

CITY OF ELSMERE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2014

CITY OF ELSMERE, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

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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, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky, as of and for the year ended June 30, 2014, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Elsmere, Kentucky as of June 30, 2014 and the respective



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 on pages 27-28 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 November 20, 2014 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.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 20, 2014

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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:

Funds	FYE 2013 Amount	FYE 2014 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 13
General	\$ 3,458,222	\$ 3,479,076	0.60%	\$ 20,854
Street Tax	1,219,307	1,132,396	-7.13%	(86,911)
Municipal Aid	584,018	552,245	-5.44%	(31,773)
Other Funds	199,622	205,100	2.74%	5,478
Total Fund Balance	<u>\$ 5,461,169</u>	<u>\$ 5,368,817</u>	-1.69%	<u>\$ (92,352)</u>

The General Fund, the City-wide Rehabilitation Fund, and the FSA/HRA Fund experienced an excess of revenues over expenditures resulting in an increase to fund balances. The Street Tax Fund, the Municipal Road Fund, and the Turkeyfoot Acres Fund experienced an excess of expenditures over revenues resulting in a decrease to fund balances. General Fund revenues and expenditures experienced a significant drop due to privatization of the City's garbage service billing. With the effect of the garbage revenues and expenditures removed, the City's General Fund expenditures were just slightly more in 2014 than in 2013. Street Tax Fund revenues decreased significantly this year due to a reduced draw on the road loan required to fund roadwork during the year, however, the related roadwork expenditures were made, leaving a small decrease in the fund balance. Municipal Road Fund revenues were stable and expenditures related to street and sidewalk improvement increased in the current year, leaving a small decrease in the fund balance.

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.

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014 (Continued)**

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. 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 years ended June 30, 2014 and 2013, net position for all governmental activities changed as follows:

	Governmental Activities	
	2014	2013
Beginning Net Position	\$ 12,116,079	\$ 11,567,025
Increase in Net Position	486,497	549,054
Ending Net Position	\$ 12,602,576	\$ 12,116,079

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014 (Continued)**

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	2014	2013
Current Assets	\$ 5,458,714	\$ 6,055,802
Capital Assets, Net	8,811,997	8,046,170
Total Assets	14,270,711	14,101,972
Current Liabilities	343,135	410,893
Noncurrent Liabilities	1,325,000	1,575,000
Total Liabilities	1,668,135	1,985,893
Net Position	\$ 12,602,576	\$ 12,116,079

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, 2014, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2013 Amount	FYE 2014 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 13
Property tax	\$ 1,323,924	\$ 1,219,719	-7.9%	\$ (104,205)
Payroll tax	1,245,207	1,345,398	8.0%	100,191
Insurance premium tax	1,007,055	732,941	-27.2%	(274,114)
Other taxes	148,566	105,926	-28.7%	(42,640)
Licenses and permits	35,804	23,816	-33.5%	(11,988)
Fines and forfeitures	26,443	44,471	68.2%	18,028
Charges for services	478,538	32,057	-93.3%	(446,481)
Intergovernmental and grants	1,854,536	1,104,058	-40.5%	(750,478)
Rehabilitation loan payments	3,916	5,433	38.7%	1,517
Interest income	3,067	8,397	173.8%	5,330
Miscellaneous	48,527	65,860	35.7%	17,333
Total Revenues	\$ 6,175,583	\$ 4,688,076	-24.1%	\$ (1,487,507)

The \$1,487,507 decrease in total revenues can be attributed primarily to the following three items: a \$274,114 (27%) decrease in insurance premium taxes, which may be a result of overpayments in the previous year, \$446,481 (93%) decrease in charges for service, residents are now billed by the vendor for waste collection, and the \$750,478 (40%) decrease in intergovernmental funds, grants, and loan draws from KLC. Intergovernmental funds received funds from Sanitation District No. 1 and the

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014 (Continued)**

Northern Kentucky Water District for road construction were significantly less than last year, the also City drew significantly less from its capital lease resulting in an overall decrease for the year. Investment Income increased significantly due increased rates on investments. The City's expenditures were significantly less due to waste collection services being directly billed to residents and a smaller amount of expenditures for road work. These reductions were offset by increases in general government, public safety, and public works.

