,090,079
Total liabilities	82,927	66,446	1,386,987	1,271,904	1,469,914	1,338,350
NET ASSETS						
Invested in capital assets (net of related debt)	1,577,222	1,534,077	4,591,696	4,804,853	6,168,918	6,338,930
Restricted assets	278,274	285,090	991,824	879,726	1,270,098	1,164,816
Unrestricted assets	1,340,240	1,333,825	191,227	230,319	1,531,467	1,564,144
Total net assets	$ 3,195,736	$ 3,152,992	$ 5,774,747	$ 5,914,898	$ 8,970,483	$ 9,067,890

In the City as a whole, the largest portion of net assets, $6,168,918 or 69%, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens and these assets are not available for future spending.

Net assets of governmental activity funds were $3,195,736, with $1,577,222 or 49% being invested in capital assets and $1,340,240 or 42% unrestricted. The unrestricted net assets of governmental funds include fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

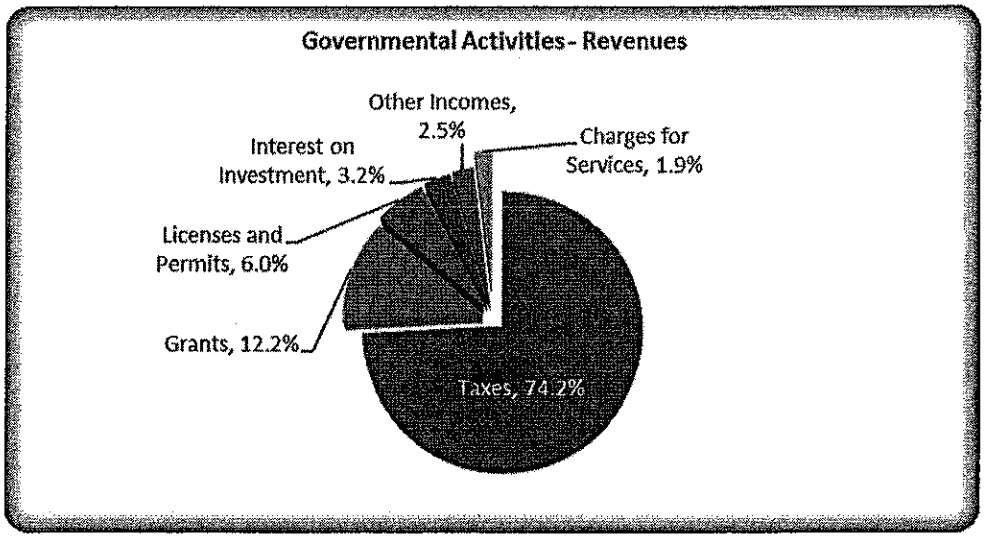
The net assets of the City's business-type activities are $5,774,747. Of these net assets, $4,591,696 or 80% is invested in capital assets and there is an unrestricted balance of $191,227 or 3%.

City of Elkton Changes In Net Assets
June 30, 2012

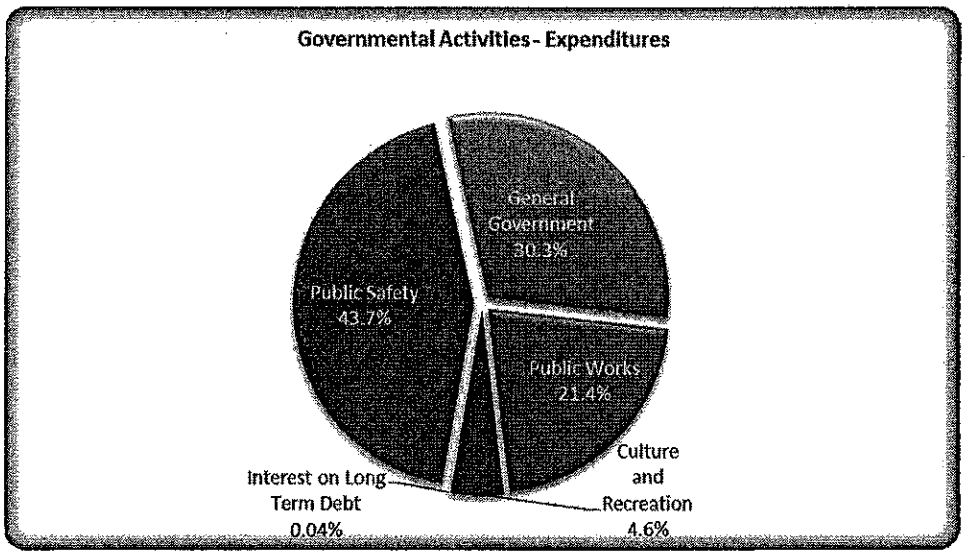
	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	27,542	36,184	1,025,141	1,039,130	1,052,683	1,075,314
Operating Grants and Contributions	88,579	79,815			88,579	79,815
Capital Grants and Contributions				68,004	-	68,004
General Revenues:						
Taxes	1,069,062	983,031			1,069,062	983,031
Licenses and Permits	86,974	83,030			86,974	83,030
Grants and Contributions not restricted to Specific Programs	87,263	27,655			87,263	27,655
Interest on Investments	45,419	43,236	33,042	30,848	78,461	74,084
Gain on Sale of Fixed Assets	(3,010)	(2,494)	10,296	3,043	7,286	549
Other Income	46,790	34,455	19,565	18,291	66,355	52,746
Transfers	(7,200)	(7,200)	7,200	7,200	-	-
Special - Contribution to Permanent Fund					-	-
Total Revenues	1,441,419	1,277,712	1,095,244	1,166,516	2,536,663	2,444,228
Expenditures:						
General Government	423,282	378,562			423,282	378,562
Public Safety	610,582	579,186			610,582	579,186
Public Works	299,256	209,683			299,256	209,683
Community Development	-	-			-	-
Culture and Recreation	64,954	21,581			64,954	21,581
Interest on Long Term Debt	601	1,470			601	1,470
Water			505,123	555,143	505,123	555,143
Sewer			580,322	573,335	580,322	573,335
Solid Waste			81,942	82,026	81,942	82,026
Total Expenditures	$ 1,398,675	$ 1,190,482	$ 1,167,387	$ 1,210,504	$ 2,566,062	$ 2,400,986
Change in Net Assets	42,744	87,230	(72,143)	(43,988)	(29,399)	$ 43,242
Net Assets, Beginning of Year (restated)	3,152,992	3,065,762	5,846,890	5,958,886	8,999,882	9,024,648
Net Assets, End of Year	$ 3,195,736	$ 3,152,992	$ 5,774,747	$ 5,914,898	$ 8,970,483	$ 9,067,890

