

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Elsmere, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

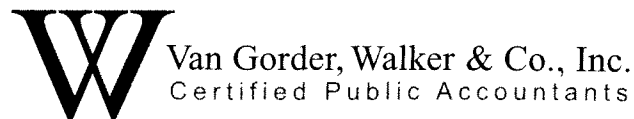
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Elsmere, Kentucky as of June 30, 2013 and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters



-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3–7 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.

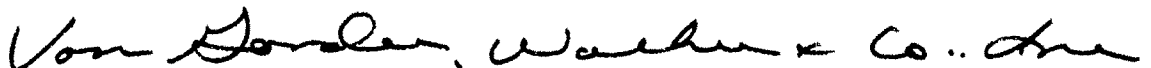
Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedules on pages 24-26 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major fund financial statements are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of the City of Elsmere, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elsmere, Kentucky's internal control over financial reporting and compliance.



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
December 9, 2013

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Our discussion and analysis of City of Elsmere, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's basic financial statements.

USING THIS ANNUAL REPORT

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

Financial Highlights

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

<u>Funds</u>	<u>FYE 2012 Amount</u>	<u>FYE 2013 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 12</u>
General	\$ 2,994,006	\$ 3,458,222	15.50%	\$ 464,216
Street Tax	734,138	1,219,307	66.09%	485,169
Municipal Aid	407,564	584,018	43.29%	176,454
Other Funds	156,045	199,622	27.93%	43,577
Total Fund Balance	<u>\$ 4,291,753</u>	<u>\$ 5,461,169</u>	27.25%	<u>\$ 1,169,416</u>

All funds experienced an excess of revenues over expenditures resulting in an increase to fund balances. Increase in General Fund revenues accounts for the entire increase to fund balance, expenditures remained at FY 2012 levels. Street Tax Fund increased significantly again this year because intergovernmental funds for roadwork were received during the year, but the related expenditures will not take place until fiscal year 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statement of Net Assets and Activities

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

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

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (Continued)**

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

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

Fund Financial Statements

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

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

Government-Wide Change in Net Position

For the year ended June 30, 2013, net position for all governmental activities changed as follows:

	Governmental Activities
Beginning Net Position	\$ 11,567,025
Increase in Net Position	<u>549,054</u>
Ending Net Position	<u><u>\$ 12,116,079</u></u>

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (Continued)**

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	<u>2012</u>	<u>2013</u>
Current Assets	\$ 5,820,582	\$ 6,055,802
Capital Assets, Net	<u>7,952,964</u>	<u>8,046,170</u>
Total Assets	<u>13,773,546</u>	<u>14,101,972</u>
Current Liabilities	386,521	410,893
Noncurrent Liabilities	<u>1,820,000</u>	<u>1,575,000</u>
Total Liabilities	<u>2,206,521</u>	<u>1,985,893</u>
Net Position	<u>\$ 11,567,025</u>	<u>\$ 12,116,079</u>

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2013, and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	<u>FYE 2012 Amount</u>	<u>FYE 2013 Amount</u>	<u>Percentage Incr(Decr)</u>	<u>Increase (Decrease) From FYE 12</u>
Property tax	\$ 1,201,494	\$ 1,323,924	10.2%	\$ 122,430
Payroll tax	1,170,096	1,245,207	6.4%	75,111
Insurance premium tax	698,354	1,007,055	44.2%	308,701
Other taxes	125,150	148,566	18.7%	23,416
Licenses and permits	16,232	35,804	120.6%	19,572
Fines and forfeitures	24,942	26,443	6.0%	1,501
Charges for services	400,504	478,538	19.5%	78,034
Intergovernmental and grants	1,928,821	1,854,536	-3.9%	(74,285)
Rehabilitation loan payments	5,106	3,916	-23.3%	(1,190)
Interest income	9,937	3,067	-69.1%	(6,870)
Miscellaneous	<u>26,536</u>	<u>48,527</u>	82.9%	<u>21,991</u>
Total Revenues	<u>\$ 5,607,172</u>	<u>\$ 6,175,583</u>	10.1%	<u>\$ 568,411</u>

The \$568,411 increase in total revenues can be attributed primarily to the 44.2% increase in Insurance premium taxes, a result of the new Kentucky statutes and disclosures required by insurance companies. Other significant revenue increases included \$78,034 increase in waste collection services, \$17,085 (254%) increase in omitted tangible tax and the receipt of a \$6,000 safety grant from Kentucky League of Cities in Miscellaneous revenues.

