

**CITY OF ELSMERE, KENTUCKY**

**FINANCIAL STATEMENTS**

For the Year Ended June 30, 2009

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# CITY OF ELSMERE, KENTUCKY

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## INDEPENDENT AUDITOR'S REPORT

**To the Mayor and City Council of the  
City of Elsmere, Kentucky**  
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 (the City), as of and for the year ended June 30, 2009, 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's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky, as of June 30, 2009, and the respective changes in financial position, 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 February 9, 2010 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.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and pages 25 through 27 are 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.

*Anneken, Huey & Moser PLLC*

February 9, 2010

# CITY OF ELSMERE



## MAYOR BILLY BRADFORD

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Holli N. Harrison  
City Clerk-Treasurer

Jessica Ryan  
Assistant City Clerk

### Management's Discussion and Analysis

As management of the City of Elsmere, Kentucky (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,589,749 (net assets). Of this amount, \$3,320,040 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$744,479.
- As of the close of the fiscal year ended June 30, 2009, the City's governmental funds reported combined ending fund balances of \$3,709,709, a decrease of \$273,912 in comparison with the prior year.
- At the end of the fiscal year ended June 30, 2009, unreserved fund balance for the general fund was \$3,144,779 or 115 percent of total general fund expenditures.

### Overview of the Financial Statements

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

### Government-wide financial statements

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements are designed to distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City however, does not operate any business-type activities at this time, and therefore only governmental activities are shown on these reports.

The government-wide financial statements can be found on pages 9-10 of this report.

### **Fund financial statements**

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

### **Governmental funds**

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds.

The City adopts an annual appropriated budget for the general fund and for all major special revenue funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

## Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-24 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,589,749 at the close of the fiscal year ended June 30, 2009.

A large portion of the City's net assets (56 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure, less any related debt used to acquire those assets that is still outstanding.) The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,320,040) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year ended June 30, 2009, the City is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

### Net Assets

	Governmental Activities	
	2009	2008
Current & other assets	\$ 4,234,391	\$ 4,363,149
Capital assets	5,196,432	4,210,106
Total Assets	<u>\$ 9,430,823</u>	<u>8,573,255</u>
Long-term liabilities	\$ 305,187	\$ 394,169
Other liabilities	535,887	333,816
Total Liabilities	<u>\$ 841,074</u>	<u>\$ 727,985</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 4,805,228	\$ 3,739,976
Restricted	464,481	802,573
Unrestricted	3,320,040	3,302,721
Total Net Assets	<u>\$ 8,589,749</u>	<u>\$ 7,845,270</u>

## Changes in Net Assets

	Governmental		Total	
	2009	2008	2009	2008
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 409,528	\$ 412,932	\$ 409,528	\$ 412,932
Operating Grants & Contributions	273,839	229,430	273,839	229,430
Capital Grants & Contributions	51,067	516,300	51,067	516,300
<b>General Revenues:</b>				
Property taxes	1,298,495	1,302,117	1,298,495	1,302,117
Payroll tax	1,151,292	959,714	1,151,292	959,714
Insurance tax	500,431	543,045	500,431	543,045
Licenses	52,829	51,472	52,829	51,472
Fines	21,227	13,207	21,227	13,207
Interest	41,401	84,689	41,401	84,689
Miscellaneous	8,719	3,965	8,719	3,965
<b>Total Revenues</b>	<b>3,808,828</b>	<b>4,116,871</b>	<b>3,808,828</b>	<b>4,116,871</b>
<b>Expenses:</b>				
General government	374,364	421,825	374,364	421,825
Public safety	1,112,353	1,093,893	1,112,353	1,093,893
Public works	1,049,183	670,840	1,049,183	670,840
General services	46,776	39,476	46,776	39,476
Planning and inspection	18,418	14,232	18,418	14,232
Waste collection	428,297	403,527	428,297	403,527
Recreation	15,560	16,365	15,560	16,365
Interest expense	19,398	36,537	19,398	36,537
<b>Total Expenses</b>	<b>3,064,349</b>	<b>2,696,695</b>	<b>3,064,349</b>	<b>2,696,695</b>
Increase in				
Net Assets	744,479	1,420,176	744,479	1,420,176
Beginning Net Assets	7,845,270	6,425,094	7,845,270	6,425,094
<b>Ending Net Assets</b>	<b>\$ 8,589,749</b>	<b>\$ 7,845,270</b>	<b>\$ 8,589,749</b>	<b>\$ 7,845,270</b>



