

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

ASSETS - CONCLUDED

DEPRECIATION EXPENSE

Depreciation expense was charged to governmental functions as follows:

PRIMARY GOVERNMENT

Governmental Activities

General Government	35,848
Public Safety	
Police	16,629
Streets	14,418
Parks and Recreation	<u>66,042</u>

Total Depreciation Expense – Governmental Activities **132,937**

Business-type Activities

Water	241,413
Sewer	47,146
Natural Gas	<u>65,588</u>

Total Depreciation Expense – Business-type Activities **354,147**

TOTAL DEPRECIATION EXPENSE – PRIMARY GOVERNMENT **487,084**

COMPONENT UNIT

Industrial Development	<u>49,920</u>
------------------------	----------------------

LIABILITIES

CAPITAL LEASES - GOVERNMENTAL ACTIVITIES

General Obligation Lease

On May 15, 2005, the City entered into an annually renewable lease agreement with Musco Sports Lighting, LLC. The total amount of the lease was \$414,500 payable in annual principal and interest installments beginning May 15, 2006. The lease bears interest at 5.538%. The proceeds were used to construct lighting at the municipal park. At the end of the lease, the lights will transfer to the City of Edmonton. The lease term is for ten years. The balance of the lease at June 30, 2011, was \$192,933.

On November 23, 2003, the City entered into an annually renewable lease agreement with the Kentucky League of Cities Funding Trust. The total amount of the lease was \$1,345,000 payable in monthly principal and interest installments beginning January 15, 2004, and ending December 15, 2023. The lease bears interest at 4.07%. The proceeds were used to construct a municipal park. At the end of the lease agreement, the park will be transferred to the City of Edmonton. The balance of the lease at June 30, 2011, was \$983,172.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

CAPITAL LEASES - GOVERNMENTAL ACTIVITIES - CONCLUDED

Special Obligation Lease

On November 23, 2003, the City entered into an annually renewable lease agreement with the Kentucky League of Cities Funding Trust. The total amount of the lease was \$155,000 payable in monthly principal and interest installments beginning January 15, 2004, and ending December 15, 2023. The lease bears interest at 4.07%. The proceeds were used to construct a municipal park. At the end of the lease agreement, the park will be transferred to the City of Edmonton. The balance of the lease at June 30, 2011, was \$113,302.

KADD

On October 10, 2002, the City entered into an annually renewable lease agreement with the Kentucky Area Development District Financing Trust. The total amount of the lease was \$430,000 payable in annual principal installments beginning November 20, 2003, and semi-annual interest payments due May 20 and November 20. The lease bears interest at a variable rate ranging from 2.9% to 4.8% and matures November 20, 2022. The proceeds were used to construct a new City Hall building. At the end of the lease, the building will be transferred to the City of Edmonton. The balance of the lease at June 30, 2011, was \$295,000.

GENERAL OBLIGATION BOND – GOVERNMENTAL ACTIVITIES

2000 Issue

The general obligation bond of 2000 was issued to Rural Development on November 15, 2000, in the amount of \$370,000. The proceeds from this bond issue were used to purchase a fire truck. This bond matures each January 1 beginning in 2002 and ending in 2015. The bond bears interest at the rate of 5-1/8%. As of June 30, 2011, \$133,000 was outstanding.

Bond Sinking Fund Requirements

The 2000 bond issue requires monthly transfers to a separate account in order to meet annual and semi-annual bond payments. The required monthly transfers from the general fund account shall continue in amounts equal to one-twelfth (1/12th) of the annual interest requirement plus one-twelfth (1/12th) of the annual principal requirement. The required transfers were sufficient for the year ended June 30, 2011. Listed as follows is a five-year schedule of sinking fund requirements for the general fund.

	Interest	Principal	Annual Requirement
June 30, 2012	6,816	31,000	37,816
June 30, 2013	5,228	32,500	37,728
June 30, 2014	3,562	34,000	37,562
June 30, 2015	1,819	35,500	37,319
	<u>17,425</u>	<u>133,000</u>	<u>150,425</u>

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

GENERAL OBLIGATION BOND - GOVERNMENTAL ACTIVITIES - CONCLUDED

Depreciation Fund

There shall be maintained so long as the 2000 bonds remain outstanding, a separate depreciation fund. The required monthly transfer from the general fund to the depreciation fund is in the amount of \$317, until there is established and maintained in said depreciation fund the sum of \$38,000. As of June 30, 2011, the depreciation fund balance was \$44,718. Monthly transfers were completed as required.

LOANS PAYABLE - BUSINESS-TYPE ACTIVITIES

Kentucky League of Cities

There is a loan payable to Kentucky League of Cities. Proceeds from the loans are being used to finance extensions to the gas system of the City. The loan balance was \$495,000 as of June 30, 2011. The interest is 4.18% per annum and is payable in monthly installments of principal and interest through January 1, 2019.