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (Continued)**

Intergovernmental and grant revenue decreased slightly. Although funds received funds from Sanitation District No. 1 and the Northern Kentucky Water District for road construction doubled from last year, the City drew significantly less from its capital lease resulting in an overall decrease for the year. Investment Income decreased significantly due to investments at current rates being lower than the prior year.

Expenditures	FYE 2012 Amount	FYE 2013 Amount	Percentage Increase/ (Decrease)	Increase (Decrease) From FYE 12
General government	\$ 511,492	\$ 591,915	15.72%	\$ 80,423
Public safety	1,317,760	1,376,176	4.43%	58,416
Public works	910,595	664,479	-27.03%	(246,116)
Planning and inspection	22,075	43,900	98.87%	21,825
Waste collection	482,244	444,784	-7.77%	(37,460)
Recreation	12,223	21,146	73.00%	8,923
Capital outlay	1,675,429	1,541,429	-8.00%	(134,000)
Debt service	293,622	292,962	-0.22%	(660)
Total Expenditures	<u>\$ 5,225,440</u>	<u>\$ 4,976,791</u>	-4.76%	<u>\$ (248,649)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2012	2013
Land	\$ 1,143,538	\$ 1,143,538
Construction in Progress	997,413	2,104,569
Buildings	1,281,668	1,296,164
Infrastructure	4,938,658	5,200,191
Vehicles	731,487	857,019
Equipment	671,931	613,808
Furniture and fixtures	32,095	32,095
Totals	<u>\$ 9,796,790</u>	<u>\$ 11,247,384</u>

This year's net increase of \$1,450,594 in capital assets included:

Streets and sidewalks projects	\$ 1,630,222
Police building improvements	14,496
Police equipment	14,580
Public works equipment	18,131
Police vehicles	74,715
Public works vehicles	50,817
Disposal of assets	(90,834)
Infrastructure additions reclassified from construction in progress	(261,533)
	<u>\$ 1,450,594</u>

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (Continued)**

Debt

The City has \$1,820,000 in outstanding debt at June 30, 2013, compared to a \$2,060,000 debt at June 30, 2012, an 11.7% decrease from 2012 as detailed below:

	Governmental Activities	
	<u>2012</u>	<u>2013</u>
Road construction capital lease	<u>\$ 2,060,000</u>	<u>\$ 1,820,000</u>
Totals	<u>\$ 2,060,000</u>	<u>\$ 1,820,000</u>

In September 2010, City signed a capital lease for road construction in the amount of \$2,560,000. The City started making payments on the lease, starting in September 2010, but had drawn only \$2,169,844 in lease funds as of June 30, 2013. The future lease proceeds are listed on the Statement of Net Position as an Asset Held in Trust.

GENERAL BUDGETARY HIGHLIGHTS

Over the course of the year, the city council revised the budget three times.

Actual resources, across all major funds, revenues exceeded budgeted amounts by \$417,733 due primarily to taxes collected. Actual expenditures were under budget by \$301,888 due to a reduction in public safety expenditures and less utilized for road construction than anticipated. The City ended the year with actual revenues exceeding expenditures by \$1,198,792.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2013 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

The City is allowed by law to set an ad valorem rate that will generate 4% more revenue than last year. This year the Council voted to keep the tax rate the same as the FY 2012 rate, which is set at 0.218 per hundred for the fiscal year ended June 30, 2013.

REQUESTS FOR INFORMATION

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

CITY OF ELSMERE, KENTUCKY Statement of Net Position June 30, 2013

ASSETS	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 4,590,431
Investments	308,915
Receivables	
Taxes	602,765
Intergovernmental	4,169
Waste collection	59,348
Other	3,528
Notes receivable	8,640
Assets held in trust	390,156
Joint venture	87,850
Total Current Assets	<u>6,055,802</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	3,248,107
Infrastructure	5,200,191
Buildings	1,296,164
Equipment	613,808
Vehicles	857,019
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(3,201,214)</u>
Net Capital Assets	<u>8,046,170</u>
TOTAL ASSETS	<u>14,101,972</u>
LIABILITIES	
Current Liabilities	
Accounts payable	42,238
Accrued liabilities	72,593
Compensated absences	51,062
Current portion of leases payable	<u>245,000</u>
Total Current Liabilities	410,893
Noncurrent Liabilities	
Leases payable	<u>1,575,000</u>
TOTAL LIABILITIES	<u>1,985,893</u>
NET POSITION	
Invested in capital assets, net of related debt	6,616,326
Restricted	1,891,175
Unrestricted	<u>3,608,578</u>
TOTAL NET POSITION	<u>\$ 12,116,079</u>