**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year ended June 30, 2009, the City’s governmental funds reported combined ending fund balances of \$3,709,709, a decrease of \$273,912 in comparison with the prior year. The total amount of unreserved fund balance of \$3,144,779 is available for spending at the government’s discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,144,779. As a measure of the general fund’s liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 115 percent of total general fund expenditures.

The following schedule presents a summary of general and special revenue fund revenues and expenditures for the fiscal year ended June 30, 2009, and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	<u>Fiscal 2009 Amount</u>	<u>Percent of Total</u>	<u>Fiscal 2008 Amount</u>	<u>Increase (Decrease) From 2008</u>	<u>Percent Increase (Decrease)</u>
Taxes	\$ 2,991,758	77.03%	\$ 2,751,201	\$ 240,557	8.74%
Licenses & Permits	52,829	1.36%	51,472	1,357	2.64%
Intergovernmental	344,606	8.87%	702,591	(357,985)	-50.95%
Charges for Services	422,151	10.87%	399,996	22,155	5.54%
Fines	21,227	0.55%	13,207	8,020	60.73%
Rehab Loan Payments	960	0.02%	2,473	(1,513)	-61.18%
Interest	41,401	1.07%	84,689	(43,288)	-51.11%
Miscellaneous	8,719	0.23%	13,047	(4,328)	-33.17%
<b>Total Revenues</b>	<b>\$ 3,883,651</b>	<b>100.00%</b>	<b>\$ 4,018,676</b>	<b>\$ (135,025)</b>	

<u>Expenditures</u>	<u>Fiscal 2009 Amount</u>	<u>Percent of Total</u>	<u>Fiscal 2008 Amount</u>	<u>Increase (Decrease) From Fiscal 08</u>	<u>Percent Increase (Decrease)</u>
General government	\$ 364,326	8.76%	\$ 412,789	\$ (48,463)	-11.74%
Public safety	1,049,890	25.25%	1,043,744	6,146	0.59%
Public works	975,504	23.46%	599,695	375,809	62.67%
General Services	46,776	1.13%	39,476	7,300	18.49%
Planning and inspection	23,418	0.56%	14,232	9,186	64.54%
Waste collection	428,297	10.30%	403,527	24,770	6.14%
Recreation	14,553	0.35%	15,358	(805)	-5.24%
Debt service	98,324	2.36%	143,619	(45,295)	-31.54%
Capital outlay	<u>1,156,475</u>	<u>27.83%</u>	<u>529,472</u>	<u>627,003</u>	<u>118.42%</u>
Total Expenditures	<u>\$ 4,157,563</u>	<u>100.00%</u>	<u>\$ 3,201,912</u>	<u>\$ 955,651</u>	

- Intergovernmental revenue decreased due to a decrease in grants received.
- General government expenditures remained stable.
- Public safety expenditures remained stable.
- Public works expenditures increased as a result of additional projects.
- Planning and inspection expenditures increased as a result of an increase in building inspector fees and rehab loan disbursements.
- Waste collection expenditures increased as a result of an increase of fees from the service provider.
- Debt service decreased due to paying the Sanitation District note off early in the prior year.
- Capital outlay increased due to several large projects during fiscal 2009.

## Capital Asset and Debt Administration

### Capital assets

The City's investment in capital assets for its government as of June 30, 2009, amounts to \$6,866,189, without regard to accumulated depreciation. This investment in capital assets includes land, buildings, machinery and equipment, and roads. The total increase in the City's investment in capital assets for the current fiscal year was 20 percent.

