

CITY OF EDMONTON, KENTUCKY
ANNUAL FINANCIAL REPORT
JUNE 30, 2012

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DIRECTORY

CITY OF EDMONTON, KENTUCKY

(MAYOR-COUNCIL FORM OF GOVERNMENT)

MAYOR

HOWARD D. GARRETT

COUNCIL MEMBERS

CATHY NUNN
WAYNE WILSON
DANNY POYNTER

BILLY JEFFRIES
TERESA HAMLETT
CURT ESTES

CITY CLERK-TREASURER..... ELIZABETH GIBSON
DEPUTY CITY CLERK..... DAWN DEVORE
ASSISTANT CITY CLERK..... ALICIA REED
ASSISTANT CITY CLERK..... CONNIE SHIVE
CITY ATTORNEY..... BARRY D. GILLEY
CITY SUPERINTENDENT..... HOWARD DICKSON
POLICE CHIEF TONY HARRIS
PARKS AND RECREATION DIRECTORPAGE EDWARDS



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Edmonton, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Edmonton, Kentucky, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated December 7, 2012, on our consideration of the City of Edmonton, 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.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 7 through 17 and 61 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Edmonton, Kentucky's financial statements as a whole. The combining fund and component unit financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund and component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jayson Salen & Company, PSC
Certified Public Accountants

December 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The management of the City of Edmonton presents this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2012. We have prepared this overview and analysis of the City's financial activities to add additional information to the financial schedules and the note disclosures.

FINANCIAL HIGHLIGHTS

Assets and Liabilities

- As of June 30, 2012, the City's assets exceeded liabilities by \$12,841,645. Total net assets are comprised of the following:
 1. Net assets of \$9,382,651 are invested in property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 2. Net assets of \$1,324,460 are restricted to specific projects by laws, regulations, contractual agreements, or debt service.
 3. Unrestricted net assets of \$2,134,534 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Unrestricted cash balances as of June 30, 2012, were \$2,393,674, and current liabilities payable from unrestricted resources were \$743,109.
- Net assets increased by \$341,819.
- Fund balances (a measure of current financial resources) in the governmental funds decreased \$152,674 to a total of \$1,621,514.
- Fund balances in the proprietary funds increased \$452,798 to a total of \$9,389,670.

Revenues and Expenditures

- Revenues in governmental funds were \$1,140,889. This amount includes property taxes, occupational licenses and taxes, insurance premiums tax, franchise fees, parks and recreation income, and other items.
- Expenditures in the governmental fund type were \$1,294,555. This includes amounts for general government, public safety (police, fire, and E911), street department, parks and recreation, capital outlay, and debt service.
- Other financing sources and uses in the governmental fund type were \$992. This amount includes interest income, loan proceeds, grant proceeds, and other items.
- Revenues from proprietary fund types totaled \$2,558,293. This includes charges for utility services (water, sewer, and natural gas).

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FINANCIAL HIGHLIGHTS - CONCLUDED

Revenues and Expenditures - Concluded

- Expenses in the proprietary fund types totaled \$2,317,209. This includes amounts for salaries and wages, utility services purchased (water and natural gas), depreciation, and other items.
- Non-operating revenues and expenses netted \$211,714 of revenue. This amount includes grant income, interest income, bond interest expense, and other income and expense items.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis are intended to introduce the City's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide Financial Statements

The government-wide financial statements are designed to provide our readers with an overview of the City's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

The statement of net assets presents information on all the City's assets and liabilities, including long-term debt and capital assets in the governmental funds. The difference between assets and liabilities is reported as net assets. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Government-wide statements are separated into two major categories: 1) governmental activities that are principally supported by taxes and intergovernmental revenues, and 2) business-type activities that are supported with user fees and charges. Governmental activities include administrative functions, streets, public safety (police, fire, and E911), parks and recreation, and special revenue funds (municipal road aid and LGEA). Business-type activities include utility services for water, sewer, and natural gas.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Edmonton-Metcalf Industrial Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Fund Financial Statements

Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. The City of Edmonton, like other state and local governments, uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the City's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds. The City does not have any fiduciary funds, but does use the governmental and proprietary fund types.

Governmental funds are used to account for the City's basic services, the same services that are included in the governmental activities on the government-wide statements. However, the information in the fund statements is measured differently. Governmental funds focus on current financial resources rather than economic resources. Therefore, the statements include the short-term resources such as cash, investments, and receivables that will be collected in the next few months, and liabilities that will be retired with these monies. This information is important for assessing the City's current financial resources.

The reconciliation in the fund statements explains the difference between the governmental funds in the fund statements and the governmental activities found in the government-wide financial statements. This reconciliation will explain the adjustments necessary to compare the long-term resources and liabilities for the government-wide statements with the current picture presented in the fund statements.

Edmonton uses the following governmental funds:

- General Fund
- Municipal Road Aid Fund
- LGEA

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. The City does not have internal service funds but does have enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide financial statements. Services such as water utilities, sewer utilities, and natural gas utilities are provided to customers external to the City organization.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Edmonton uses the following proprietary funds:

- Water
- Sewer
- Natural Gas

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS - CONCLUDED

Notes to the Financial Statements

Immediately following the basic financial statements are the notes to the financial statements. Notes provide additional information that is essential to a full understanding of the information included in the financial statements. The notes also provide additional details about the balances and transactions in the City's financial statements.

Other Information

The remainder of this report consists of two types of supplementary information. Required supplementary information must be included to conform with generally accepted accounting principles, while other supplementary information is presented to expand the City's financial presentations. Management's discussion and analysis and the budgetary comparisons for the major funds are required supplementary information included in this report. Other supplementary information includes the combining statements for the special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following two pages summarize, in a condensed format, the net assets and results of operations of the City, with comparisons to the prior year.