Governmental Activities

Revenues for the City's governmental activities totaled $1,441,419. Taxes, which primarily include property and payroll taxes, totaled $1,069,062, or 74.2% of total revenue. Grants totaled $175,842 and accounted for about 12.2% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for $86,974 or 6.0% of the total. Interest on investments totaled $45,419, or about 3.2% of revenues. Other incomes totaled $36,580, or 2.5% of revenues. Finally, charges for services accounted for 1.9% of revenues at $27,542.

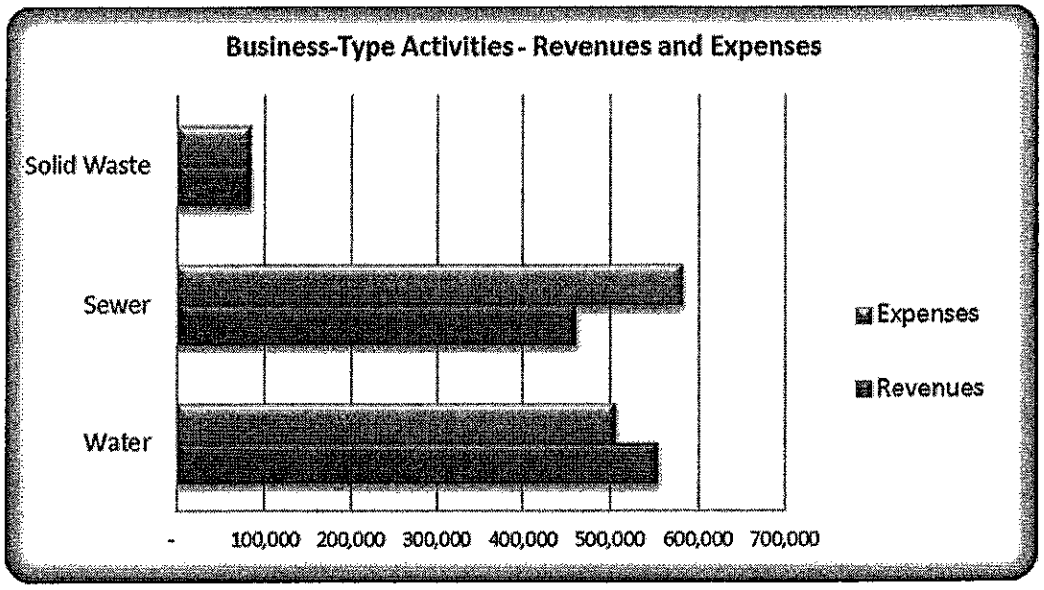


Total expenses of the City's governmental activities were $1,398,675. The largest expenditure at 43.7% of total expenses ($610,582) was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled $423,282 or 30.3% of expenses. Public works was third and totaled $299,256, or 21.4%. Culture and recreation expenses totaled $64,954, or 4.6% of the total. Finally, interest on long term debt totaled $601, or .04% of total expenditures.



Business-type Activities

Revenues for business-type activities totaled $1,095,244 for the fiscal year ended June 30, 2012. Of this total, 94% of total revenue received was from Charges for Services in the amount of $1,025,141. Interest income accounted for 3% of total revenues, or $33,042. Expenses for business-type activities totaled $1,167,387. Water department expenses accounted for $505,123 of total expenditures, or 43%. Sewer department expenses accounted for 50% of total expenses, or $580,322. Finally, the solid waste department accounted for 7% of total business-type activities expenditures with $81,942 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, 2012 reflect a combined ending fund balance of $1,540,521, a decrease of about $56,081 from the prior year. Of the total fund balance, $1,024,964 is unassigned and is available for spending at the City's discretion. The remainder ($515,557) is reserved for prepaid expenses, mortgage receivables and cemetery maintenance.

General Fund Highlights

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total balance in the General Fund was $1,055,038, which represents a decrease of $60,484 from the prior year. Of the total General Fund balance, 97.4% ($1,027,480) 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 78% of total general fund revenues.