<u>Expenditures</u>	<u>FYE 2013 Amount</u>	<u>FYE 2014 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase (Decrease) From FYE 13</u>
General government	\$ 591,915	\$ 712,075	20.30%	\$ 120,160
Public safety	1,376,176	1,513,702	9.99%	137,526
Public works	664,479	1,040,242	56.55%	375,763
Planning and inspection	43,900	36,489	-16.88%	(7,411)
Waste collection	444,784	1,466	-99.67%	(443,318)
Recreation	21,146	22,387	5.87%	1,241
Capital outlay	1,541,429	1,158,930	-24.81%	(382,499)
Debt service	292,962	295,137	0.74%	2,175
 Total Expenditures	 <u>\$ 4,976,791</u>	 <u>\$ 4,780,428</u>	 -3.95%	 <u>\$ (196,363)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	<u>2013</u>	<u>2014</u>
Land	\$ 1,143,538	\$ 1,143,538
Construction in Progress	2,104,569	360,803
Buildings	1,296,164	1,337,302
Infrastructure	5,200,191	8,004,221
Vehicles	857,019	836,619
Equipment	613,808	623,579
Furniture and fixtures	32,095	32,095
Totals	<u>\$ 11,247,384</u>	<u>\$ 12,338,157</u>

This year's net increase of \$1,090,773 in capital assets included:

Streets and sidewalks projects	\$ 1,060,264
Public works buildings improvements	22,514
Parks building	18,624
Parks equipment	3,000
Public works equipment	6,843
Police vehicles	47,684
Disposal of assets	(68,156)
	<u>\$ 1,090,773</u>

**CITY OF ELSMERE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014 (Continued)**

Debt

The City has \$1,575,000 in outstanding debt at June 30, 2014, compared to a \$1,820,000 debt at June 30, 2013, a 13.5% decrease from 2013 as detailed below:

	Governmental Activities	
	2013	2014
Road construction capital lease	\$ 1,820,000	\$ 1,575,000
Totals	\$ 1,820,000	\$ 1,575,000

GENERAL BUDGETARY HIGHLIGHTS

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

For actual resources, across all major funds, revenues trailed budgeted amounts by \$175,082 due primarily to intergovernmental revenues collected in the Street Tax Fund and the Municipal Road Fund. Actual expenditures were under budget by \$770,859 due to significantly lower expenditures than planned for capital road projects in the Street Tax Fund and the Municipal Road Fund, as well as tight management to budget in all departments of the General Fund. The City's major funds ended the year with actual expenditures exceeding actual revenues by \$92,830.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2014 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 2014 rate, which is set at 0.223 per hundred for the fiscal year ended June 30, 2015.

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, 2014
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ASSETS	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 4,472,866
Investments	122,817
Receivables	
Taxes	700,734
Intergovernmental	68,958
Waste collection	30,513
Other	54,186
Notes receivable	8,640
Total Current Assets	<u>5,458,714</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	1,504,341
Infrastructure	8,004,221
Buildings	1,337,302
Equipment	623,579
Vehicles	836,619
Furniture and fixtures	32,095
Less: accumulated depreciation	<u>(3,526,160)</u>
Net Capital Assets	<u>8,811,997</u>
TOTAL ASSETS	<u><u>14,270,711</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	18,757
Accrued liabilities	27,792
Compensated absences	46,586
Current portion of leases payable	<u>250,000</u>
Total Current Liabilities	343,135
Noncurrent Liabilities	
Leases payable	<u>1,325,000</u>
TOTAL LIABILITIES	<u><u>1,668,135</u></u>
NET POSITION	
Invested in capital assets, net of related debt	7,236,997
Restricted for:	
Road projects	1,684,641
Unrestricted	<u>3,680,938</u>
TOTAL NET POSITION	<u><u>\$ 12,602,576</u></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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense)</u> <u>and Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Primary Government					
Governmental Activities					
General government	\$ 731,839	\$ 7,265	\$ -	\$ -	\$ (724,574)
Public safety	1,592,089	20,744	47,936	-	(1,523,409)
Public works and street	1,382,636	12,022	233,478	453,809	(683,327)
Planning and inspection	36,489	-	-	-	(36,489)
Waste collection	1,466	6,560	-	-	5,094
Recreation	26,388	-	-	-	(26,388)
Interest on long-term debt	50,137	-	-	-	(50,137)
Total Governmental Activities	\$ 3,821,044	\$ 46,591	\$ 281,414	\$ 453,809	(3,039,230)

General Revenues

Taxes

Property taxes	1,198,918
Payroll tax	1,345,398
Insurance premium taxes	732,941
Other taxes	105,926
Licenses and permits	23,816
Fines and forfeitures	44,471
Interest income	8,397
Miscellaneous	65,860
Total general revenues	3,525,727