The first statement offers a snapshot of the assets, liabilities, and net assets as of the end of each year. Included in the non-current assets are capital assets, reported net of depreciation. The City completed a comprehensive capital asset inventory and compiled the information into a database to help manage the City's investment in these valuable resources.

Of the City's net assets in the governmental-type activities, \$346,729 is restricted to comply with provisions of various laws, regulations, and contractual agreements. \$977,731 of the City's business-type activities' net assets is restricted for debt service.

The second statement presents a brief look at the operations. We offer some broad observations about this year's operations. Property taxes increased \$3,186 from the previous year. Occupational license fees increased \$1,527 from the previous year. The change in net assets was a decrease of \$110,979 for governmental-type activities and an increase of \$452,798 for business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NET ASSETS

	PRIMARY GOVERNMENT					
	Governmental Activities 6-30-12	6-30-11	Business-type Activities 6-30-12	6-30-11	Total 6-30-12	Total 6-30-11
ASSETS						
Current Assets	1,620,547	1,743,551	2,586,983	2,536,110	4,207,530	4,279,661
Restricted Assets	73,916	69,433	977,731	954,613	1,051,647	1,024,046
Non-Current Assets	<u>3,392,571</u>	<u>3,506,173</u>	<u>10,407,733</u>	<u>10,256,204</u>	<u>13,800,304</u>	<u>13,762,377</u>
Total Assets	<u>5,087,034</u>	<u>5,319,157</u>	<u>13,972,447</u>	<u>13,746,927</u>	<u>19,059,481</u>	<u>19,066,084</u>
LIABILITIES						
Current Liabilities	208,319	163,074	1,778,362	1,854,873	1,986,681	2,017,947
Liabilities Payable from Restricted Assets	32,500	31,000	147,956	144,239	180,456	175,239
Non-Current Liabilities	<u>1,394,240</u>	<u>1,562,129</u>	<u>2,656,459</u>	<u>2,810,943</u>	<u>4,050,699</u>	<u>4,373,072</u>
Total Liabilities	<u>1,635,059</u>	<u>1,756,203</u>	<u>4,582,777</u>	<u>4,810,055</u>	<u>6,217,836</u>	<u>6,566,258</u>
NET ASSETS						
Invested in Capital Assets, Net of Debt	1,830,461	1,788,766	7,552,190	7,250,285	9,382,651	9,039,051
Restricted	346,729	352,278	977,731	954,613	1,324,460	1,306,891
Unrestricted	<u>1,274,785</u>	<u>1,421,910</u>	<u>859,749</u>	<u>731,974</u>	<u>2,134,534</u>	<u>2,153,884</u>
TOTAL NET ASSETS	<u>3,451,975</u>	<u>3,562,954</u>	<u>9,389,670</u>	<u>8,936,872</u>	<u>12,841,645</u>	<u>12,499,826</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OPERATING RESULTS

	PRIMARY GOVERNMENT					
	Governmental Activities 6-30-12	Governmental Activities 6-30-11	Business-type Activities 6-30-12	Business-type Activities 6-30-11	Total 6-30-12	Total 6-30-11
PROGRAM REVENUES						
Charges for Services	37,561	52,740	2,558,293	2,790,350	2,595,854	2,843,090
Operating Grants and Contributions	93,892	102,997	-	-	93,892	102,997
Capital Grants and Contributions	3,308	3,889	311,348	392,489	314,656	396,378
GENERAL REVENUES						
Taxes	995,150	919,365	-	-	995,150	919,365
Franchise Fees	9,322	9,411	-	-	9,322	9,411
Investment Income	8,386	9,096	28,307	29,101	36,693	38,197
Miscellaneous Income	4,964	13,705	-	-	4,964	13,705
Total Revenues	<u>1,152,583</u>	<u>1,111,203</u>	<u>2,897,948</u>	<u>3,211,940</u>	<u>4,050,531</u>	<u>4,323,143</u>
PROGRAM EXPENSES						
General Government	250,372	240,583	-	-	250,372	240,583
Public Safety	547,322	559,700	-	-	547,322	559,700
Street Department	49,408	64,339	-	-	49,408	64,339
LGEA	4,994	-	-	-	4,994	-
Parks and Recreation	326,488	319,056	-	-	326,488	319,056
Interest on Long-Term Debt	74,276	85,360	-	-	74,276	85,360
Water Utilities	-	-	1,279,278	1,322,594	1,279,278	1,322,594
Sewer Utilities	-	-	193,139	191,015	193,139	191,015
Natural Gas Utilities	-	-	977,782	1,123,640	977,782	1,123,640
Total Expenses	<u>1,252,860</u>	<u>1,269,038</u>	<u>2,450,199</u>	<u>2,637,249</u>	<u>3,703,059</u>	<u>3,906,287</u>
EXCESS BEFORE TRANSFERS	(100,277)	(157,835)	447,749	574,691	347,472	416,856
Transfers	(10,702)	(6,021)	5,049	-	(5,653)	(6,021)
INCREASE (DECREASE) IN NET ASSETS	<u>(110,979)</u>	<u>(163,856)</u>	<u>452,798</u>	<u>574,691</u>	<u>341,819</u>	<u>410,835</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONCLUDED

Following are the governmental revenues as a percent of total, to assist in the analysis of the City's activities:

	<u>6-30-12</u>	<u>6-30-11</u>
Occupational Licenses and Taxes	58%	60%
Insurance Premiums Tax	21%	15%
Capital Grants and Contributions	0%	3%
Operating Grants and Contributions	8%	8%
Property Taxes	7%	7%
Charges for Services	3%	4%
Miscellaneous	1%	1%
Franchise Fees	1%	1%
Investment Income	<u>1%</u>	<u>1%</u>
Governmental Revenue	<u>100%</u>	<u>100%</u>

Following are the governmental expenses as a percent of total, to assist in the analysis of the City's activities:

	<u>6-30-12</u>	<u>6-30-11</u>
Police	36%	35%
Administration	20%	20%
Parks and Recreation	26%	26%
Fire	2%	3%
Interest on Long-Term Debt	6%	7%
E911	6%	5%
Streets	<u>4%</u>	<u>4%</u>
Governmental Expenses	<u>100%</u>	<u>100%</u>

The business-type activities are shown comparing revenues generated to costs incurred by the related utility services. Water utilities, sewer utilities, and natural gas utilities are intended to be self-supporting with user charges and other revenues designed to recover costs. Economic events and weather patterns can either positively or negatively impact these services and costs.