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

General Fund - Revenues by Source						
	FY 2012		FY 2011		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Revenues by Source						
Taxes	$1,068,269	80.8%	$ 981,676	81.2%	$ 86,593	8.82%
Licenses and Permits	87,774	6.6%	83,660	6.9%	4,114	4.92%
Intergovernmental Revenues	67,863	5.1%	48,104	4.0%	19,759	41.08%
Charges for Services	17,774	1.3%	14,104	1.2%	3,670	26.02%
Interest Income	34,391	2.6%	32,826	2.7%	1,565	4.77%
Other Income	7,727	0.6%	39,605	3.3%	(31,878)	-80.49%
Total Revenues	$1,283,798	97.2%	$1,199,975	99.3%	$ 83,823	6.99%
Total Other Financing (uses)	37,649	2.8%	8,744	0.7%	28,905	330.57%
Total Revenues and Other Financing (uses)	$1,321,447	100.0%	$1,208,719	100.0%	$ 112,728	9.33%

- The General Fund saw about a 9.3% increase in total revenue and other financing sources over last year.
- The largest percentage increase in revenue came from Intergovernmental Revenues, which increased by 41%, or $19,759 over last year. The largest total increase in revenue was in Taxes in the amount of $86,593, or about 9% over last year.
- The only decrease in revenue was an 80% decrease in Other Income.

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

General Fund - Expenditures by Function

	FY 2012		FY 2011		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Expenditures by Function						
General Government	$ 372,158	27.0%	$ 356,049	31.2%	$ 16,109	4.52%
Public Works	204,734	14.9%	162,412	14.2%	42,322	26.06%
Public Safety	535,266	38.9%	519,788	45.5%	15,478	2.98%
Culture and Recreation	63,679	4.6%	20,451	1.8%	43,228	211.37%
Capital Outlay	201,005	14.6%	82,737	7.2%	118,268	142.94%
Total Expenditures	$ 1,376,842	100.0%	$ 1,141,437	100.0%	$ 235,405	20.62%

- The largest percentage increase in expenditures at 211% was in the area of Culture and Recreation with an increase in expenditures of $43,228 over last year. This increase was due to the Park Improvement Grant Project during the fiscal year to renovate buildings and playfields in the City-County Park.
- The largest total increase in expenditures was a $118,268 increase in Capital Outlay. This increase is mostly due to purchase of new equipment for the Police and Fire Department as part of two grant projects awarded by the Kentucky Office of Homeland Security. The City also purchased a new vehicle for the Police Department and a storage facility on South Perry Street.

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

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

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

	Water		Sewer		Solid Waste		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Operating Revenues	$ 532,852	$ 552,226	$ 429,722	$ 423,455	$ 82,132	$ 81,744	$ 1,044,706	$ 1,057,425
Operating Expenses	504,157	554,365	564,977	558,908	81,942	82,026	1,151,076	1,195,299
Operating Income (loss)	28,695	(2,139)	(135,255)	(135,453)	190	(282)	(106,370)	(137,874)
Non-operating revenues (expenses)	11,699	14,002	14,853	4,232	475	446	27,027	18,680
Income (loss) before transfers	40,394	11,863	(120,402)	(131,221)	665	164	(79,343)	(119,194)
Transfer In (out)	7,200	7,200	-	-	-	-	7,200	7,200
Net Income (loss)	$ 47,594	$ 19,063	$ (120,402)	$ (131,221)	$ 665	$ 164	$ (72,143)	$ (111,994)
Net assets, beginning of year	1,169,376	1,150,313	4,657,309	4,788,530	20,208	20,044	5,846,893	6,014,420
Net assets, end of year	$1,216,970	$1,169,376	$4,536,907	$4,657,309	$ 20,873	$ 20,208	$ 5,774,750	$ 5,846,893

- 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 $19,374. 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 $50,208, mainly due to a significant decrease in water purchased and water loss due to a large leak being found late in the previous fiscal year. Overall, the water fund saw a net gain of $19,063. The net assets of the water fund as of June 30, 2012 increased to a total of $1,216,970.

- The ***sewer*** fund accounts for the operation and maintenance of the sanitary sewer system and wastewater treatment facilities in the City. The funds operating revenue saw an increase of $6,267 over the previous year, while operating expenses also increased by $6,069. The increase in operating revenue was due to a sewer rate increase that went into effect in July 2011. The increase in operating expenses was due to ongoing increase in maintenance of the sewer system. As of June 30, 2012, the sewer fund saw a net loss of $120,402 for total assets of $4,536,907.

- 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 $665. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net assets as of June 30, 2012 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 was decreased by about 10.9%, or $166,750. The total expenditure budget was increased by $5,400 or approximately .4%. These changes can be briefly summarized as follows:

- Changes to the original revenue budget estimates consisted of increases in taxes and licenses that were not anticipated when the original budget was adopted.

- One major change in 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 FY2012, however was delayed.

For the year, general fund actual revenues and other financing sources came in about $46,603 (about 3.4%) less than expected. Actual expenditures were $117,964 less than expected, or nearly 7.9% below budgetary estimates.