## Capital Assets

	Governmental	
	Activities	
	2009	2008
Land	\$ 1,143,538	\$ 1,143,538
Construction in progress	874,417	-
Buildings	705,085	693,275
Infrastructure	2,770,309	2,622,757
Vehicles	844,968	759,306
Equipment	495,777	458,743
Furniture & fixtures	32,095	32,095
Totals	<u>\$ 6,866,189</u>	<u>\$ 5,709,714</u>

This year's major additions included:

Infrastructure	\$ 147,552
Vehicles	85,662
Equipment	37,034
Total	<u>\$ 270,248</u>

Additional information on the City's capital assets can be found in note E on page 20 of this report.

## Long-term debt

At the end of the fiscal year ended June 30, 2009, the City had total debt outstanding of \$430,368.

	Governmental	
	Activities	
	2009	2008
Compensated absences	\$ 39,164	\$ 36,619
Leases payable	391,204	470,130
Totals	<u>\$ 430,368</u>	<u>\$ 506,749</u>

Additional information on the City's long-term debt can be found in note F on pages 21 of this report.

## Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer Holli Harrison at 318 Garvey Avenue, Elsmere, Kentucky 41018.

## Billy Bradford

Billy Bradford, Mayor

**CITY OF ELSMERE, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
June 30, 2009

	<u>Primary Government</u>	
	<u>Governmental</u>	
	Activities	<u>Total</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,356,813	\$ 3,356,813
Investment	185,567	185,567
Accounts receivable	579,040	579,040
Assessments receivable	2,402	2,402
Notes receivable	10,120	10,120
Prepays	12,599	12,599
Investment in joint venture	87,850	87,850
Capital assets, net of accumulated depreciation	5,196,432	5,196,432
 TOTAL ASSETS	 <u>9,430,823</u>	 <u>9,430,823</u>
<b>LIABILITIES</b>		
Accounts payable	410,706	410,706
Noncurrent liabilities		
Compensated absences	39,164	39,164
Due within one year	86,017	86,017
Due in more than one year	305,187	305,187
 TOTAL LIABILITIES	 <u>841,074</u>	 <u>841,074</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,805,228	4,805,228
Restricted for special revenue	464,481	464,481
Unrestricted	3,320,040	3,320,040
 TOTAL NET ASSETS	 <u>\$ 8,589,749</u>	 <u>\$ 8,589,749</u>

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009

	Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
<b>Functions/Programs:</b>					
<b>Primary Government:</b>					
<b>Governmental activities</b>					
General government	\$ 374,364	\$ -	290	\$ -	\$ (374,074)
Public safety	1,112,353	-	65,347	-	(1,047,006)
Public works	1,049,183	-	208,202	51,067	(789,914)
General services	46,776	-	-	-	(46,776)
Planning and inspection	18,418	-	-	-	(18,418)
Waste collection	428,297	409,528	-	-	(18,769)
Recreation	15,560	-	-	-	(15,560)
Interest on long-term debt	19,398	-	-	-	(19,398)
Total governmental activities	<u>3,064,349</u>	<u>409,528</u>	<u>273,839</u>	<u>51,067</u>	<u>(2,329,915)</u>
Total primary government	<u>\$ 3,064,349</u>	<u>\$ 409,528</u>	<u>\$ 273,839</u>	<u>\$ 51,067</u>	<u>(2,329,915)</u>
<b>General revenues:</b>					
<b>Taxes:</b>					
Property taxes				1,298,495	1,298,495
Payroll tax				1,151,292	1,151,292
Insurance premium				500,431	500,431
Licenses				52,829	52,829
Fines				21,227	21,227
Interest				41,401	41,401
Miscellaneous				8,719	8,719
Total general revenues				<u>3,074,394</u>	<u>3,074,394</u>
Change in net assets				744,479	744,479
Net assets - beginning				7,845,270	7,845,270
Net assets - ending				<u>\$ 8,589,749</u>	<u>\$ 8,589,749</u>