Following are the business-type activities' revenues versus costs:

- Water Fund revenues were \$1,484,458 as compared to costs of \$1,279,278.
- Sewer Fund revenues were \$131,886 as compared to costs of \$193,139.
- Natural Gas Fund revenues were \$941,949 as compared to costs of \$977,782.

Governmental Funds

The fund statements present the City's financial information in a more detailed format, but there are other differences as well. Fund statements provide important information about the City's compliance with laws and regulations that define the local government environment in Kentucky. The principles of measurement in the governmental fund statements are also different from the government-wide

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds - Concluded

statements. Fund statements focus on current resources, while the government-wide statements present the long-term view.

Financial information for the City's governmental funds is summarized on the balance sheet for governmental funds and the statement of revenues, expenditures, and changes in fund balances of governmental funds. Governmental fund balances decreased \$152,674, which includes a decrease of \$153,666 from operations and an increase of \$992 from other financing sources.

This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds report ending fund balances of \$1,621,514. Of this year-end total, approximately \$1,520,489 is unassigned, indicating availability for continuing City service requirements. Restricted fund balances include \$73,916 for debt service and \$27,109 for special revenue funds.

Major Governmental Funds

The general fund is the City's primary operating fund and the largest source of day-to-day service delivery. Fund balance of the general fund decreased by \$144,084.

The special revenue fund is made up of two individual funds (municipal road aid and LGEA), which are combined in the supplementary information. Fund balance of the special revenue fund decreased by \$8,590.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Financial information for the City's proprietary funds is summarized on the balance sheet for proprietary funds and the statement of revenues, expenses, and changes in retained earnings as well as the statement of cash flows for proprietary fund types. Total fund equity increased by \$452,798, which includes net operating income of \$241,084 and net revenue from non-operating activities of \$211,714.

Major Proprietary Funds

The City of Edmonton reports the activities of the water fund, sewer fund, and natural gas fund.

The water fund reported an increase in retained earnings of \$420,154. The water fund had net income of \$316,610 from operations and \$103,544 of net revenues from non-operating activities. The water fund reports a retained earnings amount of \$6,205,453, of which \$973,190 is restricted for debt service.

The sewer fund reported an increase in retained earnings of \$58,155. The sewer fund had a loss of \$56,814 from operations and \$114,969 net revenues from non-operating activities. The sewer fund reports a retained earnings amount of \$1,201,912, of which \$4,541 is restricted for debt service.

The natural gas fund reported a decrease in retained earnings of \$25,511. The natural gas fund had a loss of \$18,712 from operations and \$6,799 net expenses from non-operating activities. The natural gas fund reports a retained earnings amount of \$1,982,305, all of which is unrestricted.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Over the course of the year, the City's budget may be revised by the City Council. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects.

The decrease in the general fund balance was more than budget estimates by \$144,514: revenues were more than budget by \$112,293, expenditures were more than budget by \$15,799, and other financing sources were less by \$241,008.

Budgetary comparison schedules for major individual funds are found in the required supplementary information.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City invests substantial resources in capital assets that support the services provided to the public. Following are tables summarizing the City's capital assets and long-term debt.

CAPITAL ASSETS	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
Land	1,728,689	35,863	1,764,552
Land Improvements	7,700	-	7,700
Buildings and Improvements	1,330,068	16,421,659	17,751,727
Equipment and Furnishings	303,098	543,395	846,493
Vehicles	668,196	243,869	912,065
Streets and Sidewalks	287,979	-	287,979
Municipal Park	937,615	-	937,615
	<u>5,263,345</u>	<u>17,244,786</u>	<u>22,508,131</u>
Accumulated Depreciation	(1,870,774)	(6,881,654)	(8,752,428)
TOTAL	<u>3,392,571</u>	<u>10,363,132</u>	<u>13,755,703</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION - CONCLUDED

LONG-TERM DEBT	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
Capital Leases			
General Obligation			
Municipal Park	929,470	-	929,470
Musco Lighting	148,527	-	148,527
Special Obligation	107,114	-	107,114
KADD			
City Hall	275,000	-	275,000
Total Capital Leases	1,460,111	0	1,460,111
Loans			
Kentucky League of Cities	-	435,000	435,000
Total Loans	0	435,000	435,000
Bonds			
General Obligation Bond	102,000	-	102,000
Revenue Bonds			
1980 Issue	-	34,000	34,000
1982 Issue Ser A	-	71,000	71,000
1982 Issue Ser B	-	16,000	16,000
1982 Issue Ser C	-	23,000	23,000
1984 Issue	-	354,943	354,943
1990 Issue	-	266,000	266,000
1993 Issue	-	251,000	251,000
1995 Issue	-	355,000	355,000
1996 Issue	-	173,300	173,300
2000 Issue	-	97,700	97,700
2002 Issue	-	734,000	734,000
Total Bonds	102,000	2,375,943	2,477,943

All of the City's capital leases have been used to acquire or construct capital assets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

THE OUTLOOK FOR NEXT YEAR

Given the continuing state of these difficult economic times, the City of Edmonton will continue to closely watch the budget for the next fiscal year to make sure the projected revenues are sufficient to cover the expenses that the City anticipates.

The City of Edmonton continues to have concerns in many areas, such as the increase in retirement, health insurance premiums, general liability insurance, and the rising cost of materials and fuel. Each of these areas has continued to rise in the last few years and is expected to rise again for the current year.