CAPITAL ASSETS

The City's capital assets (net of depreciation) for governmental activities as of June 30, 2012 totaled $1,611,441 an increase of $53,257 over last year. For business-type activities, total capital assets amount to $5,799,689, a decrease of $117,690 over last year. The City's total capital assets as of June 30, 2012 decreased by $64,433 over last year for a net capital assets of $7,411,130.

City of Elkton Capital Assets
As of June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
Land	130,545	138,500	269,045
Park and Land Improvements	530,328		530,328
Buildings and Improvements	746,515		746,515
Equipment	130,214	87,719	217,933
Vehicles	73,839	8,666	82,505
Plant and Lines		5,564,804	5,564,804
Construction in Progress			-
Total	$ 1,611,441	$ 5,799,689	$ 7,411,130

DEBT ADMINISTRATION

At the end of the fiscal year, the City had a total outstanding debt of $1,242,211. Of the total debt, $34,220 is payable from the City's General Fund. $12,545 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 $21,675 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 $659,867 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 $74,573 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 $343,000 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 $130,551 as of June 30, 2012.

City of Elkton Outstanding Debt
As of June 30, 2012

	Governmental Activities	Business Activities	Totals
Notes Payable:			
2012 Ford Explorer	21,675		21,675
Fire Truck Low Interest Loan	12,545		12,545
Revenue Bonds:			
KIA Loan - Water Meter Project		74,573	74,573
Rural Development Loan - Sewer Plant		343,000	343,000
KIA Loan - Sewer Plant Debt Retirement		659,867	659,867
KIA Loan - Sewer Extension Projects		130,551	130,551
Total	$ 34,220	$ 1,207,991	$ 1,242,211

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.

A major factor that will affect future budgets is the State's projected increases in required contributions to the Kentucky Retirement Systems, especially Hazardous Duty Retirement for the Elkton Police Department. This contribution rate is expected to increase to nearly 50% by FY 2018. Due to retirement reform at the state level, several years ago the city was able to elect not to participate in hazardous duty for future new hires in the police department. Potentially, this could save the city $85,000 per year by FY 2018.

Finally, an issue the city has been dealing with for many years is water loss, or water that is leaking from the system or not being accurately billed to customer. In FY 2010, the average water loss was 35%. In March 2011, the Utility Department found and repaired a large leak in a water main that is estimated to bring the city's water loss down to about 10% annually, potentially saving the water department near $60,000 in purchased water expense. However, the average water loss for similar systems is approximately 15%, so maintaining a 10% water loss in the city is 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 ASSETS
JUNE 30, 2012

	Governmental Activities	Business Activities	Total
ASSETS			
Current assets:			
Cash	$ 404,900	$ 243,989	$ 648,889
Investments	876,123	-	876,123
Receivables:			
Taxes (net of allowance for uncollectible)	14,268	-	14,268
Accounts	31,983	121,909	153,892
Other	42,212	-	42,212
Prepaid expenses	6,521	4,327	10,848
Total current assets	1,376,007	370,225	1,746,232
Restricted assets:			
Restricted cash	19,939	241,824	261,763
Restricted investments	190,299	750,000	940,299
Total restricted assets	210,238	991,824	1,202,062
Noncurrent assets:			
Mortgages receivable	80,974	-	80,974
Capital assets (not being depreciated)	130,545	138,500	269,045
Capital assets (net of accumulated depreciation)	1,480,897	5,661,188	7,142,085
Total noncurrent assets	1,692,416	5,799,688	7,492,104
Total assets	3,278,661	7,161,737	10,440,398
LIABILITIES			
Current liabilities:			
Accounts payable	19,636	51,819	71,455
Accrued liabilities	29,071	27,819	56,890
Withholdings and other payables	-	3,103	3,103
Customer deposits	-	96,257	96,257
Current maturities of long-term debt	14,437	41,894	56,331
Total current liabilities	63,144	220,892	284,036
Noncurrent liabilities:			
Long-term debt	19,783	1,166,098	1,185,881
Total noncurrent liabilities	19,783	1,166,098	1,185,881
Total liabilities	82,927	1,386,990	1,469,917
NET ASSETS			
Invested in capital assets, net of related debt	1,577,222	4,591,696	6,168,918
Restricted for:			-
Mortgages receivable	80,974	-	80,974
Cemetery perpetual care:	-	-	-
Expendable	7,001	-	7,001
Nonexpendable	190,299	-	190,299
Special fund	-	991,824	991,824
Unrestricted	1,340,240	191,227	1,531,467
Total net assets	$ 3,195,736	$ 5,774,747	$ 8,970,483

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business Activities	Total
Government activities:							
General government	$ 423,282	$ 13,624	$ 500	$ -	$ (409,158)	$ -	$ (409,158)
Public safety	610,582	13,918	8,250	-	(588,414)	-	(588,414)
Public works	299,256	-	77,309	-	(221,947)	-	(221,947)
Culture and recreation	64,954	-	2,520	-	(62,434)	-	(62,434)
Interest on long term debt	601	-	-	-	(601)	-	(601)
Total government activities	1,398,675	27,542	88,579	-	(1,282,554)	-	(1,282,554)
Business activities:							
Water	505,123	514,788	-	-	-	9,665	9,665
Sewer	580,322	428,221	-	-	-	(152,101)	(152,101)
Solid Waste	81,942	82,132	-		-	190	190
Total business activities	1,167,387	1,025,141	-	-	-	(142,246)	(142,246)
Total city	$ 2,566,062	$ 1,052,683	$ 88,579	$ -	(1,282,554)	(142,246)	(1,424,800)
General revenues:							
Taxes					1,069,062	-	1,069,062
Licenses and permits					86,974	-	86,974
Grants and contributions not restricted to specific programs					87,263	-	87,263
Interest on investments					45,419	33,042	78,461
Gain (loss) on sale of fixed assets					(3,010)	10,296	7,286
Other income					46,790	19,565	66,355
Total general revenues, transfers, and special items					1,332,498	62,903	1,395,401
Transfers					(7,200)	7,200	-
Change in net assets					42,744	(72,143)	(29,399)
Net assets, beginning (Restated)					3,152,992	5,846,890	8,999,882
Net assets, ending					$ 3,195,736	$ 5,774,747	$ 8,970,483

