

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2011

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Council
City of Elsmere, Kentucky**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Elsmere, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, on our consideration of the City of Elsmere, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

The management's discussion and analysis on pages 3-7 and the budgetary comparison information on pages 24-26 is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elsmere, Kentucky's basic financial statements. The other supplementary information on pages 27-28, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
June 28, 2012

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Our discussion and analysis of City of Elsmere, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's financially significant funds.

Financial Highlights

As of the close of the current and prior fiscal years, the City's governmental funds reported fund balances as follows:

<u>Funds</u>	<u>FYE 2010 Amount</u>	<u>2011 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 10</u>
General	\$ 3,191,678	\$ 3,036,038	-4.88%	\$ (155,640)
Street Tax	267,272	158,385	-40.74%	(108,887)
Municipal Aid	266,430	555,361	108.45%	288,931
Other Funds	183,575	160,237	-12.71%	(23,338)
Total Fund Balance	<u>\$ 3,908,955</u>	<u>\$ 3,910,021</u>	0.03%	<u>\$ 1,066</u>

The General Fund balance decreased slightly due to actual revenues being \$136,395 under budgeted revenues and actual expenditures being \$58,589 over budgeted expenditures, net of transfers. The Municipal Road Aid fund increased due to less expenditure required this year in the fund. The Street Tax fund decreased slightly from normal roadwork operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statement of Net Assets and Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole in a better or worse financial position as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets as the difference between assets, what the citizens own, and liabilities, what the citizens owe. This is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other factors also, such as changes in the City's property tax, gross receipts, payroll and insurance premium tax base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net assets and the Statement of Activities, we have listed the governmental activities:

- Governmental activities: All of the City's basic services are reported here, including general government, public safety, public works and streets, general services, planning and inspection, waste collection, and recreation. Property taxes, payroll taxes, insurance premium taxes, charges for services (waste collection, etc.) and government grants finance most of these activities.

Fund Financial Statements

The Governmental Fund financial statements provide detailed information about the City's funds. Some funds are required to be established by State Statute or Municipal Ordinance (Ex. Street Tax Fund). However, the City Council establishes a few other funds to help it control and manage money for particular purposes (Ex. Sewer Fund and Turkeyfoot Acres fund) or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Fund).

Governmental funds: All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the differences between the government wide net assets financial statements and the governmental fund financial statements in the reconciliations within the audited financial statements.

Government-Wide Change in Net Assets

For the year ended June 30, 2011, net assets for all of the changed as follows:

	Governmental Activities
Beginning Net Assets	\$ 9,795,744
Increase in Net Assets	981,821
Ending Net Assets	<u>\$ 10,777,565</u>

Government-Wide Statement of Net Assets Summary

	Governmental Activities	
	2010	2011
Current Assets	\$ 4,067,195	\$ 6,706,373
Capital Assets, Net	6,123,825	6,444,451
Total Assets	<u>10,191,020</u>	<u>13,150,824</u>
Current Liabilities	170,949	313,259
Noncurrent Liabilities	224,327	2,060,000
Total Liabilities	<u>395,276</u>	<u>2,373,259</u>
Net Assets	<u>\$ 9,795,744</u>	<u>\$ 10,777,565</u>

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular

program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2011, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2010 Amount	FYE 2011 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 10
Property tax	\$ 1,296,128	\$ 1,217,456	-6.1%	\$ (78,672)
Payroll tax	974,809	956,059	-1.9%	(18,750)
Insurance premium tax	535,083	609,696	13.9%	74,613
Other taxes	85,969	115,084	33.9%	29,115
Licenses and permits	28,617	22,488	-21.4%	(6,129)
Fines and forfeitures	22,545	21,188	-6.0%	(1,357)
Charges for services	450,057	458,215	1.8%	8,158
Intergovernmental and grants	519,963	298,535	-42.6%	(221,428)
Rehabilitation loan payments	3,557	6,616	86.0%	3,059
Interest income	12,491	28,635	129.2%	16,144
Miscellaneous	11,514	21,706	88.5%	10,192
Total Revenues	<u>\$ 3,940,733</u>	<u>\$ 3,755,678</u>	-4.7%	<u>\$ (185,055)</u>

Property taxes collected decreased 6.1%, which correlated to an increase in deferred property tax revenues. Payroll taxes decreased 1.9%, which is significantly less than the 15% decrease in 2010. Insurance premium taxes increased 13.9% as a result of the new Kentucky statutes and disclosures required by insurance companies.

