

CITY OF ELKTON, KENTUCKY  
BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2015  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ELKTON, KENTUCKY  
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**CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and members of the City Council  
City of Elkton, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1(T) to the financial statements, in 2015, the City adopted the following new accounting guidance:

- GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability and schedule of contributions on pages 3–12, 44, 45, and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2016, on our consideration of the City of Elkton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elkton, Kentucky's internal control over financial reporting and compliance.

***Thurman Campbell Group, PLC***

Hopkinsville, Kentucky  
January 15, 2016

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015. 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, 2015, the City's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources for a total net position of \$8,621,099.
- Fund balance, a measure of current financial resources, increased in the governmental funds by \$119,651 to a June 30, 2015 balance of \$1,793,537. Of this amount, \$1,273,290 is unassigned.
- The City's business-type activities (water, sewer and waste management) net position as of June 30, 2015 totaled \$5,137,744, a decrease of \$126,072 from the prior year.
- The City's general fund balance as of June 30, 2015 was \$1,343,609, an increase of \$235,536 over the prior year. Of the total fund balance, \$1,273,290 is unassigned. The unassigned general fund balance represents 67.1% 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 \$7,919,722.

**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 an reporting in addition to the basic financial statements themselves.

**Government-wide financial statements**

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

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

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

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

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

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 two categories: governmental funds and proprietary funds.

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

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

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

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

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

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

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

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities had a net position of \$3,483,355, while business-type activities had a net position of \$5,137,744, for total city wide net position of \$8,621,099 as of June 30, 2015.

Statement of Net Position of Governmental and Business-Type Activities						
June 30, 2015						
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b><u>ASSETS</u></b>						
Current and other assets	\$ 1,990,802	\$ 1,742,002	\$ 1,378,683	\$ 1,459,954	\$ 3,369,485	\$ 3,201,956
Capital assets	2,257,382	1,584,511	5,662,340	5,763,317	7,919,722	7,347,828
Total assets	4,248,184	3,326,513	7,041,023	7,223,271	11,289,207	10,549,784
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>						
Deferred outflows related to pensions	77,835	-	43,129	-	120,964	-
Total deferred outflows of resources	77,835	-	43,129	-	120,964	-
<b><u>LIABILITIES</u></b>						
Current liabilities	201,413	74,757	227,100	220,564	428,513	295,321
Net pension liability	596,402	-	336,928	-	933,330	-
Long-term liabilities	6,709	14,348	1,356,104	1,402,655	1,362,813	1,417,003
Total liabilities	804,524	89,105	1,920,132	1,623,219	2,724,656	1,712,324
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Deferred inflows related to pensions	38,140	-	26,276	-	64,416	-
Total deferred inflows of resources	38,140	-	26,276	-	64,416	-
<b><u>NET POSITION</u></b>						
Net investment in capital assets	2,243,034	1,556,257	4,248,686	4,303,971	6,491,720	5,860,228
Restricted assets	251,192	256,140	1,093,647	1,026,130	1,344,839	1,282,270
Unrestricted assets	989,129	1,425,011	(204,589)	269,951	784,540	1,694,962
Total net position	\$ 3,483,355	\$ 3,237,408	\$ 5,137,744	\$ 5,600,052	\$ 8,621,099	\$ 8,837,460

In the City as a whole, the largest portion of net position, \$6,491,720 or 75%, 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.

The net position of governmental activity funds was \$3,483,355, with \$2,243,034 or 64% being invested in capital assets and \$989,129 or 28% unrestricted. The unrestricted net position of governmental funds include fund balances of the General Fund and various special revenue funds and may be used to meet the City's ongoing obligations to citizens and creditors.

The net position of the City's business-type activities was \$5,137,744. Of the net position, \$4,248,686 or 83% were invested in capital assets.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

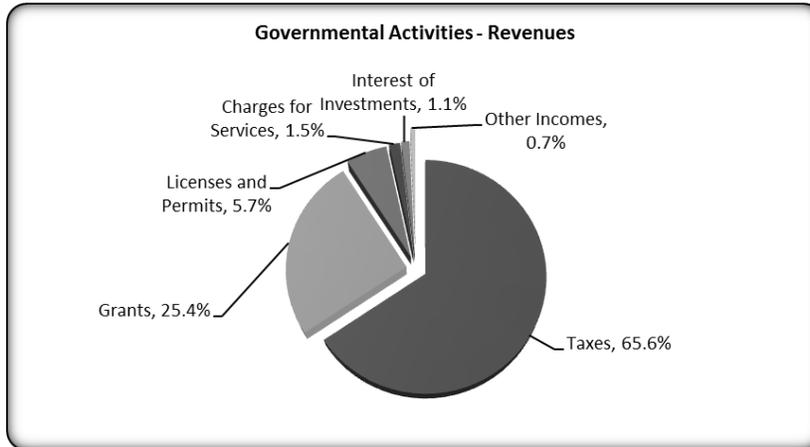
**Statement of Activities**

Statement of Activities of Governmental and Business-Type Activities						
For the Year Ended June 30, 2015						
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 25,427	\$ 27,812	\$ 989,391	\$ 986,263	\$ 1,014,818	\$ 1,014,075
Operating Grants and Contributions	89,886	124,248	-	1,979	89,886	126,227
Capital Grants and Contributions	-	-	-	-	-	-
General Revenues:						
Taxes	1,089,236	1,090,581	-	-	1,089,236	1,090,581
Licenses and Permits	94,650	86,698	-	-	94,650	86,698
Grants and Contributions not restricted to Specific Programs	331,199	19,279	-	-	331,199	19,279
Interest on Investments	18,953	24,046	13,558	16,952	32,511	40,998
Gain/(Loss) on Sale of Fixed Assets	6,800	(1,702)	-	(1,810)	6,800	(3,512)
Other Income	19,199	11,453	17,633	17,475	36,832	28,928
Transfers In/(Out)	(14,400)	(7,200)	14,400	7,200	-	-
Total Revenues	1,660,950	1,375,215	1,034,982	1,028,059	2,695,932	2,403,274
<b>Expenditures:</b>						
General Government	457,814	480,321	-	-	457,814	480,321
Public Safety	560,908	610,099	-	-	560,908	610,099
Public Works	239,854	269,905	-	-	239,854	269,905
Community Development	-	900	-	-	-	900
Culture and Recreation	18,731	19,699	-	-	18,731	19,699
Interest on Long-term Debt	1,280	733	-	-	1,280	733
Water	-	-	537,516	512,125	537,516	512,125
Sewer	-	-	541,552	537,245	541,552	537,245
Solid Waste	-	-	81,986	82,393	81,986	82,393
Total Expenditures	1,278,587	1,381,657	1,161,054	1,131,763	2,439,641	2,513,420
Change in Net Position	382,363	(6,442)	(126,072)	(103,704)	256,291	(110,146)
Net Position, Beginning (Restated)	3,100,992	3,107,434	5,263,816	5,367,520	8,364,808	8,474,954
Net Position, Ending	\$ 3,483,355	\$ 3,100,992	\$ 5,137,744	\$ 5,263,816	\$ 8,621,099	\$ 8,364,808