The City has concerns with the current compensation plan. With the expected retirement of some employees in the next few years, it is apparent that the salary and benefits are the largest expense items to the City. The City will appoint a committee to review and make recommendations as to the current compensation plan, and the Council is expected to take action on these recommendations from the committee.

The City plans to use the remaining grant funds from the state of Kentucky for water and wastewater projects. These funds will be used to improve and expand the current utilities infrastructure.

The City will apply for a Community Development Block Grant (CDBG) in the amount of \$1 million for the wastewater rehabilitation project. This project will start the process of improving the treatment plant and collector lines. This will be a major project for the City due to the fact that government has requested that the City cut back on surface water inflow into the system, keeping the wastewater treatment plant in compliance with current state guidelines.

The City will also try to address other concerns by departments such as the purchase of equipment and other items. Currently, the Water, Sewer, and Gas Departments need a locator for their lines. The City is also in need of a salter for the snowplow and, possibly, new vehicles. The Parks Department is in need of a finishing mower and security cameras and system for both parks. The City Hall and Police Department are in need of new computers and printers. The Fire Department is in need of repair work to its building and a foam system for the ladder truck.

The City will see the beginning of road expansions and improvements that have been passed by the Kentucky Legislature. These include the opening of the new interchange, which will allow the City to open new areas for future expansion. Also, there are a design and plans for a new North Edmonton by-pass and a new bridge on Old Glasgow Street.

The City's commitment to various boards and organizations that depend on the City's funding will be monitored more closely to make sure of what they are providing for the City.

ADDITIONAL INFORMATION

If you have any questions, or need additional information about these financial statements, please contact Elizabeth Gibson, City Clerk.

CITY OF EDMONTON, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-type Activities	Total	
CURRENT ASSETS				
Cash on Hand and in Banks	794,905	1,598,769	2,393,674	12,312
Investments	-	375,414	375,414	62,994
Receivables, Net of Allowance for Uncollectible Accounts				
Property Taxes	3,936	-	3,936	-
Trade Accounts	-	173,126	173,126	-
Internal Receivable	803,898	439,674	1,243,572	-
Due from Other Governments				
State of Kentucky	5,808	-	5,808	-
Metcalf County Board of Education	12,000	-	12,000	-
Total Current Assets	1,620,547	2,586,983	4,207,530	75,306
RESTRICTED ASSETS				
Cash and Savings				
Sinking Funds	24,931	334,791	359,722	-
Funded Depreciation	48,985	311,030	360,015	-
Other Cash	-	331,910	331,910	-
Total Restricted Assets	73,916	977,731	1,051,647	0
NON-CURRENT ASSETS				
Loan and Bond Issuance Costs, Net of Accumulated Amortization	-	44,516	44,516	-
Capital Assets				
Land	1,728,689	35,863	1,764,552	187,097
Other Capital Assets, Net of Accumulated Depreciation	1,663,882	10,327,269	11,991,151	1,983,080
Deposits	-	85	85	-
Total Non-Current Assets	3,392,571	10,407,733	13,800,304	2,170,177
TOTAL ASSETS	5,087,034	13,972,447	19,059,481	2,245,483

CITY OF EDMONTON, KENTUCKY
STATEMENT OF NET ASSETS - CONTINUED
JUNE 30, 2012

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-type Activities	Total	
CURRENT LIABILITIES				
Accounts Payable	17,649	64,297	81,946	-
Payroll Withholdings	28,507	-	28,507	-
Accrued Expenses				
School Tax	-	4,235	4,235	-
Sales Tax	-	1,593	1,593	-
Vacation Accrual	26,793	36,901	63,694	-
Meter Deposits	-	365,681	365,681	-
Current Portion of				
Loans Payable	-	62,083	62,083	4,969
Leases Payable	135,370	-	135,370	-
Internal Payable	-	1,243,572	1,243,572	-
Total Current Liabilities	208,319	1,778,362	1,986,681	4,969
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Accrued Interest	-	55,556	55,556	-
Current Portion of				
General Obligation Bonds	32,500	-	32,500	-
Revenue Bonds	-	92,400	92,400	-
Total Liabilities Payable From Restricted Assets	32,500	147,956	180,456	0
NON-CURRENT LIABILITIES				
Long-Term Portion of Financing				
General Obligation Bonds	69,500	-	69,500	-
Revenue Bonds	-	2,283,542	2,283,542	-
Loans Payable				
Kentucky League of Cities	-	372,917	372,917	-
Edmonton State Bank	-	-	-	145,000
Leases Payable				
General Obligation				
Municipal Park	868,046	-	868,046	-
Musco Lighting	101,662	-	101,662	-
Special Obligation	100,032	-	100,032	-
KADD - City Hall	255,000	-	255,000	-
Total Non-Current Liabilities	1,394,240	2,656,459	4,050,699	145,000
TOTAL LIABILITIES	1,635,059	4,582,777	6,217,836	149,969

CITY OF EDMONTON, KENTUCKY
STATEMENT OF NET ASSETS - CONCLUDED
JUNE 30, 2012

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-type Activities	Total	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,830,461	7,552,190	9,382,651	2,020,208
Restricted for				
Debt Service	73,916	977,731	1,051,647	-
Special Revenue Funds	27,109	-	27,109	-
Public Services	22,891	-	22,891	-
Public Safety	2,488	-	2,488	-
Parks and Recreation	220,325	-	220,325	-
Unrestricted	<u>1,274,785</u>	<u>859,749</u>	<u>2,134,534</u>	<u>75,306</u>
TOTAL NET ASSETS	<u>3,451,975</u>	<u>9,389,670</u>	<u>12,841,645</u>	<u>2,095,514</u>

See accompanying notes to financial statements.