Intergovernmental and grant revenue decreased sharply because the City had received a Community Development Block Grant to renovate the Senior Citizen's Center in 2010.

Investment Income increased significantly due to investments at current rates being slightly higher than the prior year.

Expenditures	2010 Amount	FYE 2011 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 10
General government	\$ 459,747	\$ 451,050	-1.89%	\$ (8,697)
Public safety	1,058,854	1,357,977	28.25%	299,123
Public works	487,540	466,167	-4.38%	(21,373)
General services	36,086	-	-100.00%	(36,086)
Planning and inspection	28,980	19,921	-31.26%	(9,059)
Waste collection	452,035	411,796	-8.90%	(40,239)
Recreation	7,631	4,965	-34.94%	(2,666)
Capital outlay	1,112,290	458,319	-58.80%	(653,971)
Debt service	98,324	584,797	494.77%	486,473
Total Expenditures	<u>\$ 3,741,487</u>	<u>\$ 3,754,992</u>	0.36%	<u>\$ 13,505</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets were reported for the fiscal years ended as follows:

	Governmental Activities	
	<u>2010</u>	<u>2011</u>
Land	\$ 1,143,538	\$ 1,143,538
Construction in Progress	-	65,590
Buildings	959,595	1,022,975
Infrastructure	4,434,071	4,627,287
Vehicles	869,572	916,299
Equipment	539,608	629,014
Furniture and fixtures	32,095	32,095
Totals	<u>\$ 7,978,479</u>	<u>\$ 8,436,798</u>

This year's net increase of \$458,319 in capital assets included:

Streets and sidewalks projects	\$ 452,022
Senior center renovation	61,080
Park equipment	7,221
Police building renovation	2,300
Police equipment	14,476
Police vehicles	46,727
Public works vehicles	67,709
Infrastructure additions reclassified from construction in progress	(193,216)
	<u>\$ 458,319</u>

Debt

The City has \$2,295,000 in outstanding debt at June 30, 2011, compared to a \$305,263 debt at June 30, 2010, a 651.8% increase from 2010 as detailed below:

	Governmental Activities	
	<u>2010</u>	<u>2011</u>
Garvey road capital lease	\$ 290,165	\$ -
Police station capital lease	15,098	-
Road construction capital lease	-	2,295,000
Totals	<u>\$ 305,263</u>	<u>\$ 2,295,000</u>

In September 2010, City signed a capital lease for road construction in the amount of \$2,560,000. The City is making payments on the lease, starting in September 2010, but had yet to drawn any funds as of June 30, 2011. The future lease proceeds are listed on the Statement of Net Assets as an Asset Held in Trust.

GENERAL BUDGETARY HIGHLIGHTS

Over the course of the year, the city council revised the budget once.

Actual resources, across all funds, revenues were under budgeted amounts by \$150,987. Actual expenditures were over budget by \$351,630 due to \$51,302 in unbudgeted grant spending in the general fund and \$293,041 in spending above budgeted amounts due to principal and interest payments made on the street construction capital lease in the street tax fund. As a result, the City ended the year with revenues exceeding expenditures and transfers by \$686.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2012 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

The City is allowed by law to set an ad valorem rate that will generate 4% more revenue than last year. This year the Council voted to take the allowable 4% increase. The rate was set at 0.218 per hundred for the fiscal year ended June 30, 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk/Treasurer, Holli Harrison, at (859) 342-7911 or at the city building at 318 Garvey Avenue, Elsmere, KY 41018.

CITY OF ELSMERE, KENTUCKY**Statement of Net Assets**

June 30, 2011

ASSETS**Governmental
Activities**

Current Assets

Cash and cash equivalents	\$ 3,146,590
Investments	309,283
Receivables	
Taxes	477,888
Intergovernmental	45,960
Waste collection	57,149
Other	7,991
Notes receivable	13,662
Assets held in trust	2,560,000
Joint venture	87,850
Total Current Assets	<u>6,706,373</u>

Noncurrent Assets

Capital Assets

Land and construction in progress	1,209,128
Infrastructure	4,627,287
Buildings	1,022,975
Equipment	629,014
Vehicles	916,299
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(1,992,347)</u>