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES

Revenue bonds outstanding consist of debt issued by the various utility funds. In general, the respective facilities and revenues derived from them are pledged for the payment of revenue bond debt service.

1980, 1982, and 1984 Issues

The following issues have been assigned to Berkadia Commercial Mortgage Corporation by Farmers Home Administration in prior years. These bonds mature each January 1 through 2031 and bear interest at the rate of 5%, with the following amounts due as of June 30, 2011:

1980 Issue	37,500
1982 Issue - Series A	77,000
1982 Issue - Series B	31,000
1982 Issue - Series C	27,000
1984 Issue	371,943

1990 Issue

The water and sewer revenue bond of 1990 was issued to FmHA -- now Rural Development (RD) -- on September 17, 1992, in the amount of \$373,000. This bond matures each January 1 through 2031 and bears interest at the rate of 5%, with \$274,000 due as of June 30, 2011.

1993 Issue

The water and sewer revenue bond of 1993 was issued to RD on August 12, 1993, in the amount of \$331,000. The proceeds from this bond issue were used to retire interim financing provided by the Kentucky Infrastructure Authority. This bond matures each January 1 beginning in 1996 and ending in 2033. The bond bears interest at the rate of 5%, with \$258,000 due as of June 30, 2011.

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONTINUED

1995 Issue

The water and sewer revenue bond of 1995 was issued to RD on April 25, 1996, in the amount of \$444,000. The proceeds from this bond issue were used to retire interim financing provided for water line extension projects. This bond matures each January 1 beginning in 1998 and ending in 2035. The bond bears interest at the rate of 4.5%, with \$363,000 due as of June 30, 2011.

1996 Issue

The water and sewer revenue bond of 1996 was issued to RD on June 23, 1997, in the amount of \$221,000. The proceeds from this bond issue were used to retire interim financing provided for water line extension projects. This bond matures each January 1 beginning in 1998 and ending in 2035. The bond bears interest at the rate of 4.5%, with \$177,500 due as of June 30, 2011.

2000 Issue

The water and sewer revenue bond series of 2000 was issued to RD on August 9, 2000, in the amount of \$114,000. The proceeds from this bond issue were used for sewer infrastructure expansion. This bond matures each January 1 beginning in 2002 and ending in 2039. The bond bears interest at the rate of 4.5%, with \$99,600 due as of June 30, 2011.

2002 Issue

The water revenue bond series of 2002 was issued to RD on March 20, 2003, in the amount of \$814,000. The proceeds were used to retire interim financing provided for water line extension projects. The bond matures each January 1 beginning in 2005 and ending in 2042. The bond bears interest at the rate of 4.5%, with \$746,000 due as of June 30, 2011.

There were heretofore created in the prior bond ordinance the following funds and accounts for the City of Edmonton:

- a) Water and Sewer Revenue Fund
- b) 1980 Sinking Fund
- c) 1990 Sinking Fund
- d) Water and Sewer Depreciation Fund
- e) Water and Sewer Operation and Maintenance Fund

All of the funds shall be maintained with the depository bank so long as any bonds remain outstanding.

All proceedings preliminary to and in connection with the issuance of the outstanding bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the outstanding bonds; (ii) the operation of the system on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the system; (iv) the enforcement and payment of the outstanding bonds and (v) the depreciation of the system; and all other covenants for the benefit of bond owners set out in the prior bond ordinance, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONTINUED

the outstanding bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the current bonds, the income and revenues of the system shall be collected, segregated, accounted for and distributed as follows:

Revenue Fund

The City covenants and agrees that it will continue to deposit in the revenue fund, promptly as received from time to time, all revenues of the system, as same may be extended and improved from time to time. The moneys in the revenue fund shall continue to be used, disbursed and applied by the City only for the purpose and in the manner and order of priorities specified in the prior bond ordinance, as hereinafter modified by this ordinance, all as permitted by the act, and in accordance with previous contractual commitments.

First Lien Sinking Fund (1980 Sinking Fund)

There shall be transferred from the revenue fund and deposited into the first lien sinking fund on or before the 1st day of each month, for payment of interest on and principal of the series 1980 bonds, a monthly amount equal to the total of the following:

1. A sum equal to one-sixth (1/6) of the interest requirements becoming due on the First Lien Bonds on the next succeeding interest due date, plus
2. A sum equal to one-twelfth (1/12) of the principal becoming due on the First Lien Bonds on the next succeeding January 1.

Said first lien sinking fund shall be used solely and only and is hereby pledged for the purpose of paying the principal of and interest on the series bonds.