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

CITY OF ELSMERE, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government					
Governmental Activities					
General government	\$ 613,406	\$ 4,160	\$ 33,494	\$ -	\$ (575,752)
Public safety	1,428,542	18,713	57,688	-	(1,352,141)
Public works and street	804,614	3,870	204,106	681,084	84,446
Planning and inspection	43,900	-	-	-	(43,900)
Waste collection	444,784	455,647	-	-	10,863
Recreation	23,425	-	-	-	(23,425)
Interest on long-term debt	52,962	-	-	-	(52,962)
Prior period adjustment	1,279,631	-	-	-	(1,279,631)
Total Governmental Activities	<u>\$ 4,691,264</u>	<u>\$ 482,390</u>	<u>\$ 295,288</u>	<u>\$ 681,084</u>	<u>(3,232,502)</u>
General Revenues					
Taxes					
Property taxes					1,266,887
Payroll tax					1,245,207
Insurance premium taxes					1,007,055
Other taxes					148,566
Licenses and permits					35,804
Fines and forfeitures					26,443
Interest income					3,067
Miscellaneous					48,527
Total general revenues					<u>3,781,556</u>
Change in net position					549,054
Net position, beginning					11,567,025
Net position, ending					<u>\$ 12,116,079</u>

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

CITY OF ELSMERE, KENTUCKY
Balance Sheet - Governmental Funds
June 30, 2013

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,732,525	\$ 1,075,202	\$ 569,646	\$ 213,058	\$ 4,590,431
Investments	185,930	122,985	-	-	308,915
Receivables					
Taxes	573,559	29,206	-	-	602,765
Waste collection	59,348	-	-	-	59,348
Intergovernmental	4,169	-	-	-	4,169
Other	3,528	-	-	-	3,528
Notes receivable	-	-	-	8,640	8,640
Investment in joint venture	87,850	-	-	-	87,850
Due from other funds	13,436	21,120	31,223	-	65,779
TOTAL ASSETS	\$ 3,660,345	\$ 1,248,513	\$ 600,869	\$ 221,698	\$ 5,731,425
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 25,387	\$ -	\$ 16,851	\$ -	\$ 42,238
Accrued liabilities	72,593	-	-	-	72,593
Deferred revenue	51,800	29,206	-	8,640	89,646
Due to other funds	52,343	-	-	13,436	65,779
TOTAL LIABILITIES	202,123	29,206	16,851	22,076	270,256
FUND BALANCES					
Restricted	87,850	1,219,307	584,018	-	1,891,175
Committed	-	-	-	199,622	199,622
Assigned	809,084	-	-	-	809,084
Unassigned	2,561,288	-	-	-	2,561,288
TOTAL FUND BALANCES	3,458,222	1,219,307	584,018	199,622	5,461,169
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,660,345	\$ 1,248,513	\$ 600,869	\$ 221,698	\$ 5,731,425

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

CITY OF ELSMERE, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2013

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

Total fund balance per balance sheet	\$ 5,461,169
Capital assets of \$11,274,384, less accumulated depreciation of (\$3,201,214), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,046,170
Assets held in trust are capital leases the City is responsible for repaying, but the lease funds have not yet been drawn by the City.	390,156
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the balance in deferred items.	89,646
Long-term liabilities, including leases payable and compensated absences, may not be due and payable in the current period in the funds and therefore are not reported as liabilities in the governmental funds.	
Leases payable	(1,820,000)
Compensated absences	(51,062)
Net position of governmental activities	<u>\$ 12,116,079</u>

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

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balances -****Governmental Funds****For the Year Ended June 30, 2013**