Net Capital Assets

6,444,451**TOTAL ASSETS**13,150,824**LIABILITIES**

Current Liabilities

Accounts payable	3,066
Accrued liabilities	40,916
Compensated absences	34,277
Current portion of leases payable	235,000
Total Current Liabilities	<u>313,259</u>

Noncurrent Liabilities

Leases payable	<u>2,060,000</u>
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TOTAL LIABILITIES2,373,259**NET ASSETS**

Invested in capital assets, net of related debt	6,709,451
Restricted	801,596
Unrestricted	<u>3,266,518</u>

TOTAL NET ASSETS\$ 10,777,565

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

CITY OF ELSMERE, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 458,968	\$ 24,878	\$ 292	\$ 51,302	\$ (382,496)
Public safety	1,402,315	3,000	71,046	5,038	(1,323,231)
Public works and street	543,461	-	161,399	9,750	(372,312)
Planning and inspection	19,921	-	-	-	(19,921)
Waste collection	411,796	490,734	-	-	78,938
Recreation	5,675	-	-	-	(5,675)
Interest on long-term debt	14,533	-	-	-	(14,533)
Total Governmental Activities	<u>\$ 2,856,669</u>	<u>\$ 518,612</u>	<u>\$ 232,737</u>	<u>\$ 66,090</u>	<u>(2,039,230)</u>

General Revenues

Taxes

Property taxes	1,249,110
Payroll tax	956,059
Insurance premium taxes	609,696
Other taxes	115,084
Licenses and permits	22,488
Fines and forfeitures	21,188
Interest income	28,635
Miscellaneous	18,791
Total general revenues	<u>3,021,051</u>

Change in net assets	981,821
Net assets, beginning	9,795,744
Net assets, ending	<u>\$ 10,777,565</u>

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

CITY OF ELSMERE, KENTUCKY
Balance Sheet - Governmental Funds
June 30, 2011

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,445,482	\$ 36,608	\$ 462,119	\$ 202,381	\$ 3,146,590
Investments	186,016	123,267	-	-	309,283
Receivables					
Taxes	454,508	23,380	-	-	477,888
Waste collection	57,149	-	-	-	57,149
Intergovernmental	31,351	-	14,609	-	45,960
Other	7,214	-	-	777	7,991
Notes receivable	-	-	-	13,662	13,662
Investment in joint venture	87,850	-	-	-	87,850
Due from other funds	71,815	27,407	78,633	-	177,855
TOTAL ASSETS	\$ 3,341,385	\$ 210,662	\$ 555,361	\$ 216,820	\$ 4,324,228
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 3,066	\$ -	\$ -	\$ -	\$ 3,066
Accrued liabilities	40,916	-	-	-	40,916
Deferred revenue	155,328	23,380	-	13,662	192,370
Due to other funds	106,037	28,897	-	42,921	177,855
TOTAL LIABILITIES	305,347	52,277	-	56,583	414,207
FUND BALANCES					
Restricted	87,850	158,385	555,361	-	801,596
Committed	-	-	-	160,237	160,237
Assigned	1,453,473	-	-	-	1,453,473
Unassigned	1,494,715	-	-	-	1,494,715
TOTAL FUND BALANCES	3,036,038	158,385	555,361	160,237	3,910,021
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,341,385	\$ 210,662	\$ 555,361	\$ 216,820	\$ 4,324,228

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

CITY OF ELSMERE, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets June 30, 2011
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Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance per balance sheet	\$ 3,910,021
Capital assets of \$8,436,798, less accumulated depreciation of (\$1,992,347), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,444,451
Assets held in trust are capital leases the City is responsible for repaying, but the lease funds have not yet been drawn by the City.	2,560,000
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the change in deferred items.	192,370
Long-term liabilities, including leases payable and compensated absences, may not be due and payable in the current period in the funds and therefore are not reported as liabilities in the governmental funds.	
Leases payable	(2,295,000)
Compensated absences	(34,277)
Net assets of governmental activities	<u>\$ 10,777,565</u>

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

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balances -****Governmental Funds****For the Year Ended June 30, 2011**