Second Lien Sinking Fund (1990 Sinking Fund)

After the monthly transfers required in the preceding paragraphs have been paid from the revenue fund, there shall next be transferred monthly from said revenue fund and deposited into the second lien sinking fund on or before the 1st day of each month, for payment of interest on and principal of the Second Lien Bonds and the Series 2002 Bonds, a sum equal to the total of the following:

1. An amount equal to one-twelfth (1/12) of the requirements becoming due on the Second Lien Bonds and the Series 2002 Bonds on the next succeeding January 1, plus
2. An amount equal to one-twelfth (1/12) of the principal requirements becoming due on the Second Lien Bonds and the Series 2002 Bonds maturing on the next succeeding January 1.

Notwithstanding any provision of any other ordinances to the contrary, upon the adoption of the 2002 ordinance, any monies on deposit in any other accounts earmarked for the payment of the principal and interest requirements of the Second Lien Bonds shall be forthwith transferred to the Second Lien Bond Fund (1990 Sinking Fund).

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONTINUED

Second Lien Sinking Fund (1990 Sinking Fund) - Continued

The second lien sinking fund is hereby pledged for the payment of the interest and the principal of the current bonds and the series 1986 bonds, but subject to the vested rights and priorities of the series 1971 bonds.

Annual Debt Service Requirement	201,737
Actual Transfers	<u>179,425</u>
Transfers Over (Under) Requirement	(22,312)
Beginning Balance – Sinking Funds	<u>355,625</u>
Ending Balance – Sinking Funds	<u>333,313</u>

The current year required no transfers since excess transfers in previous years had aggregated a sufficient balance in the sinking fund.

The 1986 and 1998 sinking fund requirements for the next five years are as follows:

	Interest	Principal	Annual Requirement
June 30, 2012	116,497	86,600	203,097
June 30, 2013	112,296	92,400	204,696
June 30, 2014	107,815	79,600	187,415
June 30, 2015	103,979	84,500	188,479
June 30, 2016	<u>99,806</u>	<u>88,800</u>	<u>188,606</u>
	<u>540,393</u>	<u>431,900</u>	<u>972,293</u>

So long as any balance remains outstanding and unpaid on the long-term loans to the City from the Kentucky Infrastructure Authority in accordance with the Grant/Assistance Agreements between KIA and the City, the City shall maintain a separate account to provide for the amortization of said loans in accordance with said Grant/Assistance Agreements (the "KIA Loan Account").

Following the required deposits of this Ordinance, monthly transfers shall be made from the Revenue Fund to the KIA Loan Account in the required amounts prior to the transfers for Depreciation Fund and Operations and Maintenance Fund.

If in any year the City shall, for any reason, fail to pay into said First Lien Bond Fund, Second Lien Bond Fund or the KIA Loan Account the full amounts stipulated, then an amount equivalent to one hundred ten percent (110%) of such deficiency shall be set apart and paid into said Funds from the first available income and revenues of the System in the following year or years, and said

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONTINUED

Second Lien Sinking Fund (1990 Sinking Fund) - Concluded

payments shall be in addition to the amount otherwise herein provided for said succeeding year or years.

Monies on deposit in said Funds may be invested in direct obligations or guaranteed bonds or securities of the United States of America having a maturity date or being subject to redemption at the option of the holder not more than five (5) years from the date of the investment therein, and all such investments, as well as income therefrom, shall be carried to the credit of the respective Fund from which the investment was made; provided, however, that all investments shall be made on such a basis so that monies will be available for the purposes for which the respective Fund was established at the times required.

Depreciation Fund

The separate and special "Depreciation Fund" previously established shall be maintained so long as any of the First Lien Bonds, Second Lien Bonds and Series 2002 Bonds remain outstanding. There shall continue to be transferred to the Depreciation Fund (i) eight percent (8%) of the balance of the income and revenues of the System remaining after the required transfers or the sum of \$200 whichever is greater, plus (ii) the sum of \$1,145 until there is established and maintained in said Depreciation Fund the sum of \$242,800, which shall be utilized in making good any depreciation in the properties of said System and in financing extensions, additions or improvements to the System. Notwithstanding any other provisions of this Section to the contrary, the sum of not less than \$380 shall be deposited monthly so long as the Series 2002 Bonds remain outstanding. As of June 30, 2011, the depreciation fund had a balance of \$293,721, and the City was continuing to make the required transfers.

