

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2012

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FINANCIAL STATEMENTS AND
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For the Year Ended June 30, 2012

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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, 2012, 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, 2012, 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 May 10, 2013, 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
May 10, 2013

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2011 Amount</u>	<u>FYE 2012 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 11</u>
General	\$ 3,036,038	\$ 2,994,006	-1.38%	\$ (42,032)
Street Tax	158,385	734,138	363.51%	575,753
Municipal Aid	555,361	407,564	-26.61%	(147,797)
Other Funds	160,237	156,045	-2.62%	(4,192)
Total Fund Balance	<u>\$ 3,910,021</u>	<u>\$ 4,291,753</u>	9.76%	<u>\$ 381,732</u>

The General Fund balance decreased slightly even though actual revenues were \$175,487 over budgeted revenues, net of transfers, and actual expenditures were \$8,681 under budgeted expenditures. The City had budgeted a decrease in fund balance for the year of (\$226,200). The Municipal Road Aid fund decreased due to more expenditure required this year in the fund. The Street Tax fund increased significantly because intergovernmental funds for roadwork were received during the year, but the related expenditures will not take place until fiscal year 2013.

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.

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)**

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, 2012, net assets for all of the changed as follows:

	<u>Governmental Activities</u>
Beginning Net Assets	\$ 10,777,565
Increase in Net Assets	<u>789,460</u>
Ending Net Assets	<u><u>\$ 11,567,025</u></u>

Government-Wide Statement of Net Assets Summary

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2012</u>
Current Assets	\$ 6,706,373	\$ 5,820,582
Capital Assets, Net	<u>6,444,451</u>	<u>7,952,964</u>
Total Assets	<u>13,150,824</u>	<u>13,773,546</u>
Current Liabilities	313,259	386,521
Noncurrent Liabilities	<u>2,060,000</u>	<u>1,820,000</u>
Total Liabilities	<u>2,373,259</u>	<u>2,206,521</u>
Net Assets	<u><u>\$ 10,777,565</u></u>	<u><u>\$ 11,567,025</u></u>

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)**

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, 2012, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2011 Amount	FYE 2012 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 11
Property tax	\$ 1,217,456	\$ 1,201,494	-1.3%	\$ (15,962)
Payroll tax	956,059	1,170,096	22.4%	214,037
Insurance premium tax	609,696	698,354	14.5%	88,658
Other taxes	115,084	125,150	8.7%	10,066
Licenses and permits	22,488	16,232	-27.8%	(6,256)
Fines and forfeitures	21,188	24,942	17.7%	3,754
Charges for services	458,215	400,504	-12.6%	(57,711)
Intergovernmental and grants	298,535	1,928,821	546.1%	1,630,286
Rehabilitation loan payments	6,616	5,106	-22.8%	(1,510)
Interest income	28,635	9,937	-65.3%	(18,698)
Miscellaneous	21,706	26,536	22.3%	4,830
Total Revenues	\$ 3,755,678	\$ 5,607,172	49.3%	\$ 1,851,494

Property taxes collected decreased 1.3%, which correlated to an increase in deferred property tax revenues. Payroll taxes rebounded significantly with a 22% increase in FY 2012, which is significantly better than the 1.9% decrease in 2011. Insurance premium taxes increased 14.5% as a result of the new Kentucky statutes and disclosures required by insurance companies.

Intergovernmental and grant revenue increased sharply because the City drew upon its capital lease and received funds from Sanitation District No. 1 and the Northern Kentucky Water District for road construction. Investment Income decreased significantly due to investments at current rates being lower than the prior year.