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 814,287	\$ 509,637	\$ -	\$ -	\$ 1,323,924
Payroll tax	1,245,207	-	-	-	1,245,207
Insurance premium tax	755,388	-	251,667	-	1,007,055
Other taxes	148,566	-	-	-	148,566
Licenses and permits	35,804	-	-	-	35,804
Fines, forfeitures, penalties	26,443	-	-	-	26,443
Charges for services	478,538	-	-	-	478,538
Intergovernmental	76,645	704,684	204,106	33,494	1,018,929
Grants	3,870	-	-	-	3,870
Rehabilitation loan payments	-	-	-	3,916	3,916
Loan Proceeds	-	831,737	-	-	831,737
Interest income	1,500	686	377	504	3,067
Miscellaneous	48,527	-	-	-	48,527
Total Revenues	3,634,775	2,046,744	456,150	37,914	6,175,583
Expenditures					
Current Expenditures					
General government	575,215	2,575	-	14,125	591,915
Public safety	1,376,176	-	-	-	1,376,176
Public works and streets	412,880	-	247,849	3,750	664,479
Planning and inspection	43,900	-	-	-	43,900
Waste collection	444,784	-	-	-	444,784
Recreation	21,146	-	-	-	21,146
Capital outlay	243,544	1,266,038	31,847	-	1,541,429
Debt service	-	292,962	-	-	292,962
Total Expenditures	3,117,645	1,561,575	279,696	17,875	4,976,791
Excess of Revenues Over Expenditures	517,130	485,169	176,454	20,039	1,198,792
Other Financing Sources (Uses)					
Operating transfers in	-	-	-	13,643	13,643
Operating transfers out	(13,643)	-	-	-	(13,643)
Total Other Financing Sources (Uses)	(13,643)	-	-	13,643	-
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	503,487	485,169	176,454	33,682	1,198,792
Fund Balance, beginning	2,994,006	734,138	407,564	156,045	4,291,753
Prior Period Adjustments	(39,271)	-	-	9,895	(29,376)
Fund Balance, ending	\$ 3,458,222	\$ 1,219,307	\$ 584,018	\$ 199,622	\$ 5,461,169

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

CITY OF ELSMERE, KENTUCKY Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities For the Year Ended June 30, 2013

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

Net change in fund balance - total governmental funds	\$ 1,198,792
--------------------------------------------------------------	---------------------

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

Capital outlays	\$ 1,541,428	
Depreciation expense	<u>(197,967)</u>	
		1,343,461

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	(103,528)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, such as compensated absences.	(18,303)
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------

Proceeds from draws on capital leases are reported as financing sources in the governmental funds and contribute to the change in fund balance. In the statement of net assets, however, draws on capital leases increase long-term liabilities and does not affect the statement of activities.	(831,737)
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Repayment of leases payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	240,000
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Prior period adjustments for reconciliation of accumulated depreciation and fund balance of the General fund.	<u>(1,279,631)</u>
---------------------------------------------------------------------------------------------------------------	--------------------

Change in net position of governmental activities	<u>\$ 549,054</u>
----------------------------------------------------------	--------------------------

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

OVERVIEW OF ENTITY

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

Reporting Entity

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

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

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

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

Measurement focus, basis of accounting and financial statement presentation

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The City reports on the following funds:

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

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

Assets, Liabilities and Equity

Deposits and Investments

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

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

Receivables

No allowance for doubtful accounts is required.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

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, 2013 are recorded as prepaid items.

Capital Assets

Capital assets are reported in the governmental activities column of the government-wide Statement of Net Assets. The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets with an initial, individual cost of \$500 or more. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the Statement of Net Position. 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 Position. The range of lives used for depreciation purposes for each fixed asset class is as follows:

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

CITY OF ELSMERE, KENTUCKY
Notes to Financial Statements
June 30, 2013

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

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

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

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

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

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

Unassigned fund balances consist of all residual funds not included in non-spendable, restricted, committed, or assigned fund balances.

Revenues, Expenditures and Expenses – Inter-fund Transactions

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Pervasiveness of Estimates

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

Budgetary Information

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

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

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

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

NOTE C – DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents – The carrying amount of the City's cash equivalents (bank deposits, money market accounts and certificates of deposit with less than 90 days maturity) with financial institutions was \$4,701,079 at June 30, 2013.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

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 are insured by depository insurance or secured with collateral held by the financial institutions in the City's name.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City had custodial credit risk at June 30, 2013 of \$185,930, related to an investment in a Kentucky League of Cities Investment Pool, reported at fair value. This pool carries a rating of AAA and is invested in bonds and U.S. Treasury money market accounts. The related securities are uninsured and unregistered.