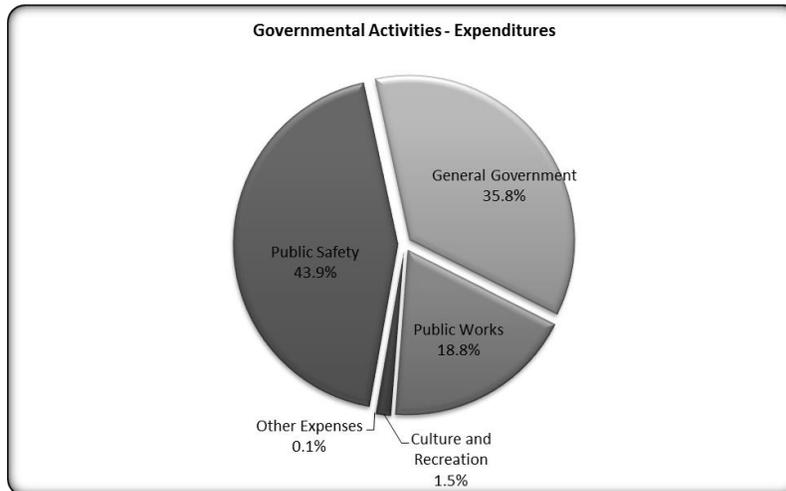
Governmental Activities

Revenues for the City's governmental activities totaled \$1,660,950. Taxes, which primarily include property taxes and payroll taxes, totaled \$1,089,236 which is 65.6% of total revenue. Grants totaled \$421,085 and accounted for about 25.4% of total revenues. Licenses and permits, which primarily include occupational (business) license fees, accounted for \$94,650 or 5.7% of the total. Charges for services totaled \$25,427, or 1.5% of revenues. Interest on investments totaled \$18,953, or about 1.1% of revenues. Finally, other incomes totaled \$11,599, or 0.7% of revenues.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015



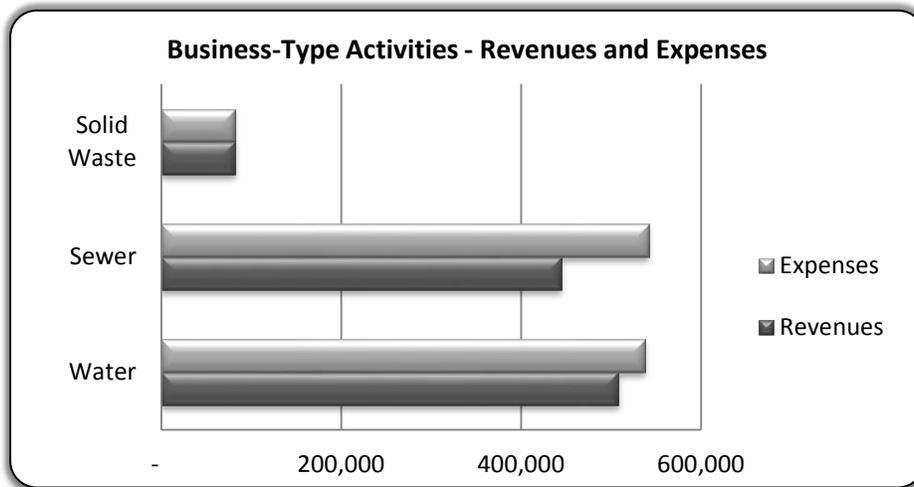
Total expenses of the City's governmental activities were \$1,278,587. The largest expenditure at 43.9% of total expenses \$560,908 was for Public Safety, which includes police and fire protection. The second largest category of expense is general government, which totaled \$457,814 or 35.8% of expenses. Public works was third and totaled \$239,854, or 18.8%. Culture and recreation expenses totaled \$18,731, or 1.5% of the total. Finally, other expenses totaled \$1,280, or 0.1% of total expenditures.



Business-type Activities

Revenues for business-type activities totaled \$1,034,982 for the fiscal year ended June 30, 2015. Of this total, 95.6% of total revenue received was from Charges for Services in the amount of \$989,391. Interest income accounted for 1.3% of total revenues, or \$13,558. Expenses for business-type activities totaled \$1,161,054. Water department expenses accounted for \$537,516 of total expenditures, or 46.3%. Sewer department expenses accounted for 46.6% of total expenses, or \$541,552. Finally, the solid waste department accounted for 7.1% of total business-type activities expenditures with \$81,986 in expenses.

CITY OF ELKTON, KENTUCKY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
 FOR THE YEAR ENDED JUNE 30, 2015



**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, 2015 reflect a combined ending fund balance of \$1,793,537, an increase of about \$119,651 from the prior year. Of the total fund balance, \$1,273,290 is unassigned and is available for spending at the City's discretion. The remainder \$520,247 is restricted for prepaid expenses, mortgage receivables and cemetery maintenance.

**General Fund Highlights**

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the total balance in the General Fund was \$1,343,609, which is an increase of \$235,536 from the prior year. Of the total General Fund balance, 94.8% (\$1,273,290) 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 67.1% of total general fund revenues.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

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

<b>General Fund - Revenues by Source</b>						
	FY 2015		FY 2014		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
<b>Revenues by Source</b>						
Taxes	\$ 1,085,745	57.2%	\$ 1,083,317	84.5%	\$ 2,428	0.22%
Licenses and Permits	94,650	5.0%	86,698	6.8%	7,952	9.17%
Intergovernmental Revenues	14,150	0.7%	27,699	2.2%	(13,549)	-48.92%
Charges for Services	25,427	1.3%	27,812	2.2%	(2,385)	-8.58%
Interest Income	14,139	0.7%	18,841	1.5%	(4,702)	-24.96%
Grant Income	331,199	17.4%	-	0.0%	331,199	N/A
Other Income	19,199	1.0%	11,453	0.9%	7,746	67.63%
Total Revenues	\$ 1,584,509	83.4%	\$ 1,255,820	98.0%	\$ 328,689	26.17%
Total Other Financing (uses)	314,659	16.6%	25,718	2.0%	288,941	1123.50%
Total Revenues and Other Financing (uses)	\$ 1,899,168	100.0%	\$ 1,281,538	100.0%	\$ 617,630	48.19%

- The General Fund saw about a 48% increase in total revenue and other financing sources over last year.
- The largest percentage increase in revenue came from Total Other Financing, which increased by 1,124%, or \$288,941 over last year. This increase is mostly due to the sale of the West Main Street property to the Todd County Health Department. Also, transfers to the general fund from special revenue funds to pay for the city's portion of the South Streets Avenue Project.
- The largest total increase in revenue was in Grant Income, which increased in the amount of \$331,199. This increase is mostly due to increase in grant revenue due to the South Streets Avenue Project
- The largest total decrease in revenue was a \$13,549 decrease in Intergovernmental Revenue, a decrease of 48%.

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

<b>General Fund - Expenditures by Function</b>						
	FY 2015		FY 2014		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
		of Total		of Total		of Change
<b>Expenditures by Function</b>						
General Government	\$ 408,228	24.5%	\$ 446,328	33.8%	\$ (38,100)	-8.54%
Public Works	179,620	10.8%	173,968	13.2%	5,652	3.25%
Public Safety	516,649	31.1%	535,896	40.5%	(19,247)	-3.59%
Culture and Recreation	20,291	1.2%	21,809	1.6%	(1,518)	-6.96%
Capital Outlay	523,658	31.5%	123,138	9.3%	400,520	325.26%
Debt Service	15,186	0.9%	20,760	1.6%	(5,574)	-26.85%
Total Expenditures	\$ 1,663,632	100.0%	\$ 1,321,899	100.0%	\$ 341,733	25.85%

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

- Overall, General Fund expenditures increased by 26%, a total of \$341,733 over last year.
- The largest total decrease in expenditures was in the area of General Government with a decrease in expenditures of \$38,100 from last year.
- The largest total increase in expenditures was a \$400,520 increase in Capital Outlay expenditures. The increase was mainly due to construction of new sidewalks, curb, gutter and drainage lines on South Streets Avenue.