Expenditures	FYE 2011 Amount	FYE 2012 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 11
General government	\$ 451,050	\$ 511,492	13.40%	\$ 60,442
Public safety	1,357,977	1,317,760	-2.96%	(40,217)
Public works	466,167	910,595	95.34%	444,428
Planning and inspection	19,921	22,075	10.81%	2,154
Waste collection	411,796	482,244	17.11%	70,448
Recreation	4,965	12,223	146.18%	7,258
Capital outlay	458,319	1,675,429	265.56%	1,217,110
Debt service	584,797	293,622	-49.79%	(291,175)
Total Expenditures	\$ 3,754,992	\$ 5,225,440	39.16%	\$ 1,470,448

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	<u>2011</u>	<u>2012</u>
Land	\$ 1,143,538	\$ 1,143,538
Construction in Progress	65,590	997,413
Buildings	1,022,975	1,281,668
Infrastructure	4,627,287	4,938,658
Vehicles	916,299	731,487
Equipment	629,014	671,931
Furniture and fixtures	32,095	32,095
Totals	<u>\$ 8,436,798</u>	<u>\$ 9,796,790</u>

This year's net increase of \$1,675,429 in capital assets included:

Streets and sidewalks projects	\$ 1,554,565
Public works building	211,232
Police building renovation	47,461
Police equipment	27,544
Public works equipment	15,373
Police vehicles	49,540
Public works vehicles	81,085
Infrastructure additions reclassified from construction in progress	(311,371)
	<u>\$ 1,675,429</u>

Debt

The City has \$2,060,000 in outstanding debt at June 30, 2012, compared to a \$2,295,000 debt at June 30, 2011, a 10.2% decrease from 2011 as detailed below:

	Governmental Activities	
	<u>2011</u>	<u>2012</u>
Road construction capital lease	\$ 2,295,000	\$ 2,060,000
Totals	<u>\$ 2,295,000</u>	<u>\$ 2,060,000</u>

In September 2010, City signed a capital lease for road construction in the amount of \$2,560,000. The City started making payments on the lease, starting in September 2010, but had drawn only \$1,338,107 in lease funds as of June 30, 2012. The future lease proceeds are listed on the Statement of Net Assets as an Asset Held in Trust.

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (Continued)**

GENERAL BUDGETARY HIGHLIGHTS

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

Actual resources, across all major funds, revenues were under budgeted amounts by \$1,159,610 due primarily to a significant over budgeting of revenues expected to be drawn from the capital lease in FY 2012. Actual expenditures were under budget by \$2,219,675 due to slower than anticipated progress on the road construction. Just as funds were not drawn on the capital lease, they were also not expended. As a result, the City ended the year with revenues exceeding expenditures and transfers by \$381,732.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2013 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 keep the tax rate the same as the FY 2012 rate, which is set at 0.218 per hundred for the fiscal year ended June 30, 2013.

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 Administrator, Alex Mattingly, 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, 2012
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ASSETS	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 3,548,856
Investments	309,304
Receivables	
Taxes	560,125
Intergovernmental	23,600
Waste collection	56,009
Other	4,305
Notes receivable	8,640
Assets held in trust	1,221,893
Joint venture	87,850
Total Current Assets	<u>5,820,582</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	2,140,951
Infrastructure	4,938,658
Buildings	1,281,668
Equipment	671,931
Vehicles	731,487
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(1,843,826)</u>
Net Capital Assets	<u>7,952,964</u>
TOTAL ASSETS	<u>13,773,546</u>
LIABILITIES	
Current Liabilities	
Accounts payable	56,420
Accrued liabilities	57,342
Compensated absences	32,759
Current portion of leases payable	<u>240,000</u>
Total Current Liabilities	<u>386,521</u>
Noncurrent Liabilities	
Leases payable	<u>1,820,000</u>
TOTAL LIABILITIES	<u>2,206,521</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,114,857
Restricted	1,229,608
Unrestricted	<u>3,222,560</u>
TOTAL NET ASSETS	<u>\$ 11,567,025</u>