NOTE D - INVESTMENT IN JOINT VENTURE

During fiscal year 2002, the City joined with the City of Erlanger to create a Renaissance Program for the purposes of community revitalization. The joint venture was created by virtue of an interlocal agreement. A joint venture is an organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or an ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. This joint venture does not meet the criteria for inclusion in the City's financial report as a component unit since the City does not exercise administrative control. The City does report its equity interest in the joint venture using the equity method. An equity interest in a joint venture is manifest in the government having an explicit, measurable right to the net present or future resources of the joint venture. The investment in joint venture in the Statement of Net Assets is included in the unrestricted portion of the total net assets. The Cities of Erlanger and Elsmere have received a beautification grant from the Kentucky Transportation Cabinet with a local match of \$86,060. The match will be paid out of the joint venture. The funds were expected to be expended during the year ending June 30, 2012, but had not been expended at the date of these financial statements. Financial statements for the joint venture may be obtained by contacting the City of Elsmere.

NOTE E – RISK MANAGEMENT

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2013 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

CITY OF ELSMERE, KENTUCKY
Notes to Financial Statements
June 30, 2013

NOTE F – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,143,538	\$ -	\$ -	\$ 1,143,538
Construction in progress	997,413	1,368,689	(261,533)	2,104,569
Total Capital Assets Not Being Depreciated	2,140,951	1,368,689	(261,533)	3,248,107
Depreciable Capital Assets				
Infrastructure	4,938,658	261,533	-	5,200,191
Buildings	1,281,668	14,496	-	1,296,164
Vehicles	731,487	125,532	-	857,019
Equipment	671,931	32,711	(90,834)	613,808
Furniture and fixtures	32,095	-	-	32,095
Total Depreciable Capital Assets	7,655,839	434,272	(90,834)	7,999,277
Total Capital Assets at Historical Cost	9,796,790	1,802,961	(352,367)	11,247,384
Less Accumulated Depreciation				
Infrastructure	(457,897)	(101,379)	993,350	(1,552,626)
Buildings	(380,554)	(26,353)	51,826	(458,733)
Vehicles	(500,911)	(45,433)	116,513	(662,857)
Equipment	(472,949)	(24,802)	(2,848)	(494,903)
Furniture and fixtures	(31,515)	-	580	(32,095)
Total Accumulated Depreciation	(1,843,826)	(197,967)	(1,159,421)	(3,201,214)
Depreciable Capital Assets, Net	5,812,013	236,305	(1,250,255)	7,298,573
Total Capital Assets, Net	\$ 7,952,964	\$ 1,604,994	\$ (1,511,788)	\$ 8,046,170

Depreciation was charged to functions as follows:

Governmental Activities	Amount
General government	\$ 14,265
Public safety	44,197
Public works	35,847
Public Works-Infrastructure	101,379
Recreation	2,279
Total Depreciation	\$ 197,967

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

NOTE G – LONG-TERM DEBT

Road Construction Capital Lease

In August 2010, the City signed a capital lease for \$2,560,000. The proceeds of this lease are to go to road reconstruction in the City. The City began paying principal and interest on this balance in September 2010. As of June 30, 2013, \$2,169,844 of these funds had been drawn. The remaining balance yet to be drawn of \$390,156 is held on the statement of net assets as an Asset Held in Trust to account for the funds which are available for City use. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2013 is \$1,820,000.

Summary of General Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2012:

	Balance June 30, 2012	Additions	Retirements/ Repayments	Balance June 30, 2013	Amounts Due Within 1 Year
Road construction lease	\$ 2,060,000	\$ -	\$ (240,000)	\$ 1,820,000	\$ 245,000
Compensated absences	32,759	18,303	-	51,062	51,062
Total	<u>\$ 2,092,759</u>	<u>\$ 18,303</u>	<u>\$ (240,000)</u>	<u>\$ 1,871,062</u>	<u>\$ 296,062</u>

NOTE H – COMPENSATED ABSENCE LIABILITY

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

	Balance June 30, 2012	Net Additions	Net Payments	Balance June 30, 2013	Amounts Due Within 1 Year
Compensated absences	<u>\$ 32,759</u>	<u>\$ 18,303</u>	<u>\$ -</u>	<u>\$ 51,062</u>	<u>\$ 51,062</u>

NOTE I – EMPLOYEE'S RETIREMENT SYSTEM

County Employees Retirement System (CERS)

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

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

beneficiaries of plan members under certain circumstances. Cost-of-Living Adjustments (COLA) are provided at the discretion of the state legislature.