**CITY OF ELSMERE, KENTUCKY**  
**BALANCE SHEET**  
June 30, 2009

	General Fund	Citywide Rehab	Municipal Aid	Street Tax	Turkeyfoot Acres	Sewer	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,821,978	\$ 132,958	\$ 335,798	\$ -	\$ 66,079	\$ -	\$ 3,356,813
Investment	185,567	-	-	-	-	-	185,567
Accounts receivable	439,022	-	14,075	125,943	-	-	579,040
Assessments receivable	2,402	-	-	-	-	-	2,402
Notes receivable	-	10,120	-	-	-	-	10,120
Prepaid items	12,599	-	-	-	-	-	12,599
Due from other funds	-	-	-	437,855	-	-	437,855
Investment in joint venture	87,850	-	-	-	-	-	87,850
<b>TOTAL ASSETS</b>	<b>\$ 3,549,418</b>	<b>\$ 143,078</b>	<b>\$ 349,873</b>	<b>\$ 563,798</b>	<b>\$ 66,079</b>	<b>\$ -</b>	<b>\$ 4,672,246</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 78,958	\$ -	\$ 34,646	\$ 297,102	\$ -	\$ -	\$ 410,706
Due to other funds	183,258	-	254,097	-	500	-	437,855
Deferred revenue	41,974	10,120	-	61,882	-	-	113,976
<b>TOTAL LIABILITIES</b>	<b>304,190</b>	<b>10,120</b>	<b>288,743</b>	<b>358,984</b>	<b>500</b>	<b>-</b>	<b>962,537</b>
<b>FUND BALANCES</b>							
Unreserved, reported in							
General Fund	3,144,779	-	-	-	-	-	3,144,779
Special revenue funds	-	132,958	61,130	204,814	65,579	-	464,481
Reserved for prepaid items	12,599	-	-	-	-	-	12,599
Reserved for investment in joint venture	87,850	-	-	-	-	-	87,850
<b>TOTAL FUND BALANCES</b>	<b>3,245,228</b>	<b>132,958</b>	<b>61,130</b>	<b>204,814</b>	<b>65,579</b>	<b>-</b>	<b>3,709,709</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,549,418</b>	<b>\$ 143,078</b>	<b>\$ 349,873</b>	<b>\$ 563,798</b>	<b>\$ 66,079</b>	<b>\$ -</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,196,432
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	113,976
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(430,368)
Net assets of governmental activities	<u>\$ 8,589,749</u>

**CITY OF ELSMERE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2009

	General Fund	Citywide Rehab	Municipal Aid	Street Tax	Turkeyfoot Acres	Sewer	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 2,395,279	\$ -	\$ 125,108	\$ 471,371	\$ -	\$ -	\$ 2,991,758
Licenses and permits	52,829	-	-	-	-	-	52,829
Intergovernmental	102,659	-	198,647	-	-	43,300	344,606
Charges for services	422,151	-	-	-	-	-	422,151
Fines and forfeitures	21,227	-	-	-	-	-	21,227
Rehab loan payments	-	960	-	-	-	-	960
Interest	37,066	1,697	1,818	-	634	186	41,401
Miscellaneous	8,719	-	-	-	-	-	8,719
<b>TOTAL REVENUES</b>	<b>3,039,930</b>	<b>2,657</b>	<b>325,573</b>	<b>471,371</b>	<b>634</b>	<b>43,486</b>	<b>3,883,651</b>
<b>EXPENDITURES</b>							
Current:							
General government	363,826	-	-	-	500	-	364,326
Public safety	1,049,890	-	-	-	-	-	1,049,890
Public works	462,730	-	392,001	114,153	-	6,620	975,504
General services	46,776	-	-	-	-	-	46,776
Planning and inspection	18,418	5,000	-	-	-	-	23,418
Waste collection	428,297	-	-	-	-	-	428,297
Recreation	14,553	-	-	-	-	-	14,553
Debt service:							
Principal	78,926	-	-	-	-	-	78,926
Interest	19,398	-	-	-	-	-	19,398
Capital outlay	242,936	-	93,298	820,241	-	-	1,156,475
<b>TOTAL EXPENDITURES</b>	<b>2,725,750</b>	<b>5,000</b>	<b>485,299</b>	<b>934,394</b>	<b>500</b>	<b>6,620</b>	<b>4,157,563</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>314,180</b>	<b>(2,343)</b>	<b>(159,726)</b>	<b>(463,023)</b>	<b>134</b>	<b>36,866</b>	<b>(273,912)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in/(out)	(250,000)	-	-	250,000	-	-	-
<b>NET CHANGES IN FUND BALANCES</b>	<b>64,180</b>	<b>(2,343)</b>	<b>(159,726)</b>	<b>(213,023)</b>	<b>134</b>	<b>36,866</b>	<b>(273,912)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,181,048</b>	<b>135,301</b>	<b>220,856</b>	<b>417,837</b>	<b>65,445</b>	<b>(36,866)</b>	<b>3,983,621</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 3,245,228</b>	<b>\$ 132,958</b>	<b>\$ 61,130</b>	<b>\$ 204,814</b>	<b>\$ 65,579</b>	<b>\$ -</b>	<b>\$ 3,709,709</b>