There shall also be deposited in the Depreciation Fund proceeds from the sale of any equipment no longer usable or needed, fees or charges, if any, collected from potential customers, and the proceeds of any property damage insurance not immediately used to replace the damaged or destroyed property. Monies in the Depreciation Fund shall be used for making extraordinary maintenance, repairs, renewals or replacements to the System and for paying the cost of constructing improvements or extensions to the System which will either enhance the revenue producing capacity of the System or provide a higher degree of service, and no withdrawals shall be made for any other purposes; provided, however, that monies on deposit in the Depreciation Fund shall be available for the principal and interest requirements on the First Lien Bonds, the Second Lien Bonds and the Series 2002 Bonds, if, for any reason, and whenever sufficient funds are not available in the First Lien Bond Fund or Second Lien Bond Fund.

Operation and Maintenance Fund

The separate and special account designated as the "Operation and Maintenance Fund" previously established shall be maintained so long as the First Lien Bonds, the Second Lien Bonds and the Series 2002 Bonds remain outstanding. There shall be continued to be transferred to the Operation and Maintenance Fund the balance of the Revenue Fund remaining after the required transfers hereof for the purpose of providing for the proper operation and maintenance expenses

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONTINUED

Operation and Maintenance Fund - Concluded

of the System, including the expense of carrying sufficient insurance on the System of a character and in amounts that will properly insure the properties and, in addition, carrying liability insurance in character and amounts deemed necessary (all of which insurance shall be carried and maintained in effect) but not limited to such expenses and establishing and maintaining a reserve equal to three (3) months' operation and maintenance expenses of such System. Transfers shall be made monthly from the Revenue Fund to the Operation and Maintenance Fund so that the various operation and maintenance expenses of such System are met and said reserve established. Any funds remaining in such Operation and Maintenance Fund after meeting the expenses of operating such System shall be transferred to the Revenue Fund and disbursed in accordance with the provisions.

All required transfers above shall be made on the 1st day of each month unless such day be Sunday or a legal holiday, in which event such transfers shall be made on the next succeeding secular day.

Investment and Miscellaneous Provisions

All funds referred to above are to be deposited with a bank or banks which is a member or are members of the Federal Deposit Insurance Corporation and, to the extent the aggregate deposits of the City in such bank or banks exceed FDIC coverage, shall be secured by a pledge of obligations of or obligations which are fully guaranteed by the United States Government having a market value equal to the amount of such excess.

All funds referred to above may be invested in direct obligations of, or obligations which are fully guaranteed by, the United States Government with such maturities so that monies shall be available in the respective Funds for the purposes for which same are established.

The City covenants to the purchasers of the Series 2002 Bonds herein authorized that it will make no use of the proceeds of such issue of Series 2002 Bonds at any time during the term thereof which, if such use had been reasonably expected on the date of issue of such Series 2002 Bonds, would have caused such Series 2002 Bonds to be arbitrage bonds. Such covenant shall impose an obligation upon the City to comply with the requirements of the Code and throughout the term of the issue herein authorized. The word "proceeds," as used in such covenant, shall have the meaning which it has under such section of the law and under such Code and shall include all monies on deposit in all funds provided for under the Ordinance. The City hereby designates the Series 2002 Bonds as "qualified tax exempt obligations" and certifies that it does not reasonably anticipate the issuance of in excess of \$10,000,000 of its debt obligations in the calendar year in which the Series 2002 Bonds are delivered.

The City Treasurer shall be responsible for all of the various special funds established by this Ordinance and shall at all times be covered by a Fidelity Bond in accordance with the provisions of this Ordinance.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

REVENUE BONDS PAYABLE - BUSINESS-TYPE ACTIVITIES - CONCLUDED

Monthly Principal and Interest Payments if Requested by the RD

In the event that USDARD is the Registered Owner of the Series 2002 Bonds, then in the event USDARD so desires, payments to USDARD from the Second Lien Bond Fund for interest and principal installments on the Second Lien Bonds and Series 2002 Bonds shall be made directly to USDARD on a monthly basis. The City shall submit the Electronic Funds Transfer Payment Enrollment Form (Form SF-3881) in order to affect Electronic Funds Transfer/Automated Clearing House ("EFT/ACH") and provide electronic transfer payments due on the Series 2002 Bond. It is provided further that so long as USDARD is the Registered Owner of the Series 2002 Bonds, monies on deposit in all of the various accounts established or affirmed by this Ordinance shall be secured as required by USDARD Regulations.

Bond Subordination and Parity

The provisions of the Ordinance authorizing the First Lien Series A, B, and C 1982 Bonds made it a condition precedent to the issuance and delivery of said Series 1982 Bonds that the right of the City to issue subsequent bonds ranking on a parity with said Series 1982 Bonds be terminated. Therefore, in accordance with provisions of Section 17 of the Ordinance authorizing the Series 1982 Bonds, no bonds may be issued on the basis of parity with the Second Lien Bonds without the written consent of the Registered Owners of one hundred percent (100%) of the principal amount of said Second Lien Bonds.