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 780,376	\$ 437,080	\$ -	\$ -	\$ 1,217,456
Payroll tax	956,059	-	-	-	956,059
Insurance premium tax	455,992	-	153,704	-	609,696
Other taxes	115,084	-	-	-	115,084
Licenses and permits	22,488	-	-	-	22,488
Fines, forfeitures, penalties	21,188	-	-	-	21,188
Charges for services	445,133	-	-	13,082	458,215
Intergovernmental	71,046	9,750	161,399	-	242,195
Grants	56,340	-	-	-	56,340
Rehabilitation loan payments	-	-	-	6,616	6,616
Interest income	27,388	243	442	562	28,635
Miscellaneous	21,706	-	-	-	21,706
Total Revenues	<u>2,972,800</u>	<u>447,073</u>	<u>315,545</u>	<u>20,260</u>	<u>3,755,678</u>
Expenditures					
Current Expenditures					
General government	426,811	-	-	24,239	451,050
Public safety	1,357,977	-	-	-	1,357,977
Public works and streets	427,437	4,113	26,614	8,003	466,167
Planning and inspection	19,921	-	-	-	19,921
Waste collection	411,796	-	-	-	411,796
Recreation	4,965	-	-	-	4,965
Capital outlay	199,513	258,806	-	-	458,319
Debt service	291,756	293,041	-	-	584,797
Total Expenditures	<u>3,140,176</u>	<u>555,960</u>	<u>26,614</u>	<u>32,242</u>	<u>3,754,992</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(167,376)</u>	<u>(108,887)</u>	<u>288,931</u>	<u>(11,982)</u>	<u>686</u>
Other Financing Sources (Uses)					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(167,376)</u>	<u>(108,887)</u>	<u>288,931</u>	<u>(11,982)</u>	<u>686</u>
Fund Balance, beginning	<u>3,203,414</u>	<u>267,272</u>	<u>266,430</u>	<u>172,219</u>	<u>3,909,335</u>
Fund Balance, ending	<u>\$ 3,036,038</u>	<u>\$ 158,385</u>	<u>\$ 555,361</u>	<u>\$ 160,237</u>	<u>\$ 3,910,021</u>

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

CITY OF ELSMERE, KENTUCKY**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011**

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

Net change in fund balance - total governmental funds **\$ 686**

Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 458,319	
Depreciation expense	<u>(137,693)</u>	
		320,626

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 82,813

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences. 7,432

Repayment of leases payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 570,264

Change in net assets of governmental activities **\$ 981,821**

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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OVERVIEW OF ENTITY

The financial statements of the City of Elsmere, Kentucky, have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Reporting Entity

The City of Elsmere is a municipal corporation governed by an elected Mayor and six-member City Council. As required by generally accepted accounting principles, these financial statements present all activities for which the City is considered to be financially accountable.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the City are reported as a reduction of the related liability, rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, insurance taxes, payroll taxes, franchise taxes, waste collection assessments and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports on the following funds:

General Fund - The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents include demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City. The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Banker's acceptances.
4. Commercial paper.
5. Bonds of other states or local governments.
6. Mutual funds.

Receivables

No allowance for doubtful accounts is required.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes Receivable

Property taxes are levied as of November 1 on property values assessed on January 1. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Short-Term Inter-fund Receivables/Payables

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables."

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011 are recorded as prepaid items.

Capital Assets

Capital assets are reported in the governmental activities column of the government-wide Statement of Net Assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets with an initial, individual cost of \$500 or more. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the Statement of Net Assets. Infrastructure such as street, traffic signals and signs are capitalized. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense in the Statement of Activities, and accumulated depreciation is reported on the Statement of Net Assets. The range of lives used for depreciation purposes for each fixed asset class is as follows:

Description	Governmental Activities Estimated Lives
Buildings	50 Years
Buildings improvements	Remaining life of building
Public domain infrastructure	40 Years
Light vehicles	5 Years
Furniture and fixtures	7 Years
Equipment	5 - 7 Years

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay specified amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest reported as expenditures.

Fund Equity

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as state government restrictions or the funds restricted by the will of the City's voters. These include residual balances from the Kentucky Municipal Aid Road Fund, the Street Tax Fund, the joint venture investment, and the cash balance of the Community Development Block Grant.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These include residual balances from the Citywide Rehabilitation Fund, Turkeyfoot Acres Fund, and the Sewer Fund.