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

CITY OF ELSMERE, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2012

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	\$ 524,980	\$ 397	\$ 8,386	\$ -	\$ (516,197)
Public safety	1,356,104	9,364	45,334	3,145	(1,298,261)
Public works and street	1,022,102	5,672	189,388	329,112	(497,930)
Planning and inspection	22,075	-	-	-	(22,075)
Waste collection	482,244	400,504	-	-	(81,740)
Recreation	14,282	-	-	-	(14,282)
Interest on long-term debt	58,622	-	-	-	(58,622)
Total Governmental Activities	<u>\$ 3,480,409</u>	<u>\$ 415,937</u>	<u>\$ 243,108</u>	<u>\$ 332,257</u>	<u>(2,489,107)</u>
General Revenues					
Taxes					
Property taxes					1,207,320
Payroll tax					1,170,096
Insurance premium taxes					698,354
Other taxes					125,150
Licenses and permits					16,232
Fines and forfeitures					24,942
Interest income					9,937
Miscellaneous					26,536
Total general revenues					<u>3,278,567</u>
Change in net assets					789,460
Net assets, beginning					10,777,565
Net assets, ending					<u>\$ 11,567,025</u>

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

CITY OF ELSMERE, KENTUCKY
Balance Sheet - Governmental Funds
June 30, 2012

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,306,978	\$ 610,987	\$ 407,560	\$ 223,331	\$ 3,548,856
Investments	186,153	123,151	-	-	309,304
Receivables					
Taxes	530,919	29,206	-	-	560,125
Waste collection	56,009	-	-	-	56,009
Intergovernmental	23,600	-	-	-	23,600
Other	3,528	-	-	777	4,305
Notes receivable	-	-	-	8,640	8,640
Investment in joint venture	87,850	-	-	-	87,850
Due from other funds	68,063	-	4	-	68,067
TOTAL ASSETS	\$ 3,263,100	\$ 763,344	\$ 407,564	\$ 232,748	\$ 4,666,756
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 56,420	\$ -	\$ -	\$ -	\$ 56,420
Accrued liabilities	57,342	-	-	-	57,342
Deferred revenue	155,328	29,206	-	8,640	193,174
Due to other funds	4	-	-	68,063	68,067
TOTAL LIABILITIES	269,094	29,206	-	76,703	375,003
FUND BALANCES					
Restricted	87,850	734,138	407,564	-	1,229,552
Committed	-	-	-	156,045	156,045
Assigned	1,459,343	-	-	-	1,459,343
Unassigned	1,446,813	-	-	-	1,446,813
TOTAL FUND BALANCES	2,994,006	734,138	407,564	156,045	4,291,753
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,263,100	\$ 763,344	\$ 407,564	\$ 232,748	\$ 4,666,756

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, 2012
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Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance per balance sheet	\$ 4,291,753
Capital assets of \$9,796,790, less accumulated depreciation of (\$1,843,826), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,952,964
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.	1,221,893
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the change in deferred items.	193,174
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	(2,060,000)
Compensated absences	(32,759)
Net assets of governmental activities	<u>\$ 11,567,025</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, 2012**