**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, 2009

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

Net change in fund balances - total governmental funds \$ (273,912)

Government funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	1,156,475	
Depreciation	<u>(170,149)</u>	
		986,326

The repayment of principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets:

Principal payments	<u>78,926</u>	
		78,926

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.

	<u>(2,545)</u>	
		(2,545)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, while some revenues reported in the funds have already been recognized in earlier periods for the statement of activities. This is the effect of those changes in deferred revenue.

	<u>(44,316)</u>	
		<u>(44,316)</u>

Change in net assets of governmental activities \$ 744,479



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

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.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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 are 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.

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

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

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

The City reports on the following funds:

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

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

Assets, Liabilities and Equity

Deposits and Investments

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

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

Receivables

No allowance for doubtful accounts is required.

**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, 2009 are recorded as prepaid items.

Capital Assets

Capital assets are reported in 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:

Buildings	50 years
Infrastructure	40 years
Vehicles	5 years
Equipment	5-7 years
Furniture and fixtures	7 years

**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 is 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.

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 two supplementary appropriations ordinances.

**NOTE C – DEPOSITS AND INVESTMENTS**

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 \$3,627,446, of which, \$3,594,546 is insured by depository insurance or secured with collateral held by the financial institution in the City's name. The remainder of \$32,900, related to a certificate of deposit, is not secured by collateral, but will be corrected upon future maturity of the certificate of deposit.

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, 2009 of \$185,567, 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 are expected to be expended during the year ending June 30, 2010. Financial statements for the joint venture may be obtained by contacting the City of Elsmere.

**CITY OF ELSMERE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009

**NOTE E – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Retirements/ Deletions	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,143,538	\$ -	\$ -	\$ 1,143,538
Construction in progress	-	874,417		874,417
Capital assets being depreciated:				
Buildings	693,275	11,810	-	705,085
Infrastructure	2,622,757	147,552	-	2,770,309
Vehicles	759,306	85,662	-	844,968
Equipment	458,743	37,034	-	495,777
Furniture and fixtures	32,095	-	-	32,095
Subtotal	<u>5,709,714</u>	<u>1,156,475</u>	<u>-</u>	<u>6,866,189</u>
Less accumulated depreciation for:				
Buildings	312,216	14,259	-	326,475
Infrastructure	152,963	67,901	-	220,864
Vehicles	644,574	43,658	-	688,232
Equipment	360,127	43,534	-	403,661
Furniture and fixtures	29,728	797	-	30,525
Subtotal	<u>1,499,608</u>	<u>170,149</u>	<u>-</u>	<u>1,669,757</u>
Net capital assets	<u>\$ 4,210,106</u>	<u>\$ 986,326</u>	<u>\$ -</u>	<u>\$ 5,196,432</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 9,448
Public safety	62,185
Public works	97,509
Recreation	1,007
	<u>\$ 170,149</u>

**CITY OF ELSMERE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009

**NOTE F – LONG-TERM DEBT**

Long-Term Debt

During the year ended June 30, 2009, the following changes occurred in long-term debt:

	June 30, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Compensated absences	\$ 36,619	\$ 2,545	\$ -	\$ 39,164	\$ -
Capital lease obligations	470,130	-	78,926	391,204	86,017
	<u>\$ 506,749</u>	<u>\$ 2,545</u>	<u>\$ 78,926</u>	<u>\$ 430,368</u>	<u>\$ 86,017</u>

Capital Leases

The City has a capital lease with a bank. The proceeds of this lease were used to purchase the land and building for a police station. The assets recorded under this capital lease represent \$443,000, and related accumulated depreciation of \$132,940.