Assigned fund balances consist of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. The City considers the amounts in its certificates of deposit and its KLC investment as assigned fund balances.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

Revenues, Expenditures and Expenses – Inter-fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with City ordinance, prior to June 1, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. A public meeting is conducted to obtain taxpayer comment.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
5. Appropriations continue in effect until a new budget is adopted.
6. The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would change revenues and expenditures of any fund must be approved by the City Council. During the year the City Council adopted one supplementary appropriations ordinance.

NOTE C – DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents – The carrying amount of the City's cash equivalents (bank deposits, money market accounts and certificates of deposit with less than 90 days maturity) with financial institutions was \$3,146,590 at June 30, 2011.

CITY OF ELSMERE, KENTUCKY

Notes to Financial Statements

June 30, 2011

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. Deposits in financial institutions, reported as a component of cash and certificates of deposit, had a bank balance of \$3,455,873, of which, \$3,455,873 is insured by depository insurance or secured with collateral held by the financial institutions in the City's name.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City had custodial credit risk at June 30, 2011 of \$186,016, related to an investment in a Kentucky League of Cities Investment Pool, reported at fair value. This pool carries a rating of AAA and is invested in bonds and U.S. Treasury money market accounts. The related securities are uninsured and unregistered.

NOTE D - INVESTMENT IN JOINT VENTURE

During fiscal year 2002, the City joined with the City of Erlanger to create a Renaissance Program for the purposes of community revitalization. The joint venture was created by virtue of an interlocal agreement. A joint venture is an organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or an ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. This joint venture does not meet the criteria for inclusion in the City's financial report as a component unit since the City does not exercise administrative control. The City does report its equity interest in the joint venture using the equity method. An equity interest in a joint venture is manifest in the government having an explicit, measurable right to the net present or future resources of the joint venture. The investment in joint venture in the Statement of Net Assets is included in the unrestricted portion of the total net assets. The Cities of Erlanger and Elsmere have received a beautification grant from the Kentucky Transportation Cabinet with a local match of \$86,060. The match will be paid out of the joint venture. The funds were expected to be expended during the year ending June 30, 2011, but had not been expended at the date of these financial statements. Financial statements for the joint venture may be obtained by contacting the City of Elsmere.

NOTE E – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2011 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

CITY OF ELSMERE, KENTUCKY
Notes to Financial Statements
June 30, 2011

NOTE F – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,143,538	\$ -	\$ -	\$ 1,143,538
Construction in progress	-	258,806	(193,216)	65,590
Total Capital Assets Not Being Depreciated	1,143,538	258,806	(193,216)	1,209,128
Depreciable Capital Assets				
Infrastructure	4,434,071	193,216	-	4,627,287
Buildings	959,595	63,380	-	1,022,975
Vehicles	869,572	46,727	-	916,299
Equipment	539,608	89,406	-	629,014
Furniture and fixtures	32,095	-	-	32,095
Total Depreciable Capital Assets	6,834,941	392,729	-	7,227,670
Total Capital Assets at Historical Cost	7,978,479	651,535	(193,216)	8,436,798
Less Accumulated Depreciation				
Infrastructure	303,743	59,641	-	363,384
Buildings	346,073	11,418	-	357,491
Vehicles	730,662	9,280	-	739,942
Equipment	442,855	194	-	443,049
Furniture and fixtures	31,321	57,160	-	88,481
Total Accumulated Depreciation	1,854,654	137,693	-	1,992,347
Depreciable Capital Assets, Net	4,980,287	255,036	-	5,235,323
Total Capital Assets, Net	\$ 6,123,825	\$ 513,842	\$ (193,216)	\$ 6,444,451

Depreciation was charged to functions as follows:

Governmental Activities	Amount
General government	\$ 8,175
Public safety	51,317
Public works	77,491
Recreation	710
Total Depreciation	\$ 137,693

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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NOTE G – LONG-TERM DEBT

Police Station Capital Lease

On May 11, 1987 the City entered into a capital lease agreement for \$443,000 to purchase land and a building for its police station. This debt had an interest rate of 1.75% and matured on May 1, 2011. In July 2010, this loan was paid in full. The balance outstanding at June 30, 2011 is \$0.

Garvey Road Construction Lease

In June 2006, the City entered into a capital lease agreement for \$581,456 to reconstruct Garvey Road. This debt had an interest rate of 2.0% and matures on June 1, 2014. In July 2010, this loan was paid in full. The balance outstanding at June 30, 2011 is \$0.