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

CITY OF ELKTON, KENTUCKY
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2012

ASSETS	General	Other Governmental Funds	Total Governmental Funds
Cash	$ 188,033	$ 216,867	$ 404,900
Investments	876,123	-	876,123
Receivables:			
Taxes	1,849	-	1,849
Other	6,251	2,369	8,620
Prepaid expenses	6,521	-	6,521
Mortgages receivable	-	80,974	80,974
Due from other funds	11,885	2,157	14,042
Restricted cash	12,938	7,001	19,939
Restricted investments	-	190,299	190,299
Total assets	$ 1,103,600	$ 499,667	$ 1,603,267
LIABILITIES AND FUND BALANCES			
Accounts payable	$ 17,334	$ 2,299	$ 19,633
Accrued liabilities	29,071	-	29,071
Due to other funds	2,157	11,885	14,042
Total liabilities	48,562	14,184	62,746
Fund Balance:			
Nonspendable:			
Prepaid expenses	6,521	-	6,521
Restricted	21,037	341,301	362,338
Committed	-	146,698	146,698
Assigned	-		-
Unassigned	1,027,480	(2,516)	1,024,964
Total fund balance	1,055,038	485,483	1,540,521
Total liabilities and fund balance	$ 1,103,600	$ 499,667	$ 1,603,267

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

CITY OF ELKTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balance - total government funds	$ 1,540,521
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.	1,611,442
Certain imposed nonexchange receivables (property taxes and fire runs) were not recognized in the funds because they were not available at June 30, 2012.	77,993
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(34,220)
Net assets of governmental activities	$ 3,195,736

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	$ 1,068,269	$ -	$ 1,068,269
Licenses and permits	87,774	-	87,774
Intergovernmental revenues	67,863	77,309	145,172
Charges for services	17,774	-	17,774
Interest income	34,391	11,028	45,419
Other income	7,727	2,521	10,248
Total revenues	1,283,798	90,858	1,374,656
Expenditures:			
Current:			
General government	372,158	-	372,158
Public works	204,734	49,870	254,604
Public safety	535,266	27,845	563,111
Culture and recreation	63,679	-	63,679
Capital outlay	201,005	-	201,005
Total expenditures	1,376,842	77,715	1,454,557
Excess of revenues over expenditures	(93,044)	13,143	(79,901)
Other financing sources (uses):			
Sale of fixed assets	1,020	-	1,020
Debt issuance	30,000	-	30,000
Operating transfers in	52,481	(1,740)	50,741
Operating transfers out	(50,941)	(7,000)	(57,941)
Total other financing (uses)	32,560	(8,740)	23,820
Net change in fund balance	(60,484)	4,403	(56,081)
Fund balance, beginning of year	1,115,522	481,080	1,596,602
Fund balance, end of year	$ 1,055,038	$ 485,483	$ 1,540,521

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, 2012

Net change in fund balance - total governmental funds	$	(56,081)
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 ($143,718) was more than the capital outlays and disposals of $201,006 in the current period.		57,288
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		51,649
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.		(10,112)
Change in net assets of governmental activities	$	42,744

CITY OF ELKTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
ASSETS	Water	Sewer	Solid Waste	Total
Current assets:				
Cash	$ 132,034	$ 97,616	$ 14,339	$ 243,989
Accounts receivable	121,909	-	-	121,909
Other receivables	-	-	-	-
Due from other funds	-	32,245	6,534	38,779
Prepaid expenses	1,803	2,524	-	4,327
Total current assets	255,746	132,385	20,873	409,004
Restricted assets:				
Restricted cash	101,568	140,256	-	241,824
Restricted cash - CD	350,000	400,000		750,000
Total retricted assets	451,568	540,256	-	991,824
Noncurrent assets:				
Capital assets (not being depreciated)	55,000	83,500	-	138,500
Capital Assets (net of accumulated depreciation)	712,886	4,948,302	-	5,661,188
Total noncurrent assets	767,886	5,031,802	-	5,799,688
Total assets	$ 1,475,200	$ 5,704,443	$ 20,873	$ 7,200,516
LIABILITIES				
Current liabilities:				
Accounts payable	$ 36,428	$ 15,391	$ -	$ 51,819
Acrrued liabilities	10,947	16,872	-	27,819
Payroll witholdings and other payables	1,249	1,854	-	3,103
Due to other funds	38,779	-	-	38,779
Payable from restricted cash - customer deposits	96,257	-	-	96,257
Current portion of note	3,689	38,205	-	41,894
Total current liabilities	187,349	72,322	-	259,671
Noncurrent liabilities:				
Note payable	70,884	1,095,214	-	1,166,098
Total liabilities	258,233	1,167,536	-	1,425,769
NET ASSETS				
Invested in capital assets, net of related debt	693,312	3,898,384	-	4,591,696
Restricted for:				
Special fund (expendable)	451,568	540,256	-	991,824
Unrestricted	72,087	98,267	20,873	191,227
Total of net assets	$ 1,216,967	$ 4,536,907	$ 20,873	$ 5,774,747