LOAN PAYABLE - COMPONENT UNIT

Industrial Program

This loan is payable to Edmonton State Bank. Proceeds were used for land purchased for industrial sites. The loan bears interest at 4% per annum and is payable semi-annually, with final maturity on August 16, 2012. The balance of the loan at June 30, 2011, was \$9,970.

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance 6-30-10	Issued	Retired	Balance 6-30-11	Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
General Obligation Leases					
Musco Lighting	235,010	-	42,077	192,933	44,405
Municipal Park	1,043,565	-	60,393	983,172	53,685
Police Cruisers	22,373	-	22,373	0	0
Special Obligation Lease					
Municipal Park	120,263	-	6,961	113,302	6,188
KADD					
City Hall	315,000	-	20,000	295,000	20,000
	<u>1,736,211</u>	<u>0</u>	<u>151,804</u>	<u>1,584,407</u>	<u>124,278</u>
General Obligation Bond	<u>162,500</u>	<u>-</u>	<u>29,500</u>	<u>133,000</u>	<u>31,000</u>
Total Governmental Activities	<u>1,898,711</u>	<u>0</u>	<u>181,304</u>	<u>1,717,407</u>	<u>155,278</u>
Business-type Activities					
Loans Payable					
KIA	30,000	-	30,000	0	0
KLC	540,000	-	45,000	495,000	60,000
	<u>570,000</u>	<u>0</u>	<u>75,000</u>	<u>495,000</u>	<u>60,000</u>
Revenue Bonds Payable					
1980 Issue	40,500	-	3,000	37,500	3,500
1982 Issue - Series A	83,000	-	6,000	77,000	6,000
1982 Issue - Series B	45,000	-	14,000	31,000	15,000
1982 Issue - Series C	30,500	-	3,500	27,000	4,000
1984 Issue	393,943	-	22,000	371,943	17,000
1990 Issue	282,000	-	8,000	274,000	8,000
1993 Issue	264,000	-	6,000	258,000	7,000
1995 Issue	371,000	-	8,000	363,000	8,000
1996 Issue	181,600	-	4,100	177,500	4,200
2000 Issue	101,300	-	1,700	99,600	1,900
2002 Issue	757,000	-	11,000	746,000	12,000
	<u>2,549,843</u>	<u>0</u>	<u>87,300</u>	<u>2,462,543</u>	<u>86,600</u>
Total Business-type Activities	<u>3,119,843</u>	<u>0</u>	<u>162,300</u>	<u>2,957,543</u>	<u>146,600</u>
COMPONENT UNIT					
Industrial Program					
Edmonton State Bank	<u>14,970</u>	<u>0</u>	<u>5,000</u>	<u>9,970</u>	<u>5,000</u>

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONTINUED

DEBT SERVICE REQUIREMENTS

The debt service requirements at June 30, 2011, were as follows:

PRIMARY GOVERNMENT	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities			
Capital Leases			
June 30, 2012	124,278	67,271	191,549
June 30, 2013	135,388	61,358	196,746
June 30, 2014	141,472	54,985	196,457
June 30, 2015	147,878	48,508	196,386
June 30, 2016	104,531	41,515	146,046
June 30, 2017 - 2021	592,689	137,565	730,254
June 30, 2022 - 2024	338,171	18,155	356,326
	<u>1,584,407</u>	<u>429,357</u>	<u>2,013,764</u>
General Obligation Bond			
June 30, 2012	31,000	6,816	37,816
June 30, 2013	32,500	5,228	37,728
June 30, 2014	34,000	3,562	37,562
June 30, 2015	35,500	1,819	37,319
	<u>133,000</u>	<u>17,425</u>	<u>150,425</u>
Total Governmental Activities	<u>1,717,407</u>	<u>446,782</u>	<u>2,164,189</u>
Business-type Activities			
Loans Payable			
June 30, 2012	60,000	13,400	73,400
June 30, 2013	62,083	12,200	74,283
June 30, 2014	65,000	10,958	75,958
June 30, 2015	65,000	9,388	74,388
June 30, 2016	67,083	7,437	74,520
June 30, 2017 - 2019	175,834	9,975	185,809
	<u>495,000</u>	<u>63,358</u>	<u>558,358</u>
Revenue Bonds Payable			
June 30, 2012	86,600	116,497	203,097
June 30, 2013	92,400	112,296	204,696
June 30, 2014	79,600	107,815	187,415
June 30, 2015	84,500	103,979	188,479
June 30, 2016	88,800	99,733	188,533
June 30, 2017 - 2021	492,400	427,548	919,948
June 30, 2022 - 2026	492,743	308,394	801,137
June 30, 2027 - 2031	446,500	210,327	656,827
June 30, 2032 - 2036	350,500	97,503	448,003
June 30, 2037 - 2041	207,500	37,173	244,673
June 30, 2042	41,000	1,845	42,845
	<u>2,462,543</u>	<u>1,623,110</u>	<u>4,085,653</u>
Total Business-type Activities	<u>2,957,543</u>	<u>1,686,468</u>	<u>4,644,011</u>