Road Construction Capital Lease

In August 2010, the City signed a capital lease for \$2,560,000. The proceeds of this lease are to go to road reconstruction in the City. The City began paying principal and interest on this balance in September 2010; however as of June 30, 2011, these funds had yet to be drawn. The Statement of Net Assets shows an Asset Held in Trust to account for these funds which are available to the City. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2011 is \$2,295,000.

Summary of General Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Retirements/ Repayments	Balance June 30, 2011	Amounts Due Within 1 Year
Garvey road lease	\$ 290,165	\$ -	\$ (290,165)	\$ -	\$ -
Police station lease	15,098	-	(15,098)	-	-
Road construction lease	-	2,560,000	(265,000)	2,295,000	235,000
Compensated absences	41,709	-	(7,432)	34,277	34,277
Total	<u>\$ 346,972</u>	<u>\$ 2,560,000</u>	<u>\$ (577,695)</u>	<u>\$ 2,329,277</u>	<u>\$ 269,277</u>

NOTE H – COMPENSATED ABSENCE LIABILITY

The City allows employees to save and bank their unused vacation time. If an employee leaves the City with banked vacation time available, the City will pay the employee the balance of the vacation time due. This liability is carried as Current Liability on the Statement of Net Assets. The following is a summary of the liability the City has to its current employees:

	Balance June 30, 2010	Net Additions	Net Payments	Balance June 30, 2011	Amounts Due Within 1 Year
Compensated absences	<u>\$ 41,709</u>	<u>\$ -</u>	<u>\$ (7,432)</u>	<u>\$ 34,277</u>	<u>\$ 34,277</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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NOTE I – EMPLOYEE’S RETIREMENT SYSTEM

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of the Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-Living Adjustments (COLA) are provided at the discretion of the state legislature.

Non-Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.0% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an extra 1%. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee’s creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 8.0% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1%. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 33.25% of each employee’s creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2011
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The required contribution and the actual percentage contributed by the City for the current and previous four years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 271,587	100%
2010	222,841	100%
2009	204,011	100%
2008	220,214	100%
2007	171,834	100%

NOTE J – CLAIMS AND JUDGMENTS

Amounts received, or receivable, from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE K – INTERFUND ACTIVITY

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. There were no fund transfers to report for the year ended June 30, 2011.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated events through June 28, 2012, the date on which the financial statements were available for issue. The City has the following one event subsequent to June 30, 2011 through June 28, 2012 to disclose.

Subsequent to the date of these financial statements, and before the report date of June 28, 2012, the City has begun to draw upon the capital lease proceeds for road construction.

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - General Fund****For the Year Ended June 30, 2011**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 3,193,626</u>	<u>(232,833)</u>	<u>\$ 2,960,793</u>	<u>\$ 3,203,414</u>	<u>\$ 242,621</u>
Resources (inflows):					
Taxes	2,164,500	330,840	2,495,340	2,307,511	(187,829)
Licenses and permits	19,100	3,388	22,488	22,488	-
Intergovernmental	51,800	24,776	76,576	71,046	(5,530)
Fines, forfeitures, penalties	18,900	2,088	20,988	21,188	200
Charges for services	440,000	5,133	445,133	445,133	-
Interest income	5,000	22,388	27,388	27,388	-
Grants	-	-	-	56,340	56,340
Miscellaneous	10,400	10,882	21,282	21,706	424
Total resources (inflows)	<u>2,709,700</u>	<u>399,495</u>	<u>3,109,195</u>	<u>2,972,800</u>	<u>(136,395)</u>
Amounts available for appropriation	<u>5,903,326</u>	<u>166,662</u>	<u>6,069,988</u>	<u>6,176,214</u>	<u>106,226</u>
Charges to appropriations (outflows):					
General government	417,981	712	418,693	425,760	(7,067)
Public safety	1,380,820	(36,042)	1,344,778	1,344,828	(50)
Public works	428,368	(931)	427,437	427,437	-
Planning and inspection	20,500	(579)	19,921	19,921	-
Waste collection	440,000	(28,204)	411,796	411,796	-
Recreation	12,200	(183)	12,017	12,187	(170)
Capital projects	457,756	(10,811)	446,945	498,247	(51,302)
Total charges to appropriations	<u>3,157,625</u>	<u>(76,038)</u>	<u>3,081,587</u>	<u>3,140,176</u>	<u>(58,589)</u>
Interfund transfers	<u>(100,000)</u>	<u>(53,704)</u>	<u>(153,704)</u>	<u>-</u>	<u>153,704</u>
Budgetary fund balance, June 30	<u>\$ 2,645,701</u>	<u>\$ 188,996</u>	<u>\$ 2,834,697</u>	<u>\$ 3,036,038</u>	<u>\$ 201,341</u>