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 755,602	\$ 445,892	\$ -	\$ -	\$ 1,201,494
Payroll tax	1,170,096	-	-	-	1,170,096
Insurance premium tax	532,281	-	166,073	-	698,354
Other taxes	125,150	-	-	-	125,150
Licenses and permits	16,232	-	-	-	16,232
Fines, forfeitures, penalties	24,942	-	-	-	24,942
Charges for services	400,504	-	-	-	400,504
Intergovernmental	55,011	1,667,219	195,060	8,386	1,925,676
Grants	3,145	-	-	-	3,145
Rehabilitation loan payments	-	-	-	5,106	5,106
Interest income	8,878	224	339	496	9,937
Miscellaneous	26,536	-	-	-	26,536
Total Revenues	3,118,377	2,113,335	361,472	13,988	5,607,172
Expenditures					
Current Expenditures					
General government	492,948	2,256	-	16,288	511,492
Public safety	1,317,760	-	-	-	1,317,760
Public works and streets	399,434	-	509,269	1,892	910,595
Planning and inspection	22,075	-	-	-	22,075
Waste collection	482,244	-	-	-	482,244
Recreation	12,223	-	-	-	12,223
Capital outlay	432,235	1,243,194	-	-	1,675,429
Debt service	-	293,622	-	-	293,622
Total Expenditures	3,158,919	1,539,072	509,269	18,180	5,225,440
Excess (Deficit) of Revenues Over Expenditures	(40,542)	574,263	(147,797)	(4,192)	381,732
Other Financing Sources (Uses)					
Operating transfers in	921,907	923,397	-	-	1,845,304
Operating transfers out	(923,397)	(921,907)	-	-	(1,845,304)
Total Other Financing Sources (Uses)	(1,490)	1,490	-	-	-
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(42,032)	575,753	(147,797)	(4,192)	381,732
Fund Balance, beginning	3,036,038	158,385	555,361	160,237	3,910,021
Fund Balance, ending	\$ 2,994,006	\$ 734,138	\$ 407,564	\$ 156,045	\$ 4,291,753

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, 2012
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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ 381,732
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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	\$ 1,675,429	
Depreciation expense	<u>(166,916)</u>	
		1,508,513

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.	804
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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.	1,518
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Proceeds from draws on capital leases are reported as financing sources in the governmental funds and contribute to the change in fund balance. In the statement of net assets, however, draws on capital leases increase long-term liabilities and does not affect the statement of activities.	(1,338,107)
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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.	<u>235,000</u>
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Change in net assets of governmental activities	<u>\$ 789,460</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2012
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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, 2012
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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. Bankers' 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, 2012
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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, 2012 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:

<u>Description</u>	Governmental Activities
	<u>Estimated Lives</u>
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, 2012
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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.

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

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, 2012
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Unassigned fund balances consist of all residual funds not included in non-spendable, 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 \$3,548,856 at June 30, 2012.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2012
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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, 2012 of \$186,153, 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, 2012, 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, 2012 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, 2012

NOTE F – CAPITAL ASSETS

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

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,143,538	\$ -	\$ -	\$ 1,143,538
Construction in progress	65,590	1,243,194	(311,371)	997,413
Total Capital Assets Not Being Depreciated	<u>1,209,128</u>	<u>1,243,194</u>	<u>(311,371)</u>	<u>2,140,951</u>
Depreciable Capital Assets				
Infrastructure	4,627,287	311,371	-	4,938,658
Buildings	1,022,975	258,693	-	1,281,668
Vehicles	916,299	130,625	(315,437)	731,487
Equipment	629,014	42,917	-	671,931
Furniture and fixtures	32,095	-	-	32,095
Total Depreciable Capital Assets	<u>7,227,670</u>	<u>743,606</u>	<u>(315,437)</u>	<u>7,655,839</u>
Total Capital Assets at Historical Cost	<u>8,436,798</u>	<u>1,986,800</u>	<u>(626,808)</u>	<u>9,796,790</u>
Less Accumulated Depreciation				
Infrastructure	363,384	94,513	-	457,897
Buildings	357,491	23,063	-	380,554
Vehicles	787,822	28,526	(315,437)	500,911
Equipment	452,135	20,814	-	472,949
Furniture and fixtures	31,515	-	-	31,515
Total Accumulated Depreciation	<u>1,992,347</u>	<u>166,916</u>	<u>(315,437)</u>	<u>1,843,826</u>
Depreciable Capital Assets, Net	<u>5,235,323</u>	<u>576,690</u>	<u>-</u>	<u>5,812,013</u>
Total Capital Assets, Net	<u>\$ 6,444,451</u>	<u>\$ 1,819,884</u>	<u>\$ (311,371)</u>	<u>\$ 7,952,964</u>

Depreciation was charged to functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General government	\$ 13,794
Public safety	38,717
Public works	17,833
Public Works-Infrastructure	94,513
Recreation	2,059
Total Depreciation	<u>\$ 166,916</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2012
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NOTE G – LONG-TERM DEBT

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. As of June 30, 2011, \$1,338,107 of these funds had been drawn. The remaining balance yet to be drawn of \$1,221,893 is held on the statement of net assets as an Asset Held in Trust to account for the funds which are available for City use. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2012 is \$2,060,000. City assets serve as collateral for this debt.