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

LIABILITIES - CONCLUDED

DEBT SERVICE REQUIREMENTS - CONCLUDED

COMPONENT UNIT	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Industrial Program			
June 30, 2012	5,000	200	5,200
June 30, 2013	<u>4,970</u>	<u>200</u>	<u>5,170</u>
Total Component Unit	<u>9,970</u>	<u>400</u>	<u>10,370</u>

RISK MANAGEMENT

The City is exposed to various forms of loss related to torts, theft or damage to assets, errors and omissions, injuries to employees, and natural disasters. Each of these risk areas is covered through the purchase of commercial insurance. There have been no significant reductions in coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City purchases unemployment insurance through the Kentucky League of Cities; however, risk has not been transferred to that fund. Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a loss contingency. Claims expenditures and liabilities would be reported in the affected fund if and when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds".

Activities in which the component unit is a party are captioned as "receivables/payables" between the component unit and the primary government.

Internal receivable and payable balances at June 30, 2011, are as follows:

	Internal Receivables	Internal Payables
PRIMARY GOVERNMENT		
Governmental-type Activities		
General Fund	953,898	0
Business-type Activities		
Water	239,679	950,120
Natural Gas	127,388	239,679
Sewer	<u>0</u>	<u>131,166</u>
	<u>1,320,965</u>	<u>1,320,965</u>

**CITY OF EDMONTON, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2011**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONCLUDED

BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY - CONCLUDED

TRANSFERS AND PAYMENTS

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions and funding capital asset acquisitions. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The government-wide statement of activities eliminates transfers as reported within the governmental activities column.

There were no transfers within the reporting entity. The following schedule reports payments within the reporting entity:

Payments From PRIMARY GOVERNMENT	Payments To Component Unit – Industrial Program
Governmental Activities Major Governmental Fund General Fund	<u>6,021</u>

4. RETIREMENT PLAN COMMITMENTS

**Defined Benefit Pension Plan
 County Employees' Retirement System**

The City of Edmonton is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a multiple-employer public employee retirement system. CERS is administered by Kentucky Retirement Systems Board of Trustees pursuant to KRS 78.510-78.852. All full-time employees are required to participate in the Plan as well as any part-time employees who average one hundred or more hours per month.

Funding for the Plan is provided through payroll withholdings and participating employer contributions. Non-hazardous employees hired before September 1, 2008, are required to contribute 5%; those hired after September 1, 2008, are required to contribute 6%. Hazardous employees hired before September 1, 2008, are required to contribute 8%; those hired after September 1, 2008, are required to contribute 9%. The City is required to contribute 16.93% for non-hazardous employees and 33.25% for hazardous employees' regular compensation for the year ended June 30, 2011. Benefits under the Plan will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The payroll for employees covered by CERS for the year ended June 30, 2011, was \$911,308; the City's total payroll was \$930,766. The contribution requirement for the year ended June 30, 2011, was \$245,352, which consisted of \$192,693 from the City and \$52,713 from employees; the contribution represented 26.92% of covered payroll. Employer contribution rates are intended to fund the CERS normal cost on a current basis plus 1% of unfunded past service costs per annum plus

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONCLUDED
JUNE 30, 2011**

4. RETIREMENT PLAN COMMITMENTS - CONCLUDED

**Defined Benefit Pension Plan
County Employees' Retirement System - Concluded**

interest at the current actuarial assumed rate. Contributions required by state statute for the three most recent years are listed as follows:

	Required Contribution	Percentage Contributed
6-30-11	245,352	100%
6-30-10	235,486	100%
6-30-09	213,934	100%