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

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

Proprietary Funds								
Statement of Revenues, Expenses and Changes in Fund Net Position								
	Water		Sewer		Solid Waste		Total	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Operating Revenues	\$ 494,740	\$ 491,020	\$ 430,160	\$ 432,486	\$ 82,124	\$ 82,211	\$ 1,007,024	\$ 1,005,717
Operating Expenses	530,096	509,911	526,755	522,179	81,986	82,393	1,138,837	1,114,483
Operating Income (loss)	(35,356)	(18,891)	(96,595)	(89,693)	138	(182)	(131,813)	(108,766)
Non-operating revenues (expenses)	(1,076)	5,212	(7,742)	(7,507)	159	157	(8,659)	(2,138)
Income (loss) before transfers	(36,432)	(13,679)	(104,337)	(97,200)	297	(25)	(140,472)	(110,904)
Transfer in (out)	7,200	7,200	7,200	-	-	-	14,400	14,400
Net income (loss)	\$ (29,232)	\$ (6,479)	\$ (97,137)	\$ (97,200)	\$ 297	\$ (25)	\$ (126,072)	\$ (103,704)
Net Position, beginning of year	1,089,522	1,096,001	4,153,447	4,250,647	20,847	20,872	5,263,816	6,014,420
Net Position, end of year	\$ 1,060,290	\$ 1,089,522	\$ 4,056,310	\$ 4,153,447	\$ 21,144	\$ 20,847	\$ 5,137,744	\$ 5,263,816

- The **water** fund accounts for the operation and maintenance of the water distribution system for City customers and a few County customers. The funds operating revenue increased by \$3,720. The water fund saw an increase in operating expenditures by \$20,185. Most of the increase is due to increase in purchased water attributed mostly to water loss. Overall, the water fund saw a net loss of \$29,232. Therefore, net position of the water fund as of June 30, 2015 decreased to a total of \$1,060,290.
- The **sewer** fund accounts for the operation and maintenance of the sanitary sewer system and wastewater treatment facilities in the City. The funds operating revenue saw a decrease of \$2,326 over the previous year, while operating expenses increased by \$4,576. The increase in expenditures was mostly due to increase in maintenance at the sewer treatment plant. As of June 30, 2015, the sewer fund saw a net loss of \$97,137 for a net position of \$4,056,310.
- 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 \$297. Currently, the City bids residential solid waste collection and passes the expense along directly to customers. The net position as of June 30, 2015 for the solid waste fund is \$21,144.

CITY OF ELKTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

**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 increased by about 35.1%, or \$503,400. The total expenditure budget was increased by \$317,500 or approximately 22%. These changes can be briefly summarized as follows:

- Although there were several minor changes throughout the budget, the main modification to the budget was reflected in decreases in revenues (Intergovernmental) and expenditures (Capital Outlay) because construction of the South Streets Avenue Sidewalk Project was expected to begin in FY2014, however was delayed until FY2015.

For the year, general fund actual revenues and other financing sources came in about \$39,182 (2.1%) less than expected. Actual expenditures were \$97,148 less than expected, or nearly 5.6% below budgetary estimates. These discrepancies were mainly due to the completion of the South Streets Avenue Project carrying over to FY2016.

**CAPITAL ASSETS**

The City's capital assets (net of accumulated depreciation) for governmental activities as of June 30, 2015 totaled \$2,257,382. For business-type activities, total capital assets amount to \$5,662,340. The City's total net capital assets as of June 30, 2015 totaled \$7,919,722.

City of Elkton Capital Assets			
June 30, 2015			
	Governmental	Business-Type	
	Activities	Activities	Total
Land	\$ 130,545	\$ 138,500	\$ 269,045
Buildings and Improvements	1,013,293	-	1,013,293
Park and Land Improvements	889,177	-	889,177
Equipment	147,774	110,301	258,075
Vehicles	76,593	21,990	98,583
Plant and Lines	-	5,391,549	5,391,549
Construction in Progress	-	-	-
Total	\$ 2,257,382	\$ 5,662,340	\$ 7,919,722

**DEBT ADMINISTRATION**

At the end of the fiscal year, the City had a total outstanding debt of \$1,428,002. Of the total debt, \$14,348 is payable from the City's General Fund from the purchase of a 2014 Ford Explorer made in August 2013.

The total outstanding debt for Business Type Activities totaled \$1,413,654 as of June 30, 2015. The largest portion this long-term debt in the amount of \$579,067 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 \$63,395 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 \$328,000 from the 2007 Sewer System Revenue Bonds that were issued for construction of the Wastewater Treatment Plant Upgrade and Sewer System Improvements Project. The sewer system also received a 1% interest

CITY OF ELKTON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2015

loan in March 2011 through KIA for several sewer main extensions in the city with an outstanding debt of \$111,546. Finally, in June 2014, the city received a low interest loan through KIA to separate the water distribution system from intersecting lines with the Todd County Water District and to replace an old water line on Goebel Avenue with a total balance of \$331,646 as of June 30, 2015.

<b>City of Elkton Outstanding Debt</b>			
<b>June 30, 2015</b>			
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Elkton Bank and Trust - 2014 Ford Explorer	\$ 14,348	\$ -	\$ 14,348
KIA Loan - Water Meter Project	-	63,395	63,395
Rural Development Loan - Sewer Plant	-	328,000	328,000
KIA Loan - Sewer Plant Debt Retirement	-	579,067	579,067
KIA Loan - Sewer Extension Project	-	111,546	111,546
KIA Loan - Water Separation and Goebel Extension	-	331,646	331,646
Total	<u>\$ 14,348</u>	<u>\$ 1,413,654</u>	<u>\$ 1,428,002</u>

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

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

An ongoing issue the city has been dealing with for many years is water loss, or water that is leaking from the system or not being accurately billed to customer. Several years ago, the Utility Department found and repaired a large leak in a water main that brought the city’s water loss down to about 10% annually. For the year ended June 30, 2015, the water loss increased to about 25%. The average water loss for similar systems is approximately 15-20%, so finding additional water loss can save the water fund several thousand dollars. If water loss is not found and expenses continue to increase, a water rate adjustment will be needed in future years. Also, maintenance issues on water tanks that have been put off for several years need to be addressed in future years.

Ongoing maintenance of the sewer system continues to increase at a fast rate and therefore the system continues to see a net loss at the end of the year. Sewer rate increases are expected in the near future in order to address repairs and maintenance to the system.