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

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Street Tax Fund
For the Year Ended June 30, 2011**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 43,633</u>	<u>\$ (29,994)</u>	<u>\$ 13,639</u>	<u>\$ 267,272</u>	<u>\$ 253,633</u>
Resources (Inflows):					
Steet tax	460,000	(22,920)	437,080	437,080	-
Intergovernmental	3,179,851	(3,170,101)	9,750	9,750	-
Interest	1,500	(1,257)	243	243	-
Total resources (inflows)	<u>3,641,351</u>	<u>(3,194,278)</u>	<u>447,073</u>	<u>447,073</u>	<u>-</u>
Amounts available for appropriation	<u>3,684,984</u>	<u>(3,224,272)</u>	<u>460,712</u>	<u>714,345</u>	<u>253,633</u>
Charges to appropriations (outflows):					
Debt service payments	-	-	-	293,041	(293,041)
Capital projects	<u>3,507,850</u>	<u>(3,244,931)</u>	<u>262,919</u>	<u>262,919</u>	<u>-</u>
Total expenses (outflows)	<u>3,507,850</u>	<u>(3,244,931)</u>	<u>262,919</u>	<u>555,960</u>	<u>(293,041)</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 177,134</u>	<u>\$ 20,659</u>	<u>\$ 197,793</u>	<u>\$ 158,385</u>	<u>\$ (39,408)</u>

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

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Municipal Road Fund
For the Year Ended June 30, 2011**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 260,045</u>	<u>\$ (22,862)</u>	<u>\$ 237,183</u>	<u>\$ 266,430</u>	<u>\$ 29,247</u>
Resources (inflows):					
Intergovernmental	161,181	14,810	175,991	161,399	(14,592)
Insurance premium tax	100,000	53,704	153,704	153,704	-
Interest	1,500	(1,058)	442	442	-
Total resources (inflows)	<u>262,681</u>	<u>67,456</u>	<u>330,137</u>	<u>315,545</u>	<u>(14,592)</u>
Amounts available for appropriation	<u>522,726</u>	<u>44,594</u>	<u>567,320</u>	<u>581,975</u>	<u>14,655</u>
Charges to appropriations (outflows):					
Streets	<u>261,181</u>	<u>(234,567)</u>	<u>26,614</u>	<u>26,614</u>	<u>-</u>
Budgetary fund balance, June 30	<u><u>\$ 261,545</u></u>	<u><u>\$ 279,161</u></u>	<u><u>\$ 540,706</u></u>	<u><u>\$ 555,361</u></u>	<u><u>\$ 14,655</u></u>

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

CITY OF ELSMERE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2011

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	\$ 131,577	\$ 59,556	\$ 11,248	\$ 202,381
Accounts receivable				
Employee	-	-	777	777
Note receivable	13,662	-	-	13,662
TOTAL ASSETS	<u>\$ 145,239</u>	<u>\$ 59,556</u>	<u>\$ 12,025</u>	<u>\$ 216,820</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ 13,662	\$ -	\$ -	\$ 13,662
Due to other funds	-	8,003	34,918	42,921
TOTAL LIABILITIES	<u>13,662</u>	<u>8,003</u>	<u>34,918</u>	<u>56,583</u>
FUND BALANCES				
Committed	131,577	51,553	(22,893)	160,237
TOTAL FUND BALANCES	<u>131,577</u>	<u>51,553</u>	<u>(22,893)</u>	<u>160,237</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 145,239</u>	<u>\$ 59,556</u>	<u>\$ 12,025</u>	<u>\$ 216,820</u>

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

CITY OF ELSMERE, KENTUCKY**Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Non-Major Governmental Funds
For the Year Ended June 30, 2011**