Change in net position 486,497

Net position, beginning 12,116,079
Net position, ending \$ 12,602,576

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

CITY OF ELSMERE, KENTUCKY Balance Sheet - Governmental Funds June 30, 2014

	<u>General Fund</u>	<u>Street Tax Fund</u>	<u>Municipal Road Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 3,007,461	\$ 827,676	\$ 432,558	\$ 205,171	\$ 4,472,866
Investments	-	122,817	-	-	122,817
Receivables					
Taxes	519,335	181,399	-	-	700,734
Waste collection	30,513	-	-	-	30,513
Intergovernmental	-	-	68,958	-	68,958
Other	24,980	29,206	-	-	54,186
Notes receivable	-	-	-	8,640	8,640
Due from other funds	-	504	52,976	-	53,480
TOTAL ASSETS	<u>\$ 3,582,289</u>	<u>\$ 1,161,602</u>	<u>\$ 554,492</u>	<u>\$ 213,811</u>	<u>\$ 5,512,194</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 16,439	\$ -	\$ 2,247	\$ 71	\$ 18,757
Accrued liabilities	27,792	-	-	-	27,792
Deferred revenue	5,502	29,206	-	8,640	43,348
Due to other funds	53,480	-	-	-	53,480
TOTAL LIABILITIES	<u>103,213</u>	<u>29,206</u>	<u>2,247</u>	<u>8,711</u>	<u>143,377</u>
FUND BALANCES					
Restricted	-	1,132,396	552,245	-	1,684,641
Committed	-	-	-	205,100	205,100
Assigned	829,400	-	-	-	829,400
Unassigned	2,649,676	-	-	-	2,649,676
TOTAL FUND BALANCES	<u>3,479,076</u>	<u>1,132,396</u>	<u>552,245</u>	<u>205,100</u>	<u>5,368,817</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,582,289</u>	<u>\$ 1,161,602</u>	<u>\$ 554,492</u>	<u>\$ 213,811</u>	<u>\$ 5,512,194</u>

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

<p>CITY OF ELSMERE, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2014</p>

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

Total fund balance per balance sheet	\$ 5,368,817
Capital assets of \$12,338,157, less accumulated depreciation of (\$3,526,160), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,811,997
Deferred charges represent funds received for future projects that will not require current funds. This amount represents the balance in deferred items.	43,348
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	(1,575,000)
Compensated absences	<u>(46,586)</u>
Net position of governmental activities	<u>\$ 12,602,576</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, 2014

	General Fund	Street Tax Fund	Municipal Road Fund	Other Funds	Total Governmental Funds
Revenues					
Property tax	\$ 739,806	\$ 479,913	\$ -	\$ -	\$ 1,219,719
Payroll tax	1,345,398	-	-	-	1,345,398
Insurance premium tax	494,173	-	238,768	-	732,941
Other taxes	105,926	-	-	-	105,926
Licenses and permits	23,816	-	-	-	23,816
Fines, forfeitures, penalties	44,471	-	-	-	44,471
Charges for services	32,057	-	-	-	32,057
Intergovernmental	60,380	453,809	233,478	13,113	760,780
Grants	9,042	-	-	-	9,042
Rehabilitation loan payments	-	-	-	5,433	5,433
Loan Proceeds	-	334,236	-	-	334,236
Interest income	7,135	547	216	499	8,397
Miscellaneous	65,860	-	-	-	65,860
Total Revenues	2,928,064	1,268,505	472,462	19,045	4,688,076
Expenditures					
Current Expenditures					
General government	698,256	15	-	13,804	712,075
Public safety	1,513,702	-	-	-	1,513,702
Public works and streets	443,394	-	592,085	4,763	1,040,242
Planning and inspection	36,489	-	-	-	36,489
Waste collection	1,466	-	-	-	1,466
Recreation	22,387	-	-	-	22,387
Capital outlay	98,666	1,060,264	-	-	1,158,930
Debt service	-	295,137	-	-	295,137
Total Expenditures	2,814,360	1,355,416	592,085	18,567	4,780,428
Excess of Revenues Over Expenditures	113,704	(86,911)	(119,623)	478	(92,352)
Other Financing Sources (Uses)					
Operating transfers in	-	-	87,850	5,000	92,850
Operating transfers out	(92,850)	-	-	-	(92,850)
Total Other Financing Sources (Uses)	(92,850)	-	87,850	5,000	-
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	20,854	(86,911)	(31,773)	5,478	(92,352)
Fund Balance, beginning	3,458,222	1,219,307	584,018	199,622	5,461,169
Fund Balance, ending	\$ 3,479,076	\$ 1,132,396	\$ 552,245	\$ 205,100	\$ 5,368,817