**REQUESTS FOR INFORMATION**

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2015

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
<b>Current assets:</b>			
Cash	\$ 647,162	\$ 174,748	\$ 821,910
Investments	921,033	-	921,033
<b>Receivables:</b>			
Taxes, net	7,447	-	7,447
Accounts	-	111,889	111,889
Other	69,353	-	69,353
Internal balances, net	31,021	(31,021)	-
Prepaid expenses	45,125	29,420	74,545
Total current assets	<u>1,721,141</u>	<u>285,036</u>	<u>2,006,177</u>
<b>Restricted assets:</b>			
Restricted cash	20,862	160,095	180,957
Restricted investments	190,299	933,552	1,123,851
Total restricted assets	<u>211,161</u>	<u>1,093,647</u>	<u>1,304,808</u>
<b>Noncurrent assets:</b>			
Mortgages receivable	58,500	-	58,500
Capital assets (not being depreciated)	130,545	138,500	269,045
Capital assets, net	2,126,837	5,523,840	7,650,677
Total noncurrent assets	<u>2,315,882</u>	<u>5,662,340</u>	<u>7,978,222</u>
Total assets	<u>4,248,184</u>	<u>7,041,023</u>	<u>11,289,207</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows related to pensions	77,835	43,129	120,964
Total deferred outflows of resources	<u>77,835</u>	<u>43,129</u>	<u>120,964</u>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities:</b>			
Accounts payable	160,272	32,687	192,959
Accrued liabilities	33,502	27,266	60,768
Withholdings and other payables	-	6,881	6,881
Customer deposits	-	102,716	102,716
Current maturities of long-term debt	7,639	57,550	65,189
Total current liabilities	<u>201,413</u>	<u>227,100</u>	<u>428,513</u>
<b>Noncurrent liabilities:</b>			
Net pension liability	596,402	336,928	933,330
Long-term debt	6,709	1,356,104	1,362,813
Total noncurrent liabilities	<u>603,111</u>	<u>1,693,032</u>	<u>2,296,143</u>
Total liabilities	<u>804,524</u>	<u>1,920,132</u>	<u>2,724,656</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows related to pensions	38,140	26,276	64,416
Total deferred inflows of resources	<u>38,140</u>	<u>26,276</u>	<u>64,416</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	2,243,034	4,248,686	6,491,720
<b>Restricted for:</b>			
Mortgages receivable	58,500	-	58,500
<b>Cemetery perpetual care:</b>			
Cash	2,393	-	2,393
Investment	190,299	-	190,299
Special funds	-	1,093,647	1,093,647
Unrestricted	989,129	(204,589)	784,540
Total net position	<u>\$ 3,483,355</u>	<u>\$ 5,137,744</u>	<u>\$ 8,621,099</u>

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Government activities:							
General government	\$ 457,814	\$ 12,105	\$ 5,900	\$ -	\$ (439,809)	\$ -	\$ (439,809)
Public safety	560,908	13,322	8,250	-	(539,336)	-	(539,336)
Public works	239,854	-	75,736	-	(164,118)	-	(164,118)
Culture and recreation	18,731	-	-	-	(18,731)	-	(18,731)
Interest on long term debt	1,280	-	-	-	(1,280)	-	(1,280)
Total government activities	<u>1,278,587</u>	<u>25,427</u>	<u>89,886</u>	<u>-</u>	<u>(1,163,274)</u>	<u>-</u>	<u>(1,163,274)</u>
Business-type activities:							
Water	537,516	477,107	-	-	-	(60,409)	(60,409)
Sewer	541,552	430,160	-	-	-	(111,392)	(111,392)
Solid Waste	81,986	82,124	-	-	-	138	138
Total business activities	<u>1,161,054</u>	<u>989,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(171,663)</u>	<u>(171,663)</u>
Total city	<u>\$ 2,439,641</u>	<u>\$ 1,014,818</u>	<u>\$ 89,886</u>	<u>\$ -</u>	<u>(1,163,274)</u>	<u>(171,663)</u>	<u>(1,334,937)</u>
General revenues:							
Taxes					1,089,236	-	1,089,236
Licenses and permits					94,650	-	94,650
Non-program grants and contributions					331,199	-	331,199
Interest on investments					18,953	13,558	32,511
Gain (loss) on sale of fixed asset					6,800	-	6,800
Other income					19,199	17,633	36,832
Transfers					(14,400)	14,400	-
Total general revenues and transfers					<u>1,545,637</u>	<u>45,591</u>	<u>1,591,228</u>
Change in net position					<u>382,363</u>	<u>(126,072)</u>	<u>256,291</u>
Net position, beginning (previously reported)					3,230,141	5,600,053	8,830,194
Prior period adjustmen (note 14)					(129,149)	(336,237)	(465,386)
Net position, beginning (restated)					<u>3,100,992</u>	<u>5,263,816</u>	<u>8,364,808</u>
Net position, ending					<u>\$ 3,483,355</u>	<u>\$ 5,137,744</u>	<u>\$ 8,621,099</u>

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

CITY OF ELKTON, KENTUCKY  
BALANCE SHEET  
GOVERNEMENTAL FUNDS  
JUNE 30, 2015

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 303,718	\$ 343,444	\$ 647,162
Investments	921,033	-	921,033
Receivables:			
Taxes, net	7,447	-	7,447
Other	67,142	2,211	69,353
Prepaid expenses	45,126	-	45,126
Mortgages receivable	-	58,500	58,500
Due from other funds	181,274	4,800	186,074
Restricted cash	18,469	2,393	20,862
Restricted investments	-	190,299	190,299
	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,544,209	\$ 601,647	\$ 2,145,856
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
Accounts payable	\$ 158,807	\$ 1,465	\$ 160,272
Accrued liabilities	33,502	-	33,502
Due to other funds	4,800	150,254	155,054
	<hr/>	<hr/>	<hr/>
Total liabilities	197,109	151,719	348,828
	<hr/>	<hr/>	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues - taxes	3,491	-	3,491
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	3,491	-	3,491
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u>			
Nonspendable:			
Prepaid expenses	45,126	-	45,126
Restricted	-	251,192	251,192
Committed	25,193	198,736	223,929
Unassigned	1,273,290	-	1,273,290
	<hr/>	<hr/>	<hr/>
Total fund balance	1,343,609	449,928	1,793,537
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 1,544,209	\$ 601,647	\$ 2,145,856
	<hr/>	<hr/>	<hr/>

CITY OF ELKTON, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2015

Total fund balance - total government funds \$ 1,793,537

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

Capital assets (net of accumulated depreciation) used in governmental activities  
activities are not financial resources and therefore are not reported in the funds. 2,257,382

Other revenues are not available to pay for current period expenditures and  
therefore are reported as deferred inflows of resources in the funds. 3,491

Certain long-term obligations are not due and payable in the current period  
and therefore are not reported in the funds.