Since the City is only one of many participants in the CERS, disclosure of dollar amounts of retirement system data would not be meaningful. At June 30, 2011, (the date of the most recent obtained actuarial valuation of the retirement system) the Plan's net assets available for benefits were less than the actuarial present value (based on an assumed rate of return of 7.75% per annum) of accumulated Plan benefits. For additional information and ten-year historical trend information, see the Kentucky Retirement Systems Annual Report. That report is available at www.kyret.com, or by writing to Kentucky Retirement Systems, Premier Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts GAAP Basis	With Final Budget
REVENUES				
Property Taxes	78,500	78,500	82,319	3,819
Occupational Licenses and Taxes	655,000	655,000	664,431	9,431
Insurance Premiums Tax	190,000	190,000	172,615	(17,385)
Franchise Fees	9,000	9,000	9,411	411
Intergovernmental Revenue	49,732	49,732	75,853	26,121
Penalties and Fines	500	500	439	(61)
Parks and Recreation Income	37,000	43,538	43,709	171
Other	1,500	1,500	13,705	12,205
Total Revenues	<u>1,021,232</u>	<u>1,027,770</u>	<u>1,062,482</u>	<u>34,712</u>
EXPENDITURES				
Current				
General Government	202,478	207,478	204,740	2,738
Public Safety				
Police	399,936	399,936	436,344	(36,408)
Fire	30,000	30,000	34,624	(4,624)
E911	72,000	72,000	71,987	13
Street Department	30,467	30,467	4,188	26,279
Parks and Recreation	229,351	233,695	244,193	(10,498)
Capital Outlay	226,690	226,690	20,757	205,933
Debt Service				
Principal	181,303	181,303	181,303	0
Interest	85,360	85,360	85,360	0
Agent Fees	8,939	8,939	8,939	0
Total Expenditures	<u>1,466,524</u>	<u>1,475,868</u>	<u>1,292,435</u>	<u>183,433</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(445,292)</u>	<u>(448,098)</u>	<u>(229,953)</u>	<u>218,145</u>
OTHER FINANCING SOURCES (USES)				
Interest Income	10,000	10,000	9,096	(904)
Grant Proceeds	175,062	175,062	4,123	(170,939)
Transfers In	250,000	250,000	-	(250,000)
Transfers Out	(20,000)	(20,000)	(6,021)	13,979
Total Other Financing Sources	<u>415,062</u>	<u>415,062</u>	<u>7,198</u>	<u>(407,864)</u>
NET CHANGE IN FUND BALANCE	<u>(30,230)</u>	<u>(33,036)</u>	<u>(222,755)</u>	<u>(189,719)</u>
FUND BALANCE - BEGINNING	<u>1,961,244</u>	<u>1,961,244</u>	<u>1,961,244</u>	<u>0</u>
FUND BALANCE - ENDING	<u>1,931,014</u>	<u>1,928,208</u>	<u>1,738,489</u>	<u>(189,719)</u>

See independent auditor's report.

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts GAAP Basis	With Final Budget
REVENUES				
Intergovernmental Revenue	<u>32,867</u>	<u>32,867</u>	<u>35,509</u>	<u>2,642</u>
Total Revenues	<u>32,867</u>	<u>32,867</u>	<u>35,509</u>	<u>2,642</u>
EXPENDITURES				
Current				
Street Department	42,285	42,285	45,733	(3,448)
LGEA	<u>9,173</u>	<u>9,173</u>	-	<u>9,173</u>
Total Expenditures	<u>51,458</u>	<u>51,458</u>	<u>45,733</u>	<u>5,725</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(18,591)</u>	<u>(18,591)</u>	<u>(10,224)</u>	<u>8,367</u>
NET CHANGE IN FUND BALANCE	<u>(18,591)</u>	<u>(18,591)</u>	<u>(10,224)</u>	<u>8,367</u>
FUND BALANCE - BEGINNING	<u>45,923</u>	<u>45,923</u>	<u>45,923</u>	<u>0</u>
FUND BALANCE - ENDING	<u>27,332</u>	<u>27,332</u>	<u>35,699</u>	<u>8,367</u>

See independent auditor's report.

SUPPLEMENTARY INFORMATION

**CITY OF EDMONTON, KENTUCKY
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
 JUNE 30, 2011**

	Municipal Road Aid	LGEA	Total
ASSETS			
Cash in Banks	19,949	11,339	31,288
Due from Other Governments	<u>4,411</u>	<u>-</u>	<u>4,411</u>
TOTAL ASSETS	<u>24,360</u>	<u>11,339</u>	<u>35,699</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES	-	-	0
FUND BALANCES - RESTRICTED	<u>24,360</u>	<u>11,339</u>	<u>35,699</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>24,360</u>	<u>11,339</u>	<u>35,699</u>

**CITY OF EDMONTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Municipal Road Aid</u>	<u>LGEA</u>	<u>Total</u>
REVENUES			
Intergovernmental Revenue	<u>33,354</u>	<u>2,155</u>	<u>35,509</u>
Total Revenues	<u>33,354</u>	<u>2,155</u>	<u>35,509</u>
EXPENDITURES			
Streets	<u>45,733</u>	-	<u>45,733</u>
Total Expenditures	<u>45,733</u>	<u>0</u>	<u>45,733</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,379)	2,155	(10,224)
OTHER FINANCING SOURCES (USES)	-	-	<u>0</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(12,379)	2,155	(10,224)
FUND BALANCES - BEGINNING	<u>36,739</u>	<u>9,184</u>	<u>45,923</u>
FUND BALANCES - ENDING	<u>24,360</u>	<u>11,339</u>	<u>35,699</u>