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

<p>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, 2014</p>

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

Net change in fund balance - total governmental funds \$ (92,352)

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	\$ 1,158,929	
Depreciation expense	<u>(393,102)</u>	765,827

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. (46,298)

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. 4,476

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. (390,156)

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. 245,000

Change in net position of governmental activities \$ 486,497

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014
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OVERVIEW OF ENTITY

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

Reporting Entity

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net 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, 2014
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The City reports on the following funds:

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

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

Assets, Liabilities and Equity

Deposits and Investments

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

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

Receivables

No allowance for doubtful accounts is required.

<p>CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014</p>

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, 2014 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>	<u>Governmental Activities 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, 2014
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay specified amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest reported as expenditures.

Fund Equity

Net 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, 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, and the Turkeyfoot Acres 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 as assigned fund balances.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014
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Unassigned fund balances consist of all residual funds not included in non-spendable, restricted, committed, or assigned fund balances.

Revenues, Expenditures and Expenses – Inter-fund Transactions

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Pervasiveness of Estimates

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

Budgetary Information

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

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

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

Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would change revenues and expenditures of any fund must be approved by the City Council. During the year the City Council adopted 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 \$4,472,866 at June 30, 2014.

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014
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Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as a component of cash and certificates of deposit 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 no custodial credit risk at June 30, 2014.

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 did not exercise administrative control. During the year ended June 30, 2014, the community revitalization work on Dixie Highway was completed and the City received half of the remaining funds in the venture, \$41,179, and applied them towards work related to street and sidewalk improvements on Dixie Highway and terminated the joint venture.

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, 2014 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, 2014
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NOTE F – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,143,538	\$ -	\$ -	\$ 1,143,538
Construction in progress	2,104,569	1,060,264	(2,804,030)	360,803
Total Capital Assets Not Being Depreciated	<u>3,248,107</u>	<u>1,060,264</u>	<u>(2,804,030)</u>	<u>1,504,341</u>
Depreciable Capital Assets				
Infrastructure	5,200,191	2,804,030	-	8,004,221
Buildings	1,296,164	41,138	-	1,337,302
Vehicles	857,019	47,684	(68,084)	836,619
Equipment	613,808	9,843	(72)	623,579
Furniture and fixtures	32,095	-	-	32,095
Total Depreciable Capital Assets	<u>7,999,277</u>	<u>2,902,695</u>	<u>(68,156)</u>	<u>10,833,816</u>
Total Capital Assets at Historical Cost	<u>11,247,384</u>	<u>3,962,959</u>	<u>(2,872,186)</u>	<u>12,338,157</u>
Less Accumulated Depreciation				
Infrastructure	(1,552,626)	(220,845)	-	(1,773,471)
Buildings	(458,733)	(37,095)	-	(495,828)
Vehicles	(662,857)	(84,899)	68,084	(679,672)
Equipment	(494,903)	(50,263)	72	(545,094)
Furniture and fixtures	(32,095)	-	-	(32,095)
Total Accumulated Depreciation	<u>(3,201,214)</u>	<u>(393,102)</u>	<u>68,156</u>	<u>(3,526,160)</u>
Depreciable Capital Assets, Net	<u>4,798,063</u>	<u>2,509,593</u>	<u>-</u>	<u>7,307,656</u>
Total Capital Assets, Net	<u>\$ 8,046,170</u>	<u>\$ 3,569,857</u>	<u>\$ (2,804,030)</u>	<u>\$ 8,811,997</u>

Depreciation was charged to functions as follows:

Governmental Activities	Amount
General government	\$ 19,693
Public safety	82,982
Public works	65,581
Public Works-Infrastructure	220,845
Recreation	4,001
Total Depreciation	<u>\$ 393,102</u>

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014
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NOTE G – LONG-TERM DEBT

Road Construction Capital Lease

In August 2010, the City signed a capital lease for \$2,560,000. The proceeds of this lease are to go to road reconstruction in the City. The City began paying principal and interest on this balance in September 2010. As of June 30, 2014, \$2,560,000 of these funds had been drawn. This debt has an interest rate of 2.0% and matures on January 1, 2020. The balance outstanding at June 30, 2014 is \$1,575,000.