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, 2012:

	Balance June 30, 2011	Additions	Retirements/ Repayments	Balance June 30, 2012	Amounts Due Within 1 Year
Road construction lease	\$ 2,295,000	\$ -	\$ (235,000)	\$ 2,060,000	\$ 240,000
Compensated absences	34,277	-	(1,518)	32,759	32,759
Total	<u>\$ 2,329,277</u>	<u>\$ -</u>	<u>\$ (236,518)</u>	<u>\$ 2,092,759</u>	<u>\$ 272,759</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, 2011	Net Additions	Net Payments	Balance June 30, 2012	Amounts Due Within 1 Year
Compensated absences	\$ 34,277	\$ -	\$ (1,518)	\$ 32,759	\$ 32,759

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2012
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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, 2012, participating employers contributed 18.96% 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, 2012, 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, 2012, participating employers contributed 35.76% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

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>
2012	\$ 289,898	100%
2011	271,587	100%
2010	222,841	100%
2009	204,011	100%
2008	220,214	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.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2012
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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.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	Street Tax	\$ 923,397
Street Tax	General	921,907
		<u>\$1,845,304</u>

NOTE L – SUBSEQUENT EVENTS

Management has evaluated events through May 10, 2013, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2012 through May 10, 2013 to disclose.

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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 2,455,720	\$ 126,140	\$ 2,581,860	\$ 3,036,038	\$ 454,178
Resources (inflows):					
Taxes	2,269,500	-	2,269,500	2,583,129	313,629
Licenses and permits	19,100	-	19,100	16,232	(2,868)
Intergovernmental	51,800	-	51,800	55,011	3,211
Fines, forfeitures, penalties	18,000	-	18,000	24,942	6,942
Charges for services	440,000	-	440,000	400,504	(39,496)
Interest income	5,000	-	5,000	8,878	3,878
Grants	-	-	-	3,145	3,145
Miscellaneous	13,000	-	13,000	26,536	13,536
Total resources (inflows)	2,816,400	-	2,816,400	3,118,377	301,977
Amounts available for appropriation	5,272,120	126,140	5,398,260	6,154,415	756,155
Charges to appropriations (outflows):					
General government	415,300	55,850	471,150	492,948	(21,798)
Public safety	1,368,700	28,000	1,396,700	1,317,760	78,940
Public works	400,750	18,500	419,250	399,434	19,816
Planning and inspection	22,900	-	22,900	22,075	825
Waste collection	440,000	-	440,000	482,244	(42,244)
Recreation	10,100	-	10,100	12,223	(2,123)
Capital projects	362,500	45,000	407,500	432,235	(24,735)
Total charges to appropriations	3,020,250	147,350	3,167,600	3,158,919	8,681
Interfund transfers	125,000	-	125,000	(1,490)	(126,490)
Budgetary fund balance, June 30	\$ 2,376,870	\$ (21,210)	\$ 2,355,660	\$ 2,994,006	\$ 638,346