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

		<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
	<u>Expenses</u>		
FUNCTIONS/PROGRAMS			
PRIMARY GOVERNMENT			
Governmental Activities			
General Government	250,372	-	22,868
Public Safety			
Police	447,458	300	25,212
Fire	28,255	-	-
E911	71,609	-	-
Street Department	49,408	-	36,252
LGEA	4,994	-	9,560
Parks and Recreation	326,488	37,261	-
Interest on Long-Term Debt	74,276	-	-
Total Governmental Activities	<u>1,252,860</u>	<u>37,561</u>	<u>93,892</u>
Business-type Activities			
Water	1,279,278	1,484,458	-
Sewer	193,139	131,886	-
Natural Gas	977,782	941,949	-
Total Business-type Activities	<u>2,450,199</u>	<u>2,558,293</u>	<u>0</u>
Total Primary Government	<u>3,703,059</u>	<u>2,595,854</u>	<u>93,892</u>
COMPONENT UNIT			
Industrial Program	78,982	800	24,000
Total Component Unit	<u>78,982</u>	<u>800</u>	<u>24,000</u>

Program Revenues
Capital Grants
and
Contributions

Net (Expense) Revenue

1,538	(225,966)
1,770	(420,176)
-	(28,255)
-	(71,609)
-	(13,156)
-	4,566
-	(289,227)
-	(74,276)
<u>3,308</u>	<u>(1,118,099)</u>
197,546	402,726
113,802	52,549
-	(35,833)
<u>311,348</u>	<u>419,442</u>
<u>314,656</u>	<u>(698,657)</u>
-	(54,182)
<u>0</u>	<u>(54,182)</u>

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF ACTIVITIES - CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2012**

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-type Activities	Total	
CHANGES IN NET ASSETS				
Net (Expense) Revenue	(1,118,099)	<u>419,442</u>	(<u>698,657</u>)	(<u>54,182</u>)
General Revenues				
Taxes				
Property Taxes	85,505	-	85,505	-
Occupational Licenses and Tax	665,958	-	665,958	-
Insurance Premiums Tax	243,687	-	243,687	-
Franchise Fees	9,322	-	9,322	-
Investment Income	8,386	28,307	36,693	510
Miscellaneous	4,964	-	4,964	2,594
Transfers	(<u>10,702</u>)	<u>5,049</u>	(<u>5,653</u>)	<u>5,653</u>
Total General Revenues and Transfers	<u>1,007,120</u>	<u>33,356</u>	<u>1,040,476</u>	<u>8,757</u>
CHANGES IN NET ASSETS	(<u>110,979</u>)	<u>452,798</u>	<u>341,819</u>	(<u>45,425</u>)
NET ASSETS - BEGINNING	<u>3,562,954</u>	<u>8,936,872</u>	<u>12,499,826</u>	<u>2,140,939</u>
NET ASSETS - ENDING	<u>3,451,975</u>	<u>9,389,670</u>	<u>12,841,645</u>	<u>2,095,514</u>

See accompanying notes to financial statements.

CITY OF EDMONTON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash on Hand and in Banks	773,604	21,301	794,905
Receivables, Net of Allowance for Uncollectible Accounts			
Property Taxes	3,936	-	3,936
Due from Other Funds	803,898	-	803,898
Due from Other Governments	12,000	5,808	17,808
Restricted Assets - Cash and Savings			
Sinking Funds	24,931	-	24,931
Funded Depreciation	<u>48,985</u>	<u>-</u>	<u>48,985</u>
TOTAL ASSETS	<u>1,667,354</u>	<u>27,109</u>	<u>1,694,463</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	17,649	-	17,649
Payroll Withholdings	28,507	-	28,507
Accrued Expenses - Vacation	<u>26,793</u>	<u>-</u>	<u>26,793</u>
Total Liabilities	<u>72,949</u>	<u>0</u>	<u>72,949</u>
FUND BALANCES			
Restricted	73,916	27,109	101,025
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>1,520,489</u>	<u>-</u>	<u>1,520,489</u>
Total Fund Balances	<u>1,594,405</u>	<u>27,109</u>	<u>1,621,514</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>1,667,354</u>	<u>27,109</u>	<u>1,694,463</u>

See accompanying notes to financial statements.

**CITY OF EDMONTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances – Total Governmental Funds	1,621,514
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets of \$5,263,345, net of accumulated depreciation of (\$1,870,774), are not current financial resources and, therefore, are not reported in the funds. See Note 3 for additional details.	3,392,571
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Long-term liabilities of (\$1,562,110) are not due and payable in the current period and are not reported in the funds. See Note 3 for additional details.	(1,562,110)
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Net Assets of Governmental Activities	<u>3,451,975</u>
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See accompanying notes to financial statements.

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property Taxes	85,505	-	85,505
Occupational Licenses and Taxes	665,958	-	665,958
Insurance Premiums Tax	243,687	-	243,687
Franchise Fees	9,322	-	9,322
Intergovernmental Revenue	48,080	45,812	93,892
Penalties and Fines	300	-	300
Parks and Recreation Income	37,261	-	37,261
Other	4,964	-	4,964
Total Revenues	<u>1,095,077</u>	<u>45,812</u>	<u>1,140,889</u>
EXPENDITURES			
Current			
General Government	202,487	-	202,487
Public Safety			
Police	445,509	-	445,509
Fire	28,255	-	28,255
E911	71,609	-	71,609
Street Department	-	49,408	49,408
LGEA	-	4,994	4,994
Parks and Recreation	254,372	-	254,372
Debt Service			
Principal	155,298	-	155,298
Interest	74,276	-	74,276
Agent Fees	8,347	-	8,347
Total Expenditures	<u>1,240,153</u>	<u>54,402</u>	<u>1,294,555</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(145,076)</u>	<u>(8,590)</u>	<u>(153,666)</u>
OTHER FINANCING SOURCES (USES)			
Interest Income	8,386	-	8,386
Grant Proceeds	3,308	-	3,308
Transfer Out	(10,702)	-	(10,702)
Total Other Financing Sources	<u>992</u>	<u>0</u>	<u>992</u>
NET CHANGES IN FUND BALANCES	<u>(144,084)</u>	<u>(8,590)</u>	<u>(152,674)</u>
FUND BALANCES - BEGINNING	<u>1,738,489</u>	<u>35,699</u>	<u>1,774,188</u>
FUND BALANCES - ENDING	<u>1,594,405</u>	<u>27,109</u>	<u>1,621,514</u>

See accompanying notes to financial statements.