Net pension liability	(596,402)
Deferred outflows related to pensions	77,835
Deferred inflows related to pension	(38,140)
Debt obligations	<u>(14,348)</u>

Net position of governmental activities \$ 3,483,355

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,085,745	\$ -	\$ 1,085,745
Licenses and permits	94,650	-	94,650
Intergovernmental revenues	14,150	75,736	89,886
Charges for services	25,427	-	25,427
Interest income	14,139	4,814	18,953
Grant income	331,199	-	331,199
Other income	19,199	-	19,199
	<u>1,584,509</u>	<u>80,550</u>	<u>1,665,059</u>
Expenditures:			
Current:			
General government	408,228	-	408,228
Public works	179,620	12,039	191,659
Public safety	516,649	23,837	540,486
Culture and recreation	20,291	-	20,291
Capital outlay	523,658	-	523,658
Debt service:			
Principal	13,906	-	13,906
Interest	1,280	-	1,280
Total expenditures	<u>1,663,632</u>	<u>35,876</u>	<u>1,699,508</u>
Revenues over (under) expenditures	<u>(79,123)</u>	<u>44,674</u>	<u>(34,449)</u>
Other financing sources (uses):			
Sale of fixed assets	168,500	-	168,500
Operating transfers in	148,043	-	148,043
Operating transfers out	(1,884)	(160,559)	(162,443)
Total other financing (uses)	<u>314,659</u>	<u>(160,559)</u>	<u>154,100</u>
Net change in fund balance	235,536	(115,885)	119,651
Fund balance, beginning of year	<u>1,108,073</u>	<u>565,813</u>	<u>1,673,886</u>
Fund balance, end of year	<u>\$ 1,343,609</u>	<u>\$ 449,928</u>	<u>\$ 1,793,537</u>

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, 2015

Net change in fund balance - total governmental funds \$ 119,651

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 (\$143,821) was more than the capital outlays and disposals  
(net of related loss) of \$358,413 in the current period. 214,592

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the governmental funds. 3,491

Net pension expense is an actuarial calculation and does not require the use of  
current financial resources and is excluded as an expenditure in the  
governmental funds.

Contributions recorded as deferred outflows 77,835  
Pension expense recorded in the governmental fund (47,112)

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. 13,906

Change in net position of governmental activities \$ 382,363

CITY OF ELKTON, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015

<u>ASSETS</u>	Business-Type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
Current assets:				
Cash	\$ 142,914	\$ 11,149	\$ 20,685	\$ 174,748
Accounts receivable, net	111,889	-	-	111,889
Due from other funds	-	39,995	7,291	47,286
Prepaid expenses	13,840	15,580	-	29,420
Total current assets	268,643	66,724	27,976	363,343
Restricted assets:				
Restricted cash	109,263	50,832	-	160,095
Restricted investments	422,965	510,587	-	933,552
Total restricted assets	532,228	561,419	-	1,093,647
Noncurrent assets:				
Capital assets (not being depreciated)	55,000	83,500	-	138,500
Capital assets, net	955,672	4,568,168	-	5,523,840
Total noncurrent assets	1,010,672	4,651,668	-	5,662,340
Total assets	1,811,543	5,279,811	27,976	7,119,330
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows related to pensions	21,263	21,866	-	43,129
Total deferred outflows of resources	21,263	21,866	-	43,129
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	18,982	6,873	6,832	32,687
Accrued liabilities	11,522	15,744	-	27,266
Payroll withholdings and other payables	3,264	3,617	-	6,881
Due to other funds	61,927	16,380	-	78,307
Customer deposits	102,716	-	-	102,716
Current portion of note	18,655	38,895	-	57,550
Total current liabilities	217,066	81,509	6,832	305,407
Noncurrent liabilities:				
Net pension liability	166,110	170,818	-	336,928
Note payable	376,386	979,718	-	1,356,104
Total noncurrent liabilities	542,496	1,150,536	-	1,693,032
Total liabilities	759,562	1,232,045	6,832	1,998,439
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows related to pensions	12,954	13,322	-	26,276
Total deferred inflows of resources	12,954	13,322	-	26,276
<u>NET POSITION</u>				
Net investment in capital assets	615,631	3,633,055	-	4,248,686
Restricted for:				
Special funds	532,228	561,419	-	1,093,647
Unrestricted	(87,569)	(138,164)	21,144	(204,589)
Total net position	\$ 1,060,290	\$ 4,056,310	\$ 21,144	\$ 5,137,744

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

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Solid Waste	Total
Operating revenues:				
Charges for services	\$ 477,107	\$ 430,160	\$ 82,124	\$ 989,391
Miscellaneous	17,633	-	-	17,633
Total operating revenue	<u>494,740</u>	<u>430,160</u>	<u>82,124</u>	<u>1,007,024</u>
Operating expenses:				
Personal services	168,765	171,104	-	339,869
Purchased water	239,749	-	-	239,749
Materials and supplies	72,170	188,496	-	260,666
Depreciation	49,412	165,724	-	215,136
Contractual services	-	1,431	81,986	83,417
Total operating expenses	<u>530,096</u>	<u>526,755</u>	<u>81,986</u>	<u>1,138,837</u>
Operating income (loss)	(35,356)	(96,595)	138	(131,813)
Nonoperating revenue (expenses):				
Interest income	6,344	7,055	159	13,558
Interest expense	(7,420)	(14,797)	-	(22,217)
Total nonoperating revenues (expenses)	<u>(1,076)</u>	<u>(7,742)</u>	<u>159</u>	<u>(8,659)</u>
Income (loss) before transfers	(36,432)	(104,337)	297	(140,472)
Transfer in	<u>7,200</u>	<u>7,200</u>	<u>-</u>	<u>14,400</u>
Change in net assets	<u>(29,232)</u>	<u>(97,137)</u>	<u>297</u>	<u>(126,072)</u>
Net position, beginning (previously reported)	1,255,291	4,323,915	20,847	5,600,053
Prior period adjustment (note 14)	(165,769)	(170,468)	-	(336,237)
Net position, beginning (restated)	<u>1,089,522</u>	<u>4,153,447</u>	<u>20,847</u>	<u>5,263,816</u>
Net position, ending	<u>\$ 1,060,290</u>	<u>\$ 4,056,310</u>	<u>\$ 21,144</u>	<u>\$ 5,137,744</u>

CITY OF ELKTON, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Cash flows from operating activities:				
Cash received from customers	\$ 522,141	\$ 430,216	\$ 82,124	\$ 1,034,481
Cash payments for operating expenses	(328,803)	(206,804)	(81,986)	(617,593)
Cash payments to employees	(173,769)	(175,784)	-	(349,553)
Net cash provided (used) by operating activities	19,569	47,628	138	67,335
Cash flows from non-capital financing activities:				
Operating transfers in/(out) from other funds	28,623	16,861	(535)	44,949
Net cash provided (used) by noncapital financing activities	28,623	16,861	(535)	44,949
Cash flows from capital and related financing activities:				
Acquisition and construction of property, plant and equipment	(29,227)	(84,932)	-	(114,159)
Proceeds from long-term debt	10,999	-	-	10,999
Principal paid on long-term debt	(18,359)	(38,332)	-	(56,691)
Interest paid on long term debt	(7,420)	(14,797)	-	(22,217)
Net cash provided (used) by capital and related financing activities	(44,007)	(138,061)	-	(182,068)
Cash flows from investing activities:				
Interest on cash and investments	6,344	7,055	159	13,558
Net cash provided by investing activities	6,344	7,055	159	13,558
Net (decrease) increase in cash and cash equivalents	10,529	(66,517)	(238)	(56,226)
Cash and cash investments, beginning of year	664,613	639,085	20,923	1,324,621
Cash and cash investments, end of year	<u>\$ 675,142</u>	<u>\$ 572,568</u>	<u>\$ 20,685</u>	<u>\$ 1,268,395</u>
Reconciliation of total cash and cash investments:				
Current assets - cash	\$ 142,914	\$ 11,149	\$ 20,685	\$ 174,748
Restricted assets - cash	532,228	561,419	-	1,093,647
Total cash and cash investments	<u>\$ 675,142</u>	<u>\$ 572,568</u>	<u>\$ 20,685</u>	<u>\$ 1,268,395</u>

CITY OF ELKTON, KENTUCKY  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	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)	\$ (35,356)	\$ (96,595)	\$ 138	\$ (131,813)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	49,412	165,724	-	215,136
(Increase) decrease in:				
Accounts receivable	9,455	56	-	9,511
Other receivable	14,406	-	-	14,406
Prepaid expense	(13,840)	(15,580)	-	(29,420)
Deferred outflows	(21,263)	(21,866)	-	(43,129)
Increase (decrease) in:				
Accounts payable	(3,149)	(1,297)	-	(4,446)
Other withholdings and payables	2,964	3,617	-	6,581
Customer deposits	3,540	-	-	3,540
Accrued liabilities	446	247	-	693
Deferred inflows	12,954	13,322	-	26,276
Net cash provided (used) by operating activities	<u>\$ 19,569</u>	<u>\$ 47,628</u>	<u>\$ 138</u>	<u>\$ 67,335</u>

CITY OF ELKTON, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS

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

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

**A. Reporting Entity**

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

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

Excluded from the reporting entity:

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

These units have no assets, liabilities and fund equity at June 30, 2015, and had no material financial activities for the year then ended.