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

City of Elkton, Kentucky
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended June 30, 2012

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
Operating Revenues:	Water	Sewer	Solid Waste	Total
Charges for services	$ 514,788	$ 428,221	$ 82,132	$ 1,025,141
Miscellaneous	18,064	1,501	-	19,565
Total operating revenue	532,852	429,722	82,132	1,044,706
Operating expenses:				
Personal services	157,583	210,747	-	368,330
Purchased water	224,303	-	-	224,303
Materials and supplies	76,673	176,385	-	253,058
Depreciation	45,598	176,214	-	221,812
Contractual services	-	1,631	81,942	83,573
Total Operating Expenses	504,157	564,977	81,942	1,151,076
Operating income (loss)	28,695	(135,255)	190	(106,370)
Nonoperating revenue (expenses):				
Sale of fixed assets	-	10,296	-	10,296
Interest income	12,665	19,902	475	33,042
Interest expense	(966)	(15,345)	-	(16,311)
Total nonoperating revenues (expenses)	11,699	14,853	475	27,027
Income (loss) before transfers	40,394	(120,402)	665	(79,343)
Transfer in	7,200	-	-	7,200
Total change in net assets	47,594	(120,402)	665	(72,143)
Net assets, beginning of year (restated)	1,169,373	4,657,309	20,208	5,846,890
Net assets, end of year	$ 1,216,967	$ 4,536,907	$ 20,873	$ 5,774,747

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, 2012

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	$ 533,575	$ 429,722	$ 82,132	$ 1,045,429
Cash payments for operating expenses	(286,008)	(169,393)	(88,774)	(544,175)
Cash payments to employees	(156,971)	(211,440)	-	(368,411)
Net cash provided (used) by operating activities	90,596	48,889	(6,642)	132,843
Cash flows from non-capital financing activities:				
Operating transfers in from other funds	4,018	2,988	200	7,206
Net cash provided (used) by noncapital financing activities	4,018	2,988	200	7,206
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(14,320)	(79,508)	-	(93,828)
Proceeds from long-term debt	-	130,551	-	130,551
Principal paid on long-term debt	(3,652)	(31,433)	-	(35,085)
Interest paid on long term debt	(966)	(15,348)	-	(16,314)
Net cash provided (used) by capital and related financing activities	(18,938)	4,262	-	(14,676)
Cash flows from investing activities:				
Interest on cash and investments	12,665	19,902	474	33,041
Net cash provided by investing activities	12,665	19,902	474	33,041
Net (decrease) increase in cash and cash equivalents	88,341	76,041	(5,968)	158,414
Cash and cash equivalents, beginning of year	494,241	561,831	20,307	1,076,379
Cash and cash equivalents, end of year	$ 582,582	$ 637,872	$ 14,339	$ 1,234,793
Reconciliation of total cash and cash investments:				
Current assets - cash	$ 132,034	$ 97,616	$ 14,339	$ 243,989
Restricted assets - cash	451,568	540,256	-	991,824
Total cash and cash investments	$ 583,602	$ 637,872	$ 14,339	$ 1,235,813

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

CITY OF ELKTON, KENTUCKY
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	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)	$ 28,695	$ (135,255)	$ 190	$ (106,370)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	45,597	176,214	-	221,811
(Increase) decrease in:				
Accounts receivable	(1,444)	-	-	(1,444)
Prepaid expense	(509)	(261)	-	(770)
Increase (decrease) in:				
Accounts payable	14,495	8,884	(6,832)	16,547
Other withholdings and payables	612	90	-	702
Customer deposits	2,167	-	-	2,167
Accrued liabilities	983	(783)		200
Net cash provided (used) by operating activities	$ 90,596	$ 48,889	$ (6,642)	$ 132,843

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Elkton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The government's more significant accounting policies are described below.

A. Reporting Entity

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

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

Excluded from the reporting entity:

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

These units have no assets, liabilities and fund equity at June 30, 2012, 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. has 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' s operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

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

The statement of 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 Fund as a major fund.

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.

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 Assets.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the government fund statements.

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

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.

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.

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.

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, 2012 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, 2012 there were no infrastructure asset additions.

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

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

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 assets.

I. Compensated Absences

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2012. 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, 2012.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

Equity is classified as net assets 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 assets – 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 assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

M. Fund Balances:

As of June 30, 2012, 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, 2012, fund balance components other than unassigned fund balances consist of the following:

	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total
General	$ 6,521	$ 21,037	$ -	$ -	$ 1,027,480	$ 1,055,038
Other Funds	-	341,301	146,698	(2,516)	-	485,483
Total	$ 6,521	$ 362,338	$ 146,698	$ (2,516)	$ 1,027,480	$ 1,540,521

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 the management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

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, 2012, the carrying amount of City's deposits (including certificates of deposit) was $2,726,526 and the bank balance of $2,748,629 was categorized as follows:

Insured by FDIC		$ 350,138
Uninsured and collateralized with securities		
Held by the pledging financial institution's		
Agent but not in the City's name		2,398,491
	Total	$ 2,748,629

As of June 30, 2012, the City had petty cash on hand of $550.