CITY OF EDMONTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2012

Net Changes in Fund Balances – Total Governmental Funds **(152,674)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of (\$113,603) exceeded capital outlays of \$0 in the current period. See Note 3 for additional details. (113,603)

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 payments was \$155,298. See Note 3 for additional details. 155,298

Change in Net Assets of Governmental Activities **(110,979)**

See accompanying notes to financial statements.

CITY OF EDMONTON, KENTUCKY
BALANCE SHEET - PROPRIETARY FUNDS
JUNE 30, 2012

ASSETS	Enterprise Funds			
	Water	Sewer	Natural Gas	Total
CURRENT ASSETS				
Cash on Hand and in Banks	1,125,673	27,913	445,183	1,598,769
Investments	-	-	375,414	375,414
Receivables, Net of Allowance for Uncollectible Accounts				
Trade Accounts	129,995	10,929	32,202	173,126
Internal Receivable	312,286	-	127,388	439,674
Total Current Assets	1,567,954	38,842	980,187	2,586,983
RESTRICTED ASSETS				
Cash and Savings				
Sinking Funds	330,250	4,541	-	334,791
Funded Depreciation	311,030	-	-	311,030
Other Cash	331,910	-	-	331,910
Total Restricted Assets	973,190	4,541	0	977,731
NON-CURRENT ASSETS				
Loan and Bond Issuance Costs, Net of Accumulated Amortization	40,731	-	3,785	44,516
Capital Assets				
Land	34,363	1,500	-	35,863
Other Capital Assets, Net of Accumulated Depreciation	7,073,977	1,572,819	1,680,473	10,327,269
Deposits	85	-	-	85
Total Non-Current Assets	7,149,156	1,574,319	1,684,258	10,407,733
TOTAL ASSETS	9,690,300	1,617,702	2,664,445	13,972,447

LIABILITIES AND FUND EQUITY	Enterprise Funds			
	Water	Sewer	Natural Gas	Total
CURRENT LIABILITIES				
Accounts Payable	55,318	415	8,564	64,297
Accrued Expenses				
School Tax	3,176	-	1,059	4,235
Sales Tax	907	83	603	1,593
Vacation Accrual	11,710	3,108	22,083	36,901
Meter Deposits	232,016	-	133,665	365,681
Current Portion of Loans Payable	-	-	62,083	62,083
Internal Payable	850,120	312,286	81,166	1,243,572
Total Current Liabilities	1,153,247	315,892	309,223	1,778,362
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Accrued Interest	53,358	2,198	-	55,556
Current Portion of Revenue Bonds	90,500	1,900	-	92,400
Total Liabilities Payable From Restricted Assets	143,858	4,098	0	147,956
NON-CURRENT LIABILITIES				
Long-Term Portion of Financing Revenue Bonds Payable	2,187,742	95,800	-	2,283,542
Loans Payable - Kentucky League of Cities	-	-	372,917	372,917
Total Non-Current Liabilities	2,187,742	95,800	372,917	2,656,459
TOTAL LIABILITIES	3,484,847	415,790	682,140	4,582,777
FUND EQUITY				
Retained Earnings				
Restricted for Debt Service	973,190	4,541	-	977,731
Unrestricted	5,232,263	1,197,371	1,982,305	8,411,939
Total Fund Equity	6,205,453	1,201,912	1,982,305	9,389,670
TOTAL LIABILITIES AND FUND EQUITY	9,690,300	1,617,702	2,664,445	13,972,447

See accompanying notes to financial statements.

CITY OF EDMONTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Water	Sewer	Natural Gas	Total
OPERATING REVENUES				
Charges for Services	1,392,699	125,993	866,908	2,385,600
Miscellaneous	<u>91,759</u>	<u>5,893</u>	<u>75,041</u>	<u>172,693</u>
Total Operating Revenues	<u>1,484,458</u>	<u>131,886</u>	<u>941,949</u>	<u>2,558,293</u>
OPERATING EXPENSES				
Salaries and Wages	207,268	34,691	238,625	480,584
Gas Purchased	-	-	440,267	440,267
Water Purchased	403,270	-	-	403,270
Chemicals	1,641	10,496	-	12,137
Utilities and Telephone	39,844	42,388	7,908	90,140
Materials and Supplies	64,068	14,904	14,468	93,440
Auto Expense	29,048	1,321	24,097	54,466
Insurance	77,548	11,427	87,312	176,287
Postage and Freight	7,084	355	7,284	14,723
Depreciation	247,458	49,211	59,162	355,831
Legal and Accounting	8,324	2,555	7,665	18,544
Payroll Taxes and Retirement	54,682	8,968	62,500	126,150
Miscellaneous Expenses	26,584	10,145	11,373	48,102
Bad Debt Expense	<u>1,029</u>	<u>2,239</u>	<u>-</u>	<u>3,268</u>
Total Operating Expenses	<u>1,167,848</u>	<u>188,700</u>	<u>960,661</u>	<u>2,317,209</u>
OPERATING INCOME (LOSS)	<u>316,610</u>	<u>(56,814)</u>	<u>(18,712)</u>	<u>241,084</u>
NON-OPERATING REVENUES (EXPENSES)				
Grant Income	197,546	113,802	-	311,348
Interest Income	17,428	557	10,322	28,307
Bond Interest	(109,675)	(4,439)	-	(114,114)
Discount and Issuance Cost Amortization	(1,755)	-	(2,021)	(3,776)
Infrastructure Loan Interest	-	-	(13,400)	(13,400)
Loan Fees	-	-	(1,700)	(1,700)
Transfers In (Out)	<u>-</u>	<u>5,049</u>	<u>-</u>	<u>5,049</u>
Total Non-Operating Revenues (Expenses)	<u>103,544</u>	<u>114,969</u>	<u>(6,799)</u>	<u>211,714</u>
NET INCOME (LOSS)	420,154	58,155	(25,511)	452,798
RETAINED EARNINGS - BEGINNING	<u>5,785,299</u>	<u>1,143,757</u>	<u>2,007,816</u>	<u>8,936,872</u>
RETAINED EARNINGS - ENDING	<u>6,205,453</u>	<u>1,201,912</u>	<u>1,982,305</u>	<u>9,389,670</u>

See accompanying notes to financial statements.