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
Revenues				
Loan repayments	\$ 6,616	\$ -	\$ -	\$ 6,616
Employee contributions	-	-	13,082	13,082
Interest	403	159	-	562
Total Revenues	<u>7,019</u>	<u>159</u>	<u>13,082</u>	<u>20,260</u>
Expenditures				
Streets	-	8,003	-	8,003
Rehab loan contracts	-	-	-	-
Bank services	-	-	471	471
FSA reimbursements	-	-	23,768	23,768
Total Expenditures	<u>-</u>	<u>8,003</u>	<u>24,239</u>	<u>32,242</u>
Excess (Deficit) of Revenues Over Expenditures	7,019	(7,844)	(11,157)	(11,982)
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	7,019	(7,844)	(11,157)	(11,982)
Fund Balance, beginning	124,558	59,397	(11,736)	172,219
Fund Balance, ending	<u>\$ 131,577</u>	<u>\$ 51,553</u>	<u>\$ (22,893)</u>	<u>\$ 160,237</u>

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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
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Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**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 Council
City of Elsmere, Kentucky**

We have audited the financial statements of the governmental activities and each major fund of the City of Elsmere, Kentucky (City), as of and for the year ended June 30, 2011 which collectively comprise the City of Elsmere, Kentucky's basic financial statements and have issued our report thereon dated June 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Elsmere, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Elsmere, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Elsmere, Kentucky's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Lack of Segregation of Duties

Condition: We noted that, due to the size of the City and financial considerations, the executing, recording and reconciling of transactions are performed by the same person.

Criteria: The processes of executing, recording, and reconciling a transaction should be performed by separate individuals to maintain segregation of duties.

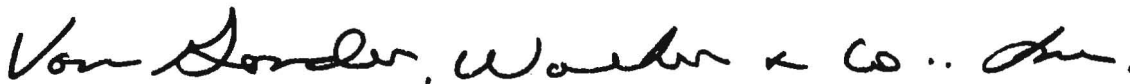
Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: The City could utilize an outside accountant to assist with reconciliation of cash accounts, as well as assisting with budgeting and the preparation of monthly financial reports; this would be an outstanding compensating control. Internal controls should continue to be implemented to segregate the duties of the personnel. Management should continue to monitor controls to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

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

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



Van Gorder, Walker & Co., Inc.

Erlanger, Kentucky

June 28, 2012



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June 28, 2012

To the Mayor and City Council of
The City of Elsmere, Kentucky

We have audited the financial statements of the City of Elsmere, Kentucky (City) for the year ended June 30, 2011, and have issued our report thereon dated June 28, 2012. Professional standards (SAS 114) require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 21, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Elsmere, Kentucky. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Elsmere, Kentucky are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting

them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of fixed asset depreciation is based on the depreciation basis as described in Note A and detailed in Note F to the Financial Statements. We evaluated the key factors and assumptions used to develop the fixed asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. There are no financial statement disclosures that are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered **no** significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit we suggested the following audit adjustments:

- \$106,037 to correct revenues recognized in the incorrect period.
- \$385,286 net adjustment to accrue insurance and payroll taxes.
- \$14,592 reduced MARF revenues to allow for 2010 receivables.
- \$7,582 to adjust Citywide Rehabilitation note receivable.
- \$60,493 to correct Turkeyfoot Acres revenues.

Management has corrected all such misstatements. Each of the misstatements detected as a result of audit procedures and corrected by management were material, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that **no** such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 28, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Over Financial Reporting


Professional standards (SAS 115) require that we provide you with information concerning the City's internal control over financial reporting. This information was provided as part of the City's Annual Financial Report in the "**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**", found on pages 29-30 of the Annual Financial Report.

Management Items

The misstatements listed above and corrected through audit adjustments are indicative of a lack of control over financial reporting, which are a deficiency in the City's internal controls. Since these adjustments all involved accounting accruals (i.e. to match the revenues to the correct period per Generally Accepted Accounting Principles), and did not involve inaccurately recorded data, we did not interpret this as a material weakness. However, we strongly suggest that the City consider allowing an outside accountant to assist, at the very least, in the annual closing of the City's books in preparation for the annual audit. Repeated failures to make these accruals may result in a material weakness in internal controls over financial reporting being given to the City.

Please feel free to contact us if we can be of any assistance. Thank you for allowing us to be of service to the City of Elsmere, Kentucky.

Sincerely,



John R. Chamberlin, CPA
Audit Manager