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

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

NOTE 3 – RECEIVABLES

A. Property Taxes

On July 1 of each year, the City levies a tax on the tangible property owned by its residents based on the assessment values of the property on January 1. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2012 are as follows:

Real property - $0.248	per $100 value
Personal property - $0.361	per $100 value
Motor Vehicles and Watercraft - $0.303	per $100 value

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 yearend.

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, 2012. 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, 2012 was $32,672 for loans made with funds from a grant for the Main Street project and $48,302 for loans made with funds from a grant project for the Marion Street area.

NOTE 4 – INTERFUND ACTIVITIES

Individual fund activities at June 30, 2012 were as follows:

	Interfund Receivable	Interfund Payable	Interfund Transfers in	Interfund Transfers out
General fund	$ 11,885	$ (2,158)	$ (52,481)	$ 50,941
KLEFPF	-	(2,369)	-	-
CDBG	-	-	-	-
RLF	2,157	-	-	1,740
Todd County Musuem	-	(2,516)	-	-
Perpetual Care	-	(7,000)	-	7,000
Water fund	-	-	(7,200)	
Sewer	-	-		-
Solid Waste	-	-		-
Total	$ 14,042	$ (14,042)	$ (59,681)	$ 59,681

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

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Government Activities	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012
Capital Assets Not Being Depreciated:				
Land	$ 130,545	$ -	$ -	$ 130,545
Capital Assets Being Depreciated:				
Buildings & Improvements	990,042	106,406	-	1,096,448
Park and Land Improvements	628,814	21,685	-	650,499
Equipment	426,391	56,062	(6,236)	476,217
Vehicles	347,271	35,978	(13,500)	369,749
Construction in Process	19,125		(19,125)	-
Total Capital Assets	2,542,188	220,131	(38,861)	2,723,458
Less Accumulated Depreciation:				
Buildings & Improvements	(320,106)	(29,826)	-	(349,932)
Park and Land Improvements	(87,008)	(33,163)	-	(120,171)
Equipment	(303,461)	(45,231)	2,689	(346,003)
Vehicles	(273,429)	(35,498)	13,017	(295,910)
Total Accumulated Depreciation	(984,004)	(143,718)	15,706	(1,112,016)
Governmental Activities - Capital Assets, net	$ 1,558,184	$ 76,413	$ (23,155)	$ 1,611,442

Depreciation expense was charged to the governmental functions as follows:

General Government	$ 28,590
Public Safety	67,959
Public Works	47,169
Total Depreciation Expense	$ 143,718

NOTE 5 – CAPITAL ASSETS (continued)

Business-Type Activities	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012
Capital Assets Not Being Depreciated:				
Land	$ 138,500	$ -	$ -	$ 138,500
Construction in process	68,004	-	(68,004)	-
Capital Assets Being Depreciated:				
Plant & lines	8,398,733	162,047	-	8,560,780
Equipment	533,991	10,078	-	544,069
Vehicles	119,892	-	-	119,892
Total Capital Assets	9,259,120	172,125	(68,004)	9,363,241
Less Accumulated Depreciation:				
Plant & lines	(2,829,333)	(166,644)	-	(2,995,977)
Equipment	(409,847)	(46,503)	-	(456,350)
Vehicles	(102,561)	(8,665)	-	(111,226)
Total Accumulated Depreciation	(3,341,741)	(221,812)	-	(3,563,553)
Governmental Activities - Capital Assets, net	$ 5,917,379	$ (49,687)	$ (68,004)	$ 5,799,688

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

Water	$ 45,598
Sewer	176,214
Total Depreciation Expense	$ 221,812

NOTE 6 – PENSION PLAN AND DEFERRED COMPENSATION

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

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

CERS covered employees under the non-hazardous duty retirement plan are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 18.96% of gross pay for the year ended June 30, 2012. Effective September 1, 2002, the City elected to participate in the hazardous duty retirement system for police officers. CERS covered employees under the hazardous duty retirement plan are required to contribute an amount equal to 8.00% of gross pay and the employer was required to contribute an amount equal to 35.76% of gross pay for the year ended June 30, 2012.

For all employees that began contributing to the CERS program after September 1, 2008, an additional 1.00% withholding was also required to cover health insurance.