**CITY OF EDMONTON, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Enterprise Funds			
	Water	Sewer	Natural Gas	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	1,383,022	126,095	892,421	2,401,538
Cash Payments to Suppliers for Goods and Services	(848,600)	(26,791)	(654,986)	(1,530,377)
Cash Payments to Employees for Services	(266,080)	(43,162)	(300,798)	(610,040)
Other Operating Revenues	<u>91,759</u>	<u>5,893</u>	<u>75,041</u>	<u>172,693</u>
Net Cash Provided by Operating Activities	<u>360,101</u>	<u>62,035</u>	<u>11,678</u>	<u>433,814</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grant Proceeds Received	197,546	113,802	-	311,348
Acquisition of Capital Assets	(249,042)	(199,298)	(62,796)	(511,136)
Payments on Revenue Bonds	(84,700)	(1,900)	-	(86,600)
Kentucky League of Cities	-	-	(60,000)	(60,000)
Interest Paid on Revenue Bonds and Notes Payable	(111,715)	(4,482)	(15,101)	(131,298)
Net Cash Used by Capital and Related Financing Activities	<u>(247,911)</u>	<u>(91,878)</u>	<u>(137,897)</u>	<u>(477,686)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers (to) from Other Funds	<u>-</u>	<u>5,049</u>	<u>-</u>	<u>5,049</u>
Net Cash Provided by Non-Capital Financing Activities	<u>0</u>	<u>5,049</u>	<u>0</u>	<u>5,049</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	<u>17,428</u>	<u>557</u>	<u>10,322</u>	<u>28,307</u>
Net Cash Provided by Investing Activities	<u>17,428</u>	<u>557</u>	<u>10,322</u>	<u>28,307</u>
NET INCREASE (DECREASE) IN CASH	129,618	(24,237)	(115,897)	(10,516)
CASH - BEGINNING OF YEAR	<u>996,055</u>	<u>52,150</u>	<u>561,080</u>	<u>1,609,285</u>
CASH - END OF YEAR	<u>1,125,673</u>	<u>27,913</u>	<u>445,183</u>	<u>1,598,769</u>

	Enterprise Funds			
	Water	Sewer	Natural Gas	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	316,610	(56,814)	(18,712)	241,084
Adjustments for Items not Providing or Using Cash				
Depreciation	247,458	49,211	59,162	355,831
(Increase) Decrease in				
Receivables, Net of Allowance				
Trade Accounts	(9,677)	102	25,513	15,938
Due from Other Funds	(72,607)	-	-	(72,607)
Restricted Assets - Cash and Savings				
Sinking Funds	(1,444)	(34)	-	(1,478)
Funded Depreciation Funds	(17,309)	-	-	(17,309)
Other Cash	(4,331)	-	(4,720)	(9,051)
Increase (Decrease) in				
Accounts Payable	(2,936)	(3,452)	623	(5,765)
Accrued Expenses				
School Tax	(368)	-	(1,946)	(2,314)
Sales Tax	(873)	(82)	(888)	(1,843)
Vacation Accrual	(4,129)	497	328	(3,304)
Meter Deposits	9,707	-	2,318	12,025
Due to Other Funds	(100,000)	72,607	(50,000)	(77,393)
Net Cash Provided by Operating Activities	<u>360,101</u>	<u>62,035</u>	<u>11,678</u>	<u>433,814</u>

See accompanying notes to financial statements.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The City of Edmonton was chartered in 1860. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police fire, and E911 dispatching); highways and streets; water, sewer, and natural gas utilities and public improvements; planning and zoning, parks and recreation, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statements No. 14 and No. 39 of the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

The entity that has been included as a discretely presented component unit in the City's financial statements is as follows:

Edmonton-Metcalf Industrial Development Authority - accounts for revenues and expenditures of industrial development activities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - CONCLUDED

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns with composite columns for nonmajor funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America as applicable to government units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements, in which case GASB prevails.

Beginning July 1, 2003, the City changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. As part of the implementation of GASB Statement No. 34, the City is encouraged, but not required, to report major general infrastructure assets retroactively. Thus, the historical cost of infrastructure assets prior to July 1, 2003, is not included as part of the governmental capital assets reported in the government-wide financial statements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary fund financial statements and financial statements of the City's component unit also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, franchise taxes (fees), and intergovernmental revenues. In general, other revenues are recognized when cash is received. See Note 3 for related information.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - CONCLUDED

of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed. See Note 3 for information describing restricted assets.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City reports the following non-major governmental funds:

Municipal Road Aid Fund – accounts for the revenues and expenditures of Kentucky gas tax refunds.

LGEA Fund – accounts for the revenues and expenditures for mineral severance tax.

Proprietary Funds

The City reports the following major enterprise funds:

Water Fund – accounts for the operating activities of the City's water utilities services.

Sewer Fund – accounts for the operating activities of the City's sewer utilities services.

Natural Gas Fund – accounts for the operating activities of the City's natural gas utilities services.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

The City's cash consists of cash on hand and demand deposits. It is the policy of the City of Edmonton to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City of Edmonton and conforming to all State statutes and the City of Edmonton regulations governing the investment of public funds. Additional cash and investment information is presented in Note 3.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized, but are expensed as incurred.

CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - CONTINUED

Capital Assets and Depreciation - Concluded

Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is reported in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and Infrastructure	25-50
Improvements, other than Buildings	20-25
Equipment and Furnishings	5-10
Vehicles	3-10

For information describing capital assets, see Note 3.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts, or premiums, and the difference between the requisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Additional information regarding long-term debt is shown in Note 3.

Fund Balances - Governmental Funds

The City of Edmonton, Kentucky, has applied GASB Statement No. 54, **Fund Balance Reporting and Governmental Fund Type Definitions**. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City of Edmonton, Kentucky, is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City does not have any nonspendable resources as of June 30, 2012.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified restricted assets for special revenue funds as being restricted because their use is restricted by State statute for Municipal Road Aid and LGEA expenditures. Debt service resources are to be used for future servicing of the general obligation bond and are restricted through debt covenants.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - CONCLUDED

Fund Balances - Governmental Funds - Concluded

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2012.

Assigned – This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The City did not have any assigned resources as of June 30, 2012.

Unassigned – This classification includes amounts that are available for any purpose. At June 30, 2012, the City had the remaining fund balance in the general fund as unassigned.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

REVENUES, EXPENDITURES, AND EXPENSES

Property Taxes

Property taxes are recognized as revenue to the extent they are both measurable and available.

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination. The estimated liability for vested vacation benefits attributable to the City's governmental funds is recorded as an expenditure and a liability in the respective funds.

Unpaid accumulated sick leave is not recorded due to the contingent nature of the liability. The amount is earned, but only to be taken subject to the employee's illness. No amount is due upon termination. The accumulated potential amount is \$98,667 at June 30, 2012.

ECONOMIC DEPENDENCY

The City of Edmonton, Kentucky, purchases its natural gas from Atmos Energy and purchases its water from the City of Glasgow, Kentucky. Due to the nature of the infrastructure system, the City of Edmonton, Kentucky, is economically dependent on these two suppliers. The infrastructure system of the City's enterprise funds serves residents of Edmonton and Metcalfe County.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budget Policy and Practice

The Mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter total expenditures of any fund must be approved by the City Council. Total expenditures for a fund may not legally exceed the total appropriations. There were three revisions to the budget during the year ended June 30, 2012. Annual budgets for all governmental fund types were adopted on a basis consistent with accounting principles generally accepted in the United States.

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT

ASSETS

CASH DEPOSITS AND INVESTMENTS

In March 2003, the GASB issued Statement No. 40, *Deposits and Investment Risk Disclosures*, which is effective for periods beginning after June 15, 2004. Risk disclosures in previous financial statements (under the provisions of GASB Statement No. 3) focused only on custodial credit risk. GASB Statement No. 40 addresses not only custodial credit risk, but other common areas of investment risk as well, including interest rate risk, credit risk, and concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The City's investment policy dictates that all cash maintained in any financial institution named as a depository be collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. Collateral must be held by an independent third-party custodian.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

ASSETS - CONTINUED

CASH DEPOSITS AND INVESTMENTS - CONTINUED

Custodial Credit Risk - Concluded

At June 30, 2012, City of Edmonton, Kentucky's (book) deposits were \$3,820,629, and the bank balance was \$3,871,500 at Edmonton State Bank. The FDIC insures demand deposits under one custodian up to \$250,000 at one institution, and time deposits are insured for another \$250,000. Bond interest and sinking fund accounts are insured up to \$250,000 per beneficial interest. At June 30, 2012, the City had funds of \$3,121,500 in excess of FDIC limits, which were collateralized with securities held by the pledging financial institution's trust department or agent in the name of the City.

The Edmonton-Metcalf Industrial Development Authority has a bank account balance of \$12,313 and certificates of deposits totaling \$62,994. These amounts do not exceed FDIC insurance limits and are held for an entity separate from the City of Edmonton.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City's formal investment policy does limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than two years from the date of purchase. However, the City may collateralize its repurchase agreements using longer dated investments in securities exceeding five years to maturity. Reserve funds may be invested in securities exceeding five years, if maturities of the investments are made to coincide as nearly as practicable with the expected use of the funds.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. Investments are made under the 'prudent investor' standard outlined in the City's investment policy to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely, and (c) reasonable action is taken to control any adverse developments.

Concentration of Credit Risk

The City recognizes that some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or closing investments prior to maturity due to unanticipated cash flow needs. Diversification of the City's investment portfolio by institution, type of investment instrument, and term to maturity is the primary method to minimize investment risk.

The funds of the City of Edmonton available for investment shall be invested in accordance with the City's investment policy and all applicable State statutes only in the types of investment instruments as listed on the following page.

**CITY OF EDMONTON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012**

3. DETAILED NOTES ON FUNDS AND COMPONENT UNIT - CONTINUED

ASSETS - CONTINUED

CASH DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk - Continued

1. Obligations of the United States and its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:
 - a. United States Treasury;
 - b. Export-Import Bank of the United States;
 - c. Farmers Home Administration;
 - d. Government National Mortgage Corporation; and
 - e. Merchant Marine Bonds.
3. Obligations of any corporation of the United States government, including but not limited to:
 - a. Federal Home Loan Mortgage Corporation;
 - b. Federal Farm Credit Banks;
 - c. Bank for Cooperatives;
 - d. Federal Intermediate Credit Banks;
 - e. Federal Land Banks;
 - f. Federal Home Loan Banks;
 - g. Federal National Mortgage Association; and
 - h. Tennessee Valley Authority.
4. Certificates of deposit issued by, or other interest-bearing accounts of, any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by section 41.240(4) of the Kentucky Revised Statutes.
5. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
6. Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
7. Commercial paper rated in the highest category by a nationally recognized rating agency.
8. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
9. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.