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, 2014:

	Balance June 30, 2013	Additions	Retirements/ Repayments	Balance June 30, 2014	Amounts Due Within 1 Year
Road construction lease	\$ 1,820,000	\$ -	\$ (245,000)	\$ 1,575,000	\$ 250,000
Total	<u>\$ 1,820,000</u>	<u>\$ -</u>	<u>\$ (245,000)</u>	<u>\$ 1,575,000</u>	<u>\$ 250,000</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, 2013	Net Additions	Net Payments	Balance June 30, 2014	Amounts Due Within 1 Year
Compensated absences	\$ 51,062	\$ 120	\$ (4,596)	\$ 46,586	\$ 46,586

NOTE I – EMPLOYEE'S RETIREMENT SYSTEM

County Employees Retirement System (CERS)

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

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

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

CITY OF ELSMERE, KENTUCKY Notes to Financial Statements June 30, 2014
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retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-Living Adjustments (COLA) are provided at the discretion of the state legislature.

Non-Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.0% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an extra 1%. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% 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, 2014, 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, 2014, participating employers contributed 35.70% 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>
2014	\$ 333,757	100%
2013	326,285	100%
2012	289,898	100%
2011	271,587	100%
2010	222,841	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, 2014
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NOTE K – INTERFUND ACTIVITY

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. The transfer to municipal road fund was to eliminate the effect of the closing of the joint venture as mentioned in Note D.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	HRA Fund	\$ 5,000
General	Municipal Road	87,850
		<u>\$ 92,850</u>

NOTE L – SUBSEQUENT EVENTS

Management has evaluated events through November 20, 2014 the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2014 through November 20, 2014 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, 2014**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 2,900,000</u>	<u>0</u>	<u>\$ 2,900,000</u>	<u>\$ 3,458,222</u>	<u>\$ 558,222</u>
Resources (inflows):					
Taxes	2,505,000	197,000	2,702,000	2,685,303	(16,697)
Licenses and permits	24,200	(1,500)	22,700	23,816	1,116
Intergovernmental	57,450	2,595	60,045	60,380	335
Fines, forfeitures, penalties	33,000	11,600	44,600	44,471	(129)
Charges for services	25,000	7,500	32,500	32,057	(443)
Interest income	5,000	2,050	7,050	7,135	85
Grants	30,000	-	30,000	9,042	(20,958)
Miscellaneous	119,150	(53,450)	65,700	65,860	160
Total resources (inflows)	<u>2,798,800</u>	<u>165,795</u>	<u>2,964,595</u>	<u>2,928,064</u>	<u>(36,531)</u>
Amounts available for appropriation	<u>5,698,800</u>	<u>165,795</u>	<u>5,864,595</u>	<u>6,386,286</u>	<u>521,691</u>
Charges to appropriations (outflows):					
General government	744,050	(33,900)	710,150	688,270	21,880
Public safety	1,581,850	(8,500)	1,573,350	1,486,919	86,431
Public works	454,950	(4,000)	450,950	437,300	13,650
Planning and inspection	44,175	1,795	45,970	36,489	9,481
Waste collection	15,000	(12,500)	2,500	1,466	1,034
Recreation	28,200	(500)	27,700	25,087	2,613
Capital projects	172,750	(23,750)	149,000	138,829	10,171
Total charges to appropriations	<u>3,040,975</u>	<u>(81,355)</u>	<u>2,959,620</u>	<u>2,814,360</u>	<u>145,260</u>
Interfund transfers	-	-	-	(92,850)	(92,850)
Budgetary fund balance, June 30	<u>\$ 2,657,825</u>	<u>\$ 247,150</u>	<u>\$ 2,904,975</u>	<u>\$ 3,479,076</u>	<u>\$ 574,101</u>