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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 225,000</u>	<u>\$ 3,679</u>	<u>\$ 228,679</u>	<u>\$ 158,385</u>	<u>\$ (70,294)</u>
Resources (inflows):					
Street tax	460,000	-	460,000	445,892	(14,108)
Intergovernmental	3,179,851	-	3,179,851	1,667,219	(1,512,632)
Interest	1,000	-	1,000	224	(776)
Total resources (inflows)	<u>3,640,851</u>	<u>-</u>	<u>3,640,851</u>	<u>2,113,335</u>	<u>(1,527,516)</u>
Amounts available for appropriation	<u>3,865,851</u>	<u>3,679</u>	<u>3,869,530</u>	<u>2,271,720</u>	<u>(1,597,810)</u>
Charges to appropriations (outflows):					
Bank fees	-	-	-	57	(57)
Debt service payments	-	-	-	293,622	(293,622)
Capital projects	<u>3,423,535</u>	<u>-</u>	<u>3,423,535</u>	<u>1,245,393</u>	<u>2,178,142</u>
Total expenses (outflows)	<u>3,423,535</u>	<u>-</u>	<u>3,423,535</u>	<u>1,539,072</u>	<u>1,884,463</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,490</u>	<u>1,490</u>
Budgetary fund balance, June 30	<u><u>\$ 442,316</u></u>	<u><u>\$ 3,679</u></u>	<u><u>\$ 445,995</u></u>	<u><u>\$ 734,138</u></u>	<u><u>\$ 288,143</u></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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 555,000	\$ (14,250)	\$ 540,750	\$ 555,361	\$ 14,611
Resources (inflows):					
Intergovernmental	169,543	-	169,543	195,060	25,517
Insurance premium tax	125,000	-	125,000	166,073	41,073
Interest	1,000	-	1,000	339	(661)
Total resources (inflows)	295,543	-	295,543	361,472	65,929
Amounts available for appropriation	850,543	(14,250)	836,293	916,833	80,540
Charges to appropriations (outflows):					
Streets	850,000	(14,200)	835,800	509,269	326,531
Budgetary fund balance, June 30	\$ 543	\$ (50)	\$ 493	\$ 407,564	\$ 407,071

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

CITY OF ELSMERE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2012

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	\$ 137,019	\$ 59,705	\$ 26,607	\$ 223,331
Accounts receivable				
Employee	-	-	777	777
Note receivable	8,640	-	-	8,640
TOTAL ASSETS	<u>\$ 145,659</u>	<u>\$ 59,705</u>	<u>\$ 27,384</u>	<u>\$ 232,748</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ 8,640	\$ -	\$ -	\$ 8,640
Due to other funds	-	9,895	58,168	68,063
TOTAL LIABILITIES	<u>8,640</u>	<u>9,895</u>	<u>58,168</u>	<u>76,703</u>
FUND BALANCES				
Committed	137,019	49,810	(30,784)	156,045
TOTAL FUND BALANCES	<u>137,019</u>	<u>49,810</u>	<u>(30,784)</u>	<u>156,045</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 145,659</u>	<u>\$ 59,705</u>	<u>\$ 27,384</u>	<u>\$ 232,748</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, 2012**

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
Revenues				
Loan repayments	\$ 5,106	\$ -	\$ -	\$ 5,106
Employee contributions	-	-	8,386	8,386
Interest	336	149	11	496
Total Revenues	<u>5,442</u>	<u>149</u>	<u>8,397</u>	<u>13,988</u>
Expenditures				
Streets	-	1,892	-	1,892
Bank services	-	-	383	383
FSA/HRA reimbursements	-	-	15,905	15,905
Total Expenditures	<u>-</u>	<u>1,892</u>	<u>16,288</u>	<u>18,180</u>
Excess (Deficit) of Revenues Over Expenditures	5,442	(1,743)	(7,891)	(4,192)
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	5,442	(1,743)	(7,891)	(4,192)
Fund Balance, beginning	131,577	51,553	(22,893)	160,237
Fund Balance, ending	<u>\$ 137,019</u>	<u>\$ 49,810</u>	<u>\$ (30,784)</u>	<u>\$ 156,045</u>

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



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

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**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, 2012 which collectively comprise the City of Elsmere, Kentucky's basic financial statements and have issued our report thereon dated May 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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
May 10, 2013