Non-Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.0% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an extra 1%. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2013, plan members were required to contribute 8.0% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1%. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 37.60% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed by the City for the current and previous four years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 326,285	100%
2012	289,898	100%
2011	271,587	100%
2010	222,841	100%
2009	204,011	100%

NOTE J – CLAIMS AND JUDGMENTS

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2013

NOTE K – INTERFUND ACTIVITY

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	HRA Fund	\$ 13,643
		<u>\$ 13,643</u>

NOTE L – PRIOR PERIOD ADJUSTMENTS

The City made two separate prior period adjustments for the period ending June 30, 2013. The first involved grossing up non-cash accumulated depreciation by \$1,250,255. After an analysis of the City's fixed asset accounts, it was determined that the accumulated depreciation has been understated due to the City not maintaining and balancing its own fixed asset accounts. This change is reported only on the Statements of Net Position and Activities and has no effect on cash or the City's budget.

The second adjustment is to gross the net fund balance down to account for funds expended in the current year, which should have been expended in the prior year.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated events through December 5, 2013, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2013 through December 9, 2013 to disclose.

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - General Fund
For the Year Ended June 30, 2013**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 2,576,000</u>	<u>\$ -</u>	<u>\$ 2,576,000</u>	<u>\$ 2,994,006</u>	<u>\$ 418,006</u>
Resources (inflows):					
Taxes	2,458,000	-	2,458,000	2,963,448	505,448
Licenses and permits	16,650	-	16,650	35,804	19,154
Intergovernmental	56,000	-	56,000	76,645	20,645
Fines, forfeitures, penalties	25,500	-	25,500	26,443	943
Charges for services	450,000	-	450,000	478,538	28,538
Interest income	5,000	-	5,000	1,500	(3,500)
Grants	-	-	-	3,870	3,870
Miscellaneous	18,000	-	18,000	48,527	30,527
Total resources (inflows)	<u>3,029,150</u>	<u>-</u>	<u>3,029,150</u>	<u>3,634,775</u>	<u>605,625</u>
Amounts available for appropriation	<u>5,605,150</u>	<u>-</u>	<u>5,605,150</u>	<u>6,628,781</u>	<u>1,023,631</u>
Charges to appropriations (outflows):					
General government	569,750	30,000	599,750	575,215	24,535
Public safety	1,599,450	(69,700)	1,529,750	1,446,971	82,779
Public works	446,200	-	446,200	419,319	26,881
Planning and inspection	31,900	14,000	45,900	43,900	2,000
Waste collection	440,000	4,784	444,784	444,784	-
Recreation	25,700	-	25,700	21,146	4,554
Capital projects	178,500	(10,000)	168,500	166,310	2,190
Total charges to appropriations	<u>3,291,500</u>	<u>(30,916)</u>	<u>3,260,584</u>	<u>3,117,645</u>	<u>142,939</u>
Interfund transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,643)</u>	<u>(13,643)</u>
Budgetary fund balance, June 30	<u>\$ 2,313,650</u>	<u>\$ 30,916</u>	<u>\$ 2,344,566</u>	<u>\$ 3,497,493</u>	<u>\$ 1,152,927</u>

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

Reconciliation of Budgetary Fund Balance to GAAP

Ending Budgetary Fund Balance	\$ 3,497,493
Less: Prior Period Adjustment	(39,271)
Ending Fund Balance	<u><u>\$ 3,458,222</u></u>

CITY OF ELSMERE, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Street Tax Fund
For the Year Ended June 30, 2013

	Original		Final		Variance
	Budget	Amendments	Budget	Actual	Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 734,138</u>	<u>\$ 134,138</u>
Resources (inflows):					
Steet tax	465,000	44,800	509,800	509,637	(163)
Intergovernmental	1,230,791	(550,384)	680,407	704,684	24,277
Interest	1,000	(400)	600	686	86
Loan Proceeds	1,221,893	(224,000)	997,893	831,737	(166,156)
Total resources (inflows)	<u>2,918,684</u>	<u>(729,984)</u>	<u>2,188,700</u>	<u>2,046,744</u>	<u>(141,956)</u>
Amounts available for appropriation	<u>3,518,684</u>	<u>(729,984)</u>	<u>2,788,700</u>	<u>2,780,882</u>	<u>(7,818)</u>
Charges to appropriations (outflows):					
Bank fees	-	-	-	2,575	(2,575)
Debt service payments	294,920	800	295,720	292,962	2,758
Capital projects	2,335,000	(928,000)	1,407,000	1,266,038	140,962
Total expenses (outflows)	<u>2,629,920</u>	<u>(927,200)</u>	<u>1,702,720</u>	<u>1,561,575</u>	<u>141,145</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 888,764</u>	<u>\$ 197,216</u>	<u>\$ 1,085,980</u>	<u>\$ 1,219,307</u>	<u>\$ 133,327</u>