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

<p>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, 2014</p>

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 1,051,000</u>	<u>\$ -</u>	<u>\$ 1,051,000</u>	<u>\$ 1,219,307</u>	<u>\$ 168,307</u>
Resources (inflows):					
Steet tax	480,000	-	480,000	479,913	(87)
Intergovernmental	554,048	14,247	568,295	453,809	(114,486)
Interest	1,000	(400)	600	547	(53)
Loan Proceeds	330,000	4,200	334,200	334,236	36
Total resources (inflows)	<u>1,365,048</u>	<u>18,047</u>	<u>1,383,095</u>	<u>1,268,505</u>	<u>(114,590)</u>
Amounts available for appropriation	<u>2,416,048</u>	<u>18,047</u>	<u>2,434,095</u>	<u>2,487,812</u>	<u>53,717</u>
Charges to appropriations (outflows):					
Bank fees	-	-	-	15	(15)
Debt service payments	297,500	(2,300)	295,200	295,137	63
Capital projects	1,854,000	(321,100)	1,532,900	1,060,264	472,636
Total expenses (outflows)	<u>2,151,500</u>	<u>(323,400)</u>	<u>1,828,100</u>	<u>1,355,416</u>	<u>472,684</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 264,548</u>	<u>\$ 341,447</u>	<u>\$ 605,995</u>	<u>\$ 1,132,396</u>	<u>\$ 526,401</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, 2014

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 635,000	\$ -	\$ 635,000	\$ 584,018	\$ (50,982)
Resources (inflows):					
Intergovernmental	203,894	67,279	271,173	233,478	(37,695)
Insurance premium tax	125,000	100,000	225,000	238,768	13,768
Interest	500	(250)	250	216	(34)
Total resources (inflows)	329,394	167,029	496,423	472,462	(23,961)
Amounts available for appropriation	964,394	167,029	1,131,423	1,056,480	(74,943)
Charges to appropriations (outflows):					
Sidewalks	55,000	155,000	210,000	114,365	95,635
Street maintenance	225,000	15,000	240,000	170,996	69,004
Capital street projects	350,000	(55,000)	295,000	306,724	(11,724)
	630,000	115,000	745,000	592,085	152,915
Transfers to (from) fund	-	-	-	87,850	87,850
Budgetary fund balance, June 30	\$ 334,394	\$ 52,029	\$ 386,423	\$ 552,245	\$ 165,822

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

CITY OF ELSMERE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2014

	Citywide Rehabilitation Fund	Turkeyfoot Acres Fund	FSA/HRA Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	\$ 143,311	\$ 55,236	\$ 6,624	\$ 205,171
Accounts receivable				
Note receivable	8,640	-	-	8,640
TOTAL ASSETS	<u>\$ 151,951</u>	<u>\$ 55,236</u>	<u>\$ 6,624</u>	<u>\$ 213,811</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ 8,640	\$ -	\$ -	\$ 8,640
Accounts payable	-	-	71	71
TOTAL LIABILITIES	<u>8,640</u>	<u>-</u>	<u>71</u>	<u>8,711</u>
FUND BALANCES				
Committed	<u>143,311</u>	<u>55,236</u>	<u>6,553</u>	<u>205,100</u>
TOTAL FUND BALANCES	<u>143,311</u>	<u>55,236</u>	<u>6,553</u>	<u>205,100</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 151,951</u>	<u>\$ 55,236</u>	<u>\$ 6,624</u>	<u>\$ 213,811</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, 2014**

	<u>Citywide Rehabilitation Fund</u>	<u>Turkeyfoot Acres Fund</u>	<u>FSA/HRA Fund</u>	<u>Total Non-Major Funds</u>
Revenues				
Loan repayments	\$ 5,433	\$ -	\$ -	\$ 5,433
FSA/HRA contributions	-	-	13,113	13,113
Interest	352	145	2	499
Total Revenues	<u>5,785</u>	<u>145</u>	<u>13,115</u>	<u>19,045</u>
Expenditures				
FSA/HRA reimbursements	-	-	13,804	13,804
Landscaping	-	4,763	-	4,763
Total Expenditures	<u>-</u>	<u>4,763</u>	<u>13,804</u>	<u>18,567</u>
Excess (Deficit) of Revenues Over Expenditures	<u>5,785</u>	<u>(4,618)</u>	<u>(689)</u>	<u>478</u>
Other Financing Sources (Uses)				
Operating transfers in (out)	-	-	5,000	5,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>5,785</u>	<u>(4,618)</u>	<u>4,311</u>	<u>5,478</u>
Fund Balance, beginning	<u>137,526</u>	<u>59,854</u>	<u>2,242</u>	<u>199,622</u>
Fund Balance, ending	<u>\$ 143,311</u>	<u>\$ 55,236</u>	<u>\$ 6,553</u>	<u>\$ 205,100</u>

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

**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, each major fund, and the remaining aggregate fund information of the City of Elsmere, Kentucky, as of June 30, 2014 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 November 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Elsmere, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.



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.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
November 20, 2014