**CITY OF EDMONTON, KENTUCKY
DISCRETELY PRESENTED COMPONENT UNIT
EDMONTON-METCALFE INDUSTRIAL DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2011**

ASSETS

Cash on Hand and in Banks	13,770
Investments in Certificates of Deposit	<u>62,994</u>

TOTAL ASSETS

76,764

LIABILITIES AND FUND BALANCE

LIABILITIES	0
--------------------	---

FUND BALANCE - COMMITTED	<u>76,764</u>
---------------------------------	---------------

TOTAL LIABILITIES AND FUND BALANCE

76,764

**CITY OF EDMONTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF THE DISCRETELY PRESENTED
COMPONENT UNIT – EDMONTON-METCALFE INDUSTRIAL DEVELOPMENT AUTHORITY
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balance – Component Unit

Amounts reported for <i>component unit</i> in the statement of net assets are different because:	76,764
Capital assets of \$2,336,697, net of accumulated depreciation of (\$262,552), are not current financial resources and, therefore, are not reported in the fund.	2,074,145
Long-term liabilities of (\$9,970) are not due and payable in the current period and are not reported in the fund.	(9,970)
Net Assets of Component Unit	<u>2,140,939</u>

**CITY OF EDMONTON, KENTUCKY
DISCRETELY PRESENTED COMPONENT UNIT
EDMONTON-METCALFE INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES		
Intergovernmental		<u>24,000</u>
Total Revenues		<u>24,000</u>
EXPENDITURES		
Current		
Industrial Program		29,809
Debt Service		
Principal		5,000
Interest		<u>1,021</u>
Total Expenditures		<u>35,830</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES		(11,830)
OTHER FINANCING SOURCES		
Transfer from General Fund		<u>6,021</u>
NET CHANGE IN FUND BALANCE		(5,809)
FUND BALANCE - BEGINNING		<u>82,573</u>
FUND BALANCE - ENDING		<u><u>76,764</u></u>

**CITY OF EDMONTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF THE DISCRETELY PRESENTED
COMPONENT UNIT – EDMONTON-METCALFE INDUSTRIAL DEVELOPMENT AUTHORITY
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2011**

Net Change in Fund Balance – Component Unit (5,809)

Amounts reported for *component unit* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of these outlays are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of (\$49,920) exceeded capital outlays of \$0 in the current period. See Note 3 for additional details. (49,920)

The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of debt payment was \$5,000. See Note 3 for additional details. 5,000

Change in Net Assets of Component Unit (50,729)

TAYLOR, POLSON & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

101 McKENNA STREET, P. O. BOX 1804

GLASGOW, KENTUCKY 42142-1804

TELEPHONE 270-651-8877

FAX 270-651-8879

JOHN M. TAYLOR, CPA
FREDDIE C. POLSON, CPA
BELINDA E. COULTER, CPA

JANET M. WILEY, CPA
JOHN M. TAYLOR III, CPA
JEFF P. CARTER, CPA
MELINDA F. HAMILTON, CPA

BRANCH OFFICE
108 WEST THIRD STREET
TOMPKINSVILLE, KENTUCKY 42167
P. O. BOX 778
TELEPHONE 270-487-6515
FAX 270-487-6515

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

Honorable Mayor and Members of the City Council
City of Edmonton, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Edmonton, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Edmonton, Kentucky's basic financial statements and have issued our report thereon dated February 3, 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 City of Edmonton, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Edmonton, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Edmonton, Kentucky's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over

Honorable Mayor and Members of the City Council
City of Edmonton, Kentucky

Internal Control Over Financial Reporting

financial reporting, described below, that we consider to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- During the audit of the year ended June 30, 2011, there were still several significant audit adjustments. This is due partly to the lack of an accounting professional on staff; another difficulty is the need for two different bases of accounting--the fund basis according to the budget and the GASB 34 full accrual basis. In view of the progress made since the prior year, we believe the City can overcome this significant deficiency with additional assistance.

The City of Edmonton, Kentucky's response to the finding identified in our audit is as follows:

The City Clerk and Mayor agree that the City's staff, with continuing effort, will be able to make the necessary adjustments and overcome this significant deficiency.

We did not audit the City of Edmonton, Kentucky's response and accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Edmonton, 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, the Mayor, members of the City Council, 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.

Infor, Pelson & Company, PSC
Certified Public Accountants

February 3, 2012