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

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

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

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

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

**B. Basis of Presentation**

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

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

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

**Fund Accounting**

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

**Governmental Funds**

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

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

**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.

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

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

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

**Measurement Focus**

Government-wide and Proprietary Financial Statements

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

Fund Financial Statements

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

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

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

**C. Basis of Accounting**

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

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

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

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

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

Unearned Revenue

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

Expenses/Expenditures

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

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

**D. Deposits and Investments**

For purposes of financial statement presentation, all highly liquid investments (including restricted cash and investment assets) with original maturities of less than one year when purchased by the City are considered to be cash equivalents. Currently the City only holds certificates of deposit as investments which are recorded at cost.

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

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

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

- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency
- (f) Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency
- (h) Bonds or certificates of indebtedness of the state of Kentucky and of its agencies and instrumentalities
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- (j) Shares of mutual funds, each of which shall have the following characteristics:
  - 1. The mutual fund shall be an open-ended diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
  - 2. The management company of the investment company shall have been in operation for at least five years.
  - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section

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

**E. Prepaid items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

**F. Inventories**

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

**G. Capital Assets**

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

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

The City maintains a capitalization policy of \$250. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The City capitalizes interest cost incurred as part of the cost of constructing fixed assets, when material. All reported assets are depreciated except for land. Improvements are depreciated over the remaining estimated useful lives of the related capital assets.

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

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

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, 2015 there were no infrastructure asset additions.

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

<u>Assets</u>	<u>Estimated Lives</u>
Buildings	30 years
Equipment	7-10 years
Vehicles	5 years

Governmental activities capital assets and related depreciation expenses are only reported in the Governmental Activities columns on the government-wide financial statements. Because their measurement focus is on “current financial resources,” capital assets and related depreciation expenses are not recorded in the governmental fund-type fund financial statements. Instead, in the governmental fund-type fund financial statements, capital asset acquisitions are reported as capital outlay expenditures.

Capital assets reported in both governmental and enterprise funds are carried at cost and depreciation is calculated using the straight line method.

**H. Interfund Balances**

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

**I. Compensated Absences**

The City accrues vacation leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2015. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements.

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

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

**J. 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.

**K. Net Position**

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

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

**L. Fund Balances:**

Governmental funds classify fund balances in the following five components:

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

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.

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

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

As of June 30, 2015, fund balance components balances are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General	\$ 45,126	\$ -	\$ 25,193	\$ 1,273,290	\$ 1,343,609
Other Funds	-	251,192	198,736	-	449,928
Total	<u>\$ 45,126</u>	<u>\$ 251,192</u>	<u>\$ 223,929</u>	<u>\$ 1,273,290</u>	<u>\$ 1,793,537</u>

**N. Interfund Activity**

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

**O. Estimates**

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

**P. Stewardship, Compliance and Accountability**

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

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

**Q. Accounts Receivable**

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

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

**R. Restricted and Unrestricted Resources**

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

**S. Deferred Outflows and Inflows of Resources**

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

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The City has two types of items that arise under the modified accrual basis of accounting that qualifies for reporting in these categories. The Statement of Net Position reports deferred outflows and inflows related to pension requirements and the Balance Sheet-Governmental Fund reports a deferred inflow related to unavailable property tax revenue.

**T. New Pronouncements**

Effective for the fiscal year ending June 30, 2015, the City adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability (net pension liability) of the employer and non-employer contributing entities to employee's defined benefit pensions to be measured as a portion of the present value of projected benefit payment to be provided through the pension plans to active and inactive employees that are attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes.

Effective for the fiscal year ending June 30, 2015, the City adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entities of a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

**NOTE 2 – CASH AND INVESTMENTS**

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

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the City, includes disclosure of the following:

- Risks related to custodial credit risk of bank deposits;

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2015, the carrying amount of City’s deposits (including certificates of deposit) was \$3,047,201 and the bank balance of \$3,050,552 was categorized as follows:

Insured by FDIC	\$ 501,178
Uninsured and collateralized with securities held by the pledging financial institution's agent but not in the name of the City.	2,549,374
Uninsured and uncollateralized	<u>          -</u>
Total	<u><u>\$ 3,050,552</u></u>

As of June 30, 2015, the City had petty cash on hand of \$550.

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, 2015 are as follows:

Real property - \$0.245
Personal property - \$0.206
Motor Vehicles and Watercraft - \$0.303

Property tax receivables are shown net of an allowance for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end. The allowance account at June 30, 2015 is \$7,633.

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

**NOTE 3 – RECEIVABLES (continued)**

**B. Mortgages Receivable**

During prior years, the City participated in the Department of Housing and Urban Development community development block grant program. The objective of the program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for 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 \$58,500 have been granted through June 30, 2015. 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, 2015 was \$22,714 for loans made with funds from a grant for the Main Street project and \$35,786 for loans made with funds from a grant project for the Marion Street area.

**C. Utility Receivable**

The City maintains a utility fund for the billing and collecting of water, sewer and solid waste revenues. The City bills on a monthly basis for residential and industrial customers. For the year ended June 30, 2015, the balance of the receivable account is \$111,889 which consists of billings for June service billed in July. The City maintains a high level of collectability and therefore does not maintain an allowance against this amount.