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

CITY OF ELSMERE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -****Budget and Actual (With Variances) - Municipal Road Fund****For the Year Ended June 30, 2013**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 325,000	\$ -	\$ 325,000	\$ 407,564	\$ 82,564
Resources (inflows):					
Intergovernmental	206,736	(5,000)	201,736	204,106	2,370
Insurance premium tax	125,000	175,000	300,000	251,667	(48,333)
Interest	500	(150)	350	377	27
Total resources (inflows)	332,236	169,850	502,086	456,150	(45,936)
Amounts available for appropriation	657,236	169,850	827,086	863,714	36,628
Charges to appropriations (outflows):					
Sidewalks	140,000	(41,000)	99,000	102,652	(3,652)
Streets	352,000	(186,000)	166,000	145,197	20,803
Capital purchases	37,500	(5,000)	32,500	31,847	653
	529,500	(232,000)	297,500	279,696	17,804
Budgetary fund balance, June 30	\$ 127,736	\$ 401,850	\$ 529,586	\$ 584,018	\$ 54,432

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

CITY OF ELSMERE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2013

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	\$ 137,526	\$ 59,854	\$ 15,678	\$ 213,058
Accounts receivable				
Note receivable	8,640	-	-	8,640
TOTAL ASSETS	<u>\$ 146,166</u>	<u>\$ 59,854</u>	<u>\$ 15,678</u>	<u>\$ 221,698</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ 8,640	\$ -	\$ -	\$ 8,640
Due to other funds	-	-	13,436	13,436
TOTAL LIABILITIES	<u>8,640</u>	<u>-</u>	<u>13,436</u>	<u>22,076</u>
FUND BALANCES				
Committed	137,526	59,854	2,242	199,622
TOTAL FUND BALANCES	<u>137,526</u>	<u>59,854</u>	<u>2,242</u>	<u>199,622</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 146,166</u>	<u>\$ 59,854</u>	<u>\$ 15,678</u>	<u>\$ 221,698</u>

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

CITY OF ELSMERE, KENTUCKY

Combining Statement of Revenues, Expenditures and Changes in Fund Balance -

Non-Major Governmental Funds

For the Year Ended June 30, 2013

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
Revenues				
Loan repayments	\$ 3,916	\$ -	\$ -	\$ 3,916
FSA/HRA contributions	-	-	33,494	33,494
Interest	341	149	14	504
Total Revenues	<u>4,257</u>	<u>149</u>	<u>33,508</u>	<u>37,914</u>
Expenditures				
Bank services	-	-	189	189
FSA/HRA reimbursements			13,936	13,936
Debt Service	3,750	-	-	3,750
Total Expenditures	<u>3,750</u>	<u>-</u>	<u>14,125</u>	<u>17,875</u>
Excess (Deficit) of Revenues Over Expenditures	507	149	19,383	20,039
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	13,643	13,643
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>13,643</u>	<u>13,643</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	507	149	33,026	33,682
Fund Balance, beginning	137,019	49,810	(30,784)	156,045
Fund Balance, ending	<u>\$ 137,526</u>	<u>\$ 49,959</u>	<u>\$ 2,242</u>	<u>\$ 189,727</u>

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

Reconciliation of Turkeyfoot Acres Budgetary Fund Balance to GAAP

Ending Budgetary Fund Balance	\$ 49,959	\$ 189,727
Plus: Prior Period Adjustment	9,895	9,895
Ending Fund Balance	<u>\$ 59,854</u>	<u>\$ 199,622</u>



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

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Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the City of Elsmere, Kentucky as of June 30, 2013 and the related notes to the financial statements which collectively comprise the City of Elsmere, Kentucky's financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Elsmere, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Elsmere, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Elsmere, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Lack of Segregation of Duties

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
December 9, 2013