Trend Information:

Schedules of Employer Contributions

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2012	$ 153,731	$ 153,731	100%
June 30, 2011	$ 132,568	$ 132,568	100%
June 30, 2010	$ 127,572	$ 127,572	100%

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

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

NOTE 7 – COMPENSATED ABSENCES AND SICK PAY

In accordance with the City of Elkton's policy on vacation pay, the City has accrued a liability for pay, which has been earned but not taken by employees as of June 30, 2012. The City is currently liable for compensated absences of the following:

	June 30, 2012
City of Elkton - General Fund	$ 10,790
Water Fund	6,083
Sewer Fund	5,742
	$ 22,615

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

NOTE 8 – LONG-TERM OBLIGATIONS

	June 30, 2011	Additions	Expenditures	June 30, 2012	Current
Governmental Activities:					
Note payable-KY comm. On Fire Protection	$ 19,534	$ -	$ 6,989	$ 12,545	$ 7,102
Note payable-Leasing One	4,573	-	4,573	-	-
Note Payable - Elkton Bank & Trust	-	30,000	8,325	21,675	7,335
	$ 24,107	$ 30,000	$ 19,887	$ 34,220	$ 14,437
Business-Type Activities:					
KIA Loan $808,000	$ 686,800	$ -	$ 26,933	$ 659,867	$ 26,933
KIA Loan $80,233	78,225	-	3,651	74,574	3,689
Bond Issue $360,000	347,500	-	4,500	343,000	5,000
KIA Loan $136,761	-	136,761	6,210	130,551	6,272
	$ 1,112,525	$ 136,761	$ 41,294	$ 1,207,992	$ 41,894

Debt service requirement on long-term obligations at June 30, 2012 are as follows:

	Governmental Activities	
	Principal	Interest
2013	14,437	1,423
2014	13,094	894
2015	6,689	1,636
Totals	$ 34,220	$ 3,953

NOTE 8 – LONG-TERM OBLIGATIONS (continued)

	Business-type activities	
	Principal	Interest
2013	$ 41,894	$ 17,924
2014	41,994	17,542
2015	42,095	17,159
2016	42,696	16,774
2017	42,799	16,368
2018-2022	220,078	75,458
2023-2027	229,808	63,626
2028-2032	226,928	50,100
2033-2037	179,200	36,968
2038-2042	71,500	23,348
2042-2046	69,000	7,281
Totals	$ 1,207,992	$ 342,548

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. 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, 2012, the reserve account totaled $15,665.

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.

NOTE 8 – LONG-TERM OBLIGATIONS (continued)

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, 2012 the depreciation fund balance was $10,121.

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

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

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, 2012 balance of $1,831.

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. 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

During August 2001, a building owned by the City was leased to the Todd County Water District for an initial term of 10 years. The monthly lease amount is $500. The lease is renewable for an additional 10 year period at the end of the initial term. Rental revenue totaled $6,000 for the year ended June 30, 2012.

The following is an analysis of property leased under the above lease at June 30, 2012:

Buildings	$	252,000
Less: Accumulated Depreciation		72,450
Net Book Value	$	179,550

Depreciation expense for the year ended June 30, 2012 on property leased to others was $525.

The following is a schedule of future minimum rental income from operating leases at June 30, 2012:

2012		1,000
Total Minimum Lease Receipts	$	1,000

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

NOTE 11 – CONTINGENCIES

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

NOTE 12 – RISK MANAGEMENT

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

NOTE 14 - CLAIMS AND JUDGEMENTS

The City is party to a pending suit as of June 30, 2012. 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.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The City performed a review of grant receipts during 2012 and determined that funding from a Kentucky Infrastructure Authority "Sewer" grant/loan combination was completely recorded as revenue during 2010. The amount that should have been reflected as a long-term debt was $68,004.

The beginning net asset balance of the Proprietary Sewer Fund of $4,725,315 was decreased to $4,657,309 to reflect this adjustment.

CITY OF ELKTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Taxes	$ 993,700	$ 1,028,700	$ 1,068,269	$ 39,569
Licenses and permits	77,100	83,100	87,774	4,674
Intergovernmental revenues	338,200	189,450	67,863	(121,587)
Charges for services	15,000	15,800	17,774	1,974
Interest income	-	-	34,391	34,391
Other income	63,000	55,200	7,727	(47,473)
Total revenues	1,487,000	1,372,250	1,283,798	(88,452)
Expenditures:				
Current:				
General government	495,900	610,600	372,158	238,442
Public works	409,400	227,500	204,734	22,766
Public safety	588,750	661,350	535,266	126,084
Culture and recreation	-	-	63,679	(63,679)
Capital outlay	-	-	201,005	(201,005)
Total expenditures	1,494,050	1,499,450	1,376,842	122,608
Excess of revenues over (under) expenditures	(7,050)	(127,200)	(93,044)	34,156
Other financing sources (uses):				
Sale of fixed assets	-	-	1,020	1,020
Debt Issuance			30,000	30,000
Operating transfers in	58,500	6,500	52,481	45,981
Operating transfers out	(10,700)	(10,700)	(50,941)	(40,241)
Total other financing sources (uses)	47,800	(4,200)	32,560	36,760
Net change in fund balance	40,750	(131,400)	(60,484)	70,916
Fund balance, beginning of year	1,115,522	1,115,522	1,115,522	-
Fund balances, end of year	$ 1,156,272	$ 984,122	$ 1,055,038	$ 70,916

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

THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members:

American Institute of
Certified Public Accountants

Kentucky Society of
Certified Public Accountants

Tennessee Society of
Certified Public Accountants

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

To the City Council
City of Elkton, KY

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Elkton, KY, as of and for the year ended June 30, 2012, which collectively comprise City of Elkton, KY 's basic financial statements and have issued our report thereon dated January 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Elkton, KY, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Elkton, KY 's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Elkton, KY's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkton, KY's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses 2012-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of City of Elkton, KY in a separate letter dated January 23, 2013.

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLC

Princeton, Kentucky

January 23, 2013

CITY OF ELKTON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

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.

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

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-1 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.