**NOTE 4 – INTERFUND ACTIVITIES**

Individual fund activities at June 30, 2015 were as follows:

	Interfund Receivable	Interfund Payable	Interfund Transfers in	Interfund Transfers out
General fund	\$ 181,274	\$ (4,800)	\$ (160,559)	\$ 14,400
KLEFPF	-	(2,211)	-	-
RLF	3,019	(105,200)	-	117,716
MRA	1,781	(40,455)	-	40,455
Perpetual Care	-	(2,388)	-	2,388
Water fund	-	(61,927)	(7,200)	-
Sewer	39,996	(16,380)	(7,200)	-
Solid Waste	7,291	-	-	-
Total	<u>\$ 233,361</u>	<u>\$ (233,361)</u>	<u>\$ (174,959)</u>	<u>\$ 174,959</u>

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

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

**NOTE 5 – CONTINGENCIES**

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

**NOTE 6 – RISK MANAGEMENT**

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

**NOTE 7 - CLAIMS AND JUDGEMENTS**

The City is party to a pending suit as of June 30, 2015. 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 8 – 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 9 – LEASES**

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 10 – 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, 2015. The City is currently liable for compensated absences of the following:

	<u>June 30, 2015</u>
City of Elkton - General Fund	\$ 4,943
Water Fund	5,978
Sewer Fund	<u>4,609</u>
	<u>\$ 15,530</u>

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

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

**NOTE 11 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 130,545	\$ -	\$ -	\$ 130,545
<b>Capital Assets Being Depreciated:</b>				
Buildings & Improvements	1,705,253	9,377	(252,000)	1,462,630
Park and Land Improvements	651,124	452,547	-	1,103,671
Equipment	591,387	25,688	-	617,075
Vehicles	400,813	32,500	-	433,313
Total Capital Assets	3,479,122	520,112	(252,000)	3,747,234
<b>Less Accumulated Depreciation:</b>				
Buildings & Improvements	(488,993)	(50,644)	90,300	(449,337)
Park and Land Improvements	(182,383)	(32,111)	-	(214,494)
Equipment	(425,373)	(43,928)	-	(469,301)
Vehicles	(339,582)	(17,138)	-	(356,720)
Total Accumulated Depreciation	(1,436,331)	(143,821)	90,300	(1,489,852)
Governmental Activities - Capital Assets, net	\$ 2,042,791	\$ 376,291	\$ (161,700)	\$ 2,257,382

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 52,694
Public Safety	44,192
Public Works	46,935
Total Depreciation Expense	\$ 143,821

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

**NOTE 11 – CAPITAL ASSETS (continued)**

Business-Type Activities	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 138,500	\$ -	\$ -	\$ 138,500
Construction in process	335,244	-	(335,244)	-
Capital Assets Being Depreciated:				
Plant & lines	8,567,908	406,693	-	8,974,601
Equipment	440,297	19,149	-	459,446
Vehicles	101,642	23,561	-	125,203
<b>Total Capital Assets</b>	<b>9,583,591</b>	<b>449,403</b>	<b>(335,244)</b>	<b>9,697,750</b>
Less Accumulated Depreciation				
Plant & lines	(3,390,658)	(192,394)	-	(3,583,052)
Equipment	(327,974)	(21,171)	-	(349,145)
Vehicles	(101,642)	(1,571)	-	(103,213)
<b>Total Accumulated Depreciation</b>	<b>(3,820,274)</b>	<b>(215,136)</b>	<b>-</b>	<b>(4,035,410)</b>
Business-Type Activities				
Capital Assets, net	<u>\$ 5,763,317</u>	<u>\$ 234,267</u>	<u>\$ (335,244)</u>	<u>\$ 5,662,340</u>

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

Water	\$ 49,412
Sewer	<u>165,724</u>
 Total Depreciation Expense	 <u><u>\$ 215,136</u></u>

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

**NOTE 12 – PENSION PLAN**

**General Information about the Pension Plan**

*Plan description-* Employees with membership in the Kentucky Retirement Systems (KRS) of the County Employee Retirement System are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

*Benefits provided-* Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. There are currently three benefit Tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 are those that began participation 9/1/2008 through 12/31/2013 and Tier 3 are those members that began participation on or after 1/1/14.

*Non-Hazardous-* Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

*Hazardous-* Tier 1 members are eligible to retire with an unreduced benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must have at least 24 months. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must be 36 months. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 members are also eligible to retire at any age with 25 year of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

*Contributions-* Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, total employer contributions for the City were \$120,963 based on a rate of 17.67% for Non-Hazardous and 34.33% for Hazardous members through covered payroll. The contribution rate of 17.67% for Non-Hazardous comprised of contributions of \$88,134. The contribution rate of 34.33% for Hazardous comprised contributions of \$32,829.

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

**NOTE 12 – PENSION PLAN (Continued)**

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

*Pension liability-* At June 30, 2014, the City reported a liability of \$933,330 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions to the pension plan during the year ended June 30, 2014, relative to the contributions of all members for the year ended June 30, 2014. At the June 30, 2014 measurement date, the City’s proportion was 0.020992 percent. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, as shown in the GASB 67 report for CERS submitted on November 17, 2014.

*Pension expense-* For the year ended June 30, 2015; the City recognized a pension expense of \$55,108.

*Deferred outflows of resources and deferred inflows of resources-* For the year ended June 30, 2015; the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on plant investments	-	64,416
Contributions subsequent to the measurement date	120,964	-
	\$ 120,964	\$ 64,416

The amount shown for “Contributions subsequent to the measurement date” will be recognized a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	\$ (16,104)
2017	(16,104)
2018	(16,104)
2019	(16,104)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

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

**NOTE 12 – PENSION PLAN (Continued)**

*Actuarial assumptions-* The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 percent
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.75%-13.0% for nonhazardous members and 4.5%-20.0% for hazardous members, including inflation.
Investment rate of return	7.75% per annum, compounded annual for retirement and insurance benefits.

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions are intended to be a long term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30 %	8.45 %
International Equity	22	8.85
Emerging Market Equity	5	10.50
Private Equity	7	1.25
Real Estate	5	7.00
Core U.S. Fixed Income	10	5.25
High Yield U.S. Fixed Income	5	7.25
Non-U.S. Fixed Income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	1	3.25
Total	<u>100 %</u>	

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

**NOTE 12 – PENSION PLAN (Continued)**

*Discount rate*- The discount rate used to measure the total pension liability was 7.75%. The discount rate does not use a municipal bond rate.

*Projected cash flows*- The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected future benefit payments for all current plan members were projected through 2116.

*Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate*- The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate for non-hazardous:

	1% Decrease (6.75%)	Current rate (7.75%)	1% Increase (8.75%)
City of Elkton's net pension liability			
Hazardous	\$ 320,523	\$ 244,809	\$ 180,756
Non-Hazardous	906,048	688,521	496,332
<b>Total</b>	<b>\$ 1,226,571</b>	<b>\$ 933,330</b>	<b>\$ 677,088</b>

*Pension plan fiduciary net position*- Detailed information about the pension plan's fiduciary net position is available in a separately issued CERS financial report.

**NOTE 13 – LONG-TERM OBLIGATIONS**

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Current</u>
<u>Governmental Activities:</u>					
Note Payable - Elkton Bank & Trust	\$ 6,579	\$ -	\$ 6,579	\$ -	\$ -
Note Payable - Elkton Bank & Trust	21,675	-	7,327	14,348	7,639
	<u>\$ 28,254</u>	<u>\$ -</u>	<u>\$ 13,906</u>	<u>\$ 14,348</u>	<u>\$ 7,639</u>
<u>Business-Type Activities:</u>					
KIA Loan \$808,000	\$ 606,000	\$ -	\$ 26,933	\$ 579,067	\$ 26,933
KIA Loan \$80,233	67,158	-	3,763	63,395	3,801
Bond Issue \$360,000	333,000	-	5,000	328,000	5,500
KIA Loan \$136,761	117,944	-	6,398	111,546	6,462
KIA Loan \$346,243	335,244	10,999	14,597	331,646	14,854
	<u>\$ 1,459,346</u>	<u>\$ 10,999</u>	<u>\$ 56,691</u>	<u>\$ 1,413,654</u>	<u>\$ 57,550</u>

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

**NOTE 13 – LONG-TERM OBLIGATIONS (continued)**

Debt service requirement on long-term obligations at June 30, 2015 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 7,639	\$ 690	\$ 57,550	\$ 22,514
2017	6,709	278	57,914	21,846
2018	-	-	58,284	21,173
2019	-	-	59,659	20,494
2020	-	-	60,040	15,101
2021-2025	-	-	309,628	68,545
2026-2030	-	-	328,083	55,687
2031-2035	-	-	277,095	42,105
2036-2040	-	-	105,900	28,956
2041-2045	-	-	81,000	14,108
2046	-	-	18,501	763
Totals	<u>\$ 14,348</u>	<u>\$ 968</u>	<u>\$ 1,413,654</u>	<u>\$ 311,292</u>

Interest expense for the year ended June 30, 2014

Governmental Activities:	\$ 1,280
Business-type Activities:	<u>22,217</u>
Total	<u>\$ 23,497</u>

**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 2016 and is secured by the vehicle.

**Note Payable – Elkton Bank & Trust**

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

**Kentucky Infrastructure Authority Loan**

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

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

**NOTE 13 – LONG-TERM OBLIGATIONS (continued)**

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, 2015, the reserve account totaled \$24,373.