The City has entered into a lease agreement for financing the reconstruction and improvement of Garvey Avenue. The assets recorded under this capital lease represent \$581,456 in infrastructure, and related accumulated depreciation of \$58,146.

These lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as the date of inception.

Summary of Debt Service Requirements to Maturity

The total annual debt service requirements to maturity of long-term debt are as follows:

June 30	Amount	Principal	Interest
2010	\$ 98,324	\$ 86,017	\$ 12,307
2011	89,971	80,936	9,035
2012	74,501	68,010	6,491
2013	74,501	70,257	4,244
2014	87,908	85,984	1,924
	<u>\$ 425,205</u>	<u>\$ 391,204</u>	<u>\$ 34,001</u>



**NOTE G – CLAIMS AND JUDGMENTS**

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

**NOTE H – EMPLOYEE RETIREMENT SYSTEM**

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of 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, KY 40601.

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

Non-hazardous Contributions – For the year ended June 30, 2009, plan members were required to contribute 5% of their annual creditable compensation. 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 preceding 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, 2009, participating employers contributed 13.5% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2009 was 13.5% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF ELSMERE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2009

**NOTE H – EMPLOYEE RETIREMENT SYSTEM (continued)**

Hazardous Contributions – For the year ended June 30, 2009, plan members were required to contribute 8% of their annual creditable compensation. 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 preceding 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, 2009, participating employers contributed 29.5% of each employee’s creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2009 was 29.5% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the City for the current and previous two years is as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Actual Percentage Contribution</u>
2009	\$ 204,011	100%
2008	\$ 220,214	100%
2007	\$ 171,834	100%

**NOTE I – CONTINGENT LIABILITIES**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**NOTE J – COMMITMENTS**

As of June 30, 2009, the City had signed a contract to reconstruct Autumn Road for \$342,328, but reconstruction had not begun.

**CITY OF ELSMERE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009

**NOTE K- 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 through the efforts and cooperation of its risk manager and department heads. All risk 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.

The City Attorney estimates that the amount of actual potential claims against the City as of June 30, 2009, 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**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,204,000	\$ 2,254,000	\$ 2,395,279	\$ 141,279
Licenses and permits	49,100	45,100	52,829	7,729
Intergovernmental	52,275	52,275	102,659	50,384
Charges for services	428,000	418,000	422,151	4,151
Fines and forfeitures	13,700	18,200	21,227	3,027
Interest	40,000	40,000	37,066	(2,934)
Miscellaneous	10,400	10,400	8,719	(1,681)
<b>TOTAL REVENUES</b>	<u>2,797,475</u>	<u>2,837,975</u>	<u>3,039,930</u>	<u>201,955</u>
<b>EXPENDITURES</b>				
Current:				
General government	613,300	669,300	544,939	124,361
Public safety	1,030,735	959,035	916,901	42,134
Public works	362,500	372,000	414,606	(42,606)
General services	41,700	47,200	46,776	424
Planning and inspection	15,700	18,700	18,418	282
Waste collection	418,000	418,000	428,297	(10,297)
Recreation	18,400	17,400	14,553	2,847
Debt service:				
Principal	78,926	78,926	78,926	-
Interest	21,074	21,074	19,398	1,676
Capital outlay	129,000	269,700	242,936	26,764
<b>TOTAL EXPENDITURES</b>	<u>2,729,335</u>	<u>2,871,335</u>	<u>2,725,750</u>	<u>145,585</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>68,140</u>	<u>(33,360)</u>	<u>314,180</u>	<u>347,540</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer (out)	-	-	(250,000)	(250,000)
<b>NET CHANGES IN FUND BALANCES</b>	<u>68,140</u>	<u>(33,360)</u>	<u>64,180</u>	<u>97,540</u>
<b>FUND BALANCES - BEGINNING</b>	<u>47,175</u>	<u>47,175</u>	<u>3,181,048</u>	<u>3,133,873</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 115,315</u>	<u>\$ 13,815</u>	<u>\$ 3,245,228</u>	<u>\$ 3,231,413</u>

For budgetary purposes, certain expenses are shown above in general government that for financial statement purposes are allocated to other departments. Therefore, the above financial statement differs from the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.