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

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

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

The City is required to transfer into the Sinking Fund an amount equal to one sixth of the next succeeding six-month interest payment and one twelfth of the principal maturing on the next succeeding principal payment date. In addition the City is required to transfer to the Depreciation Fund \$160 per month until \$19,200 has accumulated. As of June 30, 2015 the depreciation fund balance was \$16,306.

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

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

**Kentucky Infrastructure Authority Loan**

On December 1, 2009 the City adopted a resolution to receive federal funding through Kentucky Infrastructure Authority (KIA). The resolution called for funding in the amount of \$174,800 for the purpose of financing the cost of meter replacement. The balance of \$174,800 had a 54.1% forgiveness rate to create a liability of the City of \$80,233. The loan carries a 1% interest rate with principal and interest payments made on June 1 and December 1 each year. The loan calls for \$900 to be placed in a "Replacement and Maintenance" account on or before the December 1 payment until the balance reaches \$9,000. The "R&M" account had a June 30, 2015 balance of \$4,950.

**Kentucky Infrastructure Authority Loan**

In June 2011, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$136,761. The purpose of the agreement was to assist the city with the cost of the sewer line extension project completed in August 2011. The terms of the loan are 1% interest rate with a 20 year payout. There is no discount or premium associated with this loan and the effective interest rate is the stated rate. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$6,838. The "M&R" account had a June 30, 2015 balance of \$10,153.

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

**NOTE 13 – LONG-TERM OBLIGATIONS (continued)**

**Kentucky Infrastructure Authority Loan**

In October 2013, the City entered into an assistance agreement with Kentucky Infrastructure Authority in the amount of \$346,243. The purpose of the agreement was to assist the city with the cost of the Elkton, Todd County Water District Separation Project, to be completed in 2014. The terms of the loan are 1.75% interest rate with a 20 year payout. The loan requires the city to establish a "Maintenance and Reserve" account and deposit an amount equal to 10% of loan payments until the balance in the account is 5% of the original loan amount or \$17,600. The "M&R" account had a June 30, 2015 balance of \$1,460.

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

For the year ended June 30, 2015 a donated building was found to have been omitted from being recorded in a previous year causing a restatement of net position. The city recorded the building and associated accumulated depreciation which increased net position by \$458,281 for governmental activities.

Pursuant to GASB 68, proportionate share of net pension liability is required to be recorded in the financial statements of each contributing member of County Employee Retirement System pension plans. For the year ended June 30, 2015, the net position was decreased by \$587,430 for governmental activities, \$165,769 for the water enterprise fund and \$170,468 for the sewer enterprise fund. Previously issued financial statements have not been restated, as this adjustment is not required to be made retrospectively.

CITY OF ELKTON, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 1,077,900	\$ 1,093,900	\$ 1,085,745	\$ (8,155)
Licenses and permits	86,100	89,400	94,650	5,250
Intergovernmental revenues	10,500	8,400	14,150	5,750
Charges for services	19,300	14,200	25,427	11,227
Interest income	14,500	13,500	14,139	639
Grant income	186,250	341,550	331,199	(10,351)
Other income	16,200	30,000	19,199	(10,801)
Total revenues	1,410,750	1,590,950	1,584,509	(6,441)
Expenditures:				
Current:				
General government	450,200	440,800	408,228	32,572
Public works	134,800	134,800	179,620	(44,820)
Public safety	586,380	565,880	516,649	49,231
Culture and recreation	21,100	21,100	20,291	809
Capital outlay	234,000	581,400	523,658	57,742
Debt service:				
Principal	15,000	15,000	13,906	1,094
Interest	1,800	1,800	1,280	520
Total expenditures	1,443,280	1,760,780	1,663,632	97,148
Revenues over (under) expenditures	(32,530)	(169,830)	(79,123)	90,707
Other financing sources (uses):				
Sale of fixed assets	-	168,000	168,500	500
Debt proceeds	-	-	-	-
Operating transfers in	42,100	197,300	148,043	(49,257)
Operating transfers out	(17,900)	(17,900)	(1,884)	16,016
Total other financing sources (uses)	24,200	347,400	314,659	(32,741)
Net change in fund balance	\$ (8,330)	\$ 177,570	235,536	\$ 57,966
Fund balance, beginning of year (restated)			1,108,073	
Fund balances, end of year			\$ 1,343,609	

CITY OF ELKTON, KENTUCKY  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -  
 COUNTY EMPLOYEE RETIREMENT SYSTEM  
 LAST TEN FISCAL YEARS

	2014
Total net pension liability (asset) for Employees Retirement System	\$ 4,446,202,000
City's proportion of the net pension liability (asset)	0.0210%
City's proportionated share of the net pension liability (asset)	\$ 933,330
City's covered-employee payroll	\$ 590,037
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	158.18%
Total pension plan's fiduciary net position as a percentage of the total pension liability	66.80%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Addition years will be reported when available.

CITY OF ELKTON, KENTUCKY  
 SCHEDULE OF CONTRIBUTIONS –  
 COUNTY EMPLOYEE RETIRMENT SYSTEM  
 LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution (ADC)	\$ 120,963	\$ 128,801
Contribution in relation to the actuarially determined contribution	120,963	128,801
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 593,902	\$ 590,037
Contribution as a percentage of covered-employee payroll	20.37%	21.83%

This schedule is intended to present a 10-year trend. However, the information in this schedule is not required to be presented retroactively. Additional years will be reported when available.

CITY OF ELKTON, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

Notes Related to Schedule of Proportionate Share of the Net Pension Liability – County Employee Retirement System

*Changes of benefit terms:* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

*Changes of assumption:* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Notes Related to the Schedule of Contributions – County Employee Retirement System

*Method and assumptions used in calculations of actuarially determined contributions:* The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation	5-year smoothed market
Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment Rate of Return	7.75 percent, net of pension plan investment expense, including inflation



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

To the Honorable Mayor and members of the City Council  
City of Elkton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elkton, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Elkton, Kentucky's basic financial statements and have issued our report thereon dated January 15, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness 2015-1.

**Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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

*Thurman Campbell Group, PLC*

Hopkinsville, Kentucky  
January 15, 2016

CITY OF ELKTON, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015

**A. SUMMARY OF AUDITOR'S RESULTS**

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

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

2015-1 Accounting:

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

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

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

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

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