

CITY OF EDGEWOOD, KENTUCKY

FINANCIAL STATEMENTS

Year Ended June 30, 2012

WITH

Independent Auditors' Report

CITY OF EDGEWOOD, KENTUCKY

FINANCIAL STATEMENTS

Year Ended June 30, 2012

WITH

INDEPENDENT AUDITORS' REPORT

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CITY OF EDGEWOOD, KENTUCKY

CITY OFFICIALS

MAYOR

John Link

COUNCIL MEMBERS

Dale Henson

Steven Jaeger

Jeff Schreiver

Joe Messmer

Chris Link

Ray Spears

Nancy Atkinson

DEPARTMENT HEADS

City Attorney

Frank Wichmann

City Administrator

Douglas Beckham

City Clerk

Jeanette Kemper



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Edgewood, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Edgewood, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the City of Edgewood, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 30 through 32 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.

Bramel & Ackley, P.S.C.

December 28, 2012

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Our discussion and analysis of the City of Edgewood, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's basic financial statements that begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 11. For government 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 most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- The ending cash balance for the City was \$3,764,567.
- The ending investment balance for the City was \$1,015,736.
- The City completed road projects during the fiscal year of \$989,474.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

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

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

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, parks and recreation. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

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

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and fiduciary funds. All activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 28 of this report.

Government-Wide Financial Analysis

The perspective of the statement of net assets is of the City as a whole. Table 1 provides a summary of the City's net assets for 2012 compared to 2011:

**Table 1
Net Assets**

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 5,780,763	\$ 5,085,047
Noncurrent Assets, Net	<u>21,910,674</u>	<u>21,851,564</u>
Total Assets	<u>27,691,437</u>	<u>26,936,611</u>
Liabilities		
Current and Other Liabilities	654,031	608,123
Long-Term Liabilities	<u>4,228,809</u>	<u>4,550,443</u>
Total Liabilities	<u>4,882,840</u>	<u>5,158,566</u>
Net Assets		
Invested in Capital Assets		
Net of Related Debt	17,342,265	16,976,121
Restricted for Debt Service	-	13,706
Unrestricted	<u>5,466,332</u>	<u>4,788,218</u>
Total Net Assets	<u>\$ 22,808,597</u>	<u>\$ 21,778,045</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$22.8 million as of June 30, 2012.

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that are still outstanding. These assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Total assets increased \$754,826. Equity in cash and cash equivalents and investments increased \$1.2 million, and capital assets increased by \$84,527. This activity is partially offset by a decrease in various receivables.

Table 2 reflects the change in net assets for fiscal year 2012.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2012	2011
Revenues		
General Revenues		
Taxes	\$ 5,740,651	\$ 5,680,559
Licenses and Permits	74,430	67,793
Fines and Forfeits	9,447	13,930
Earnings on Investments	11,721	15,286
Miscellaneous	21,005	12,032
Loss on Disposal of Capital Assets	<u>(140,139)</u>	<u>(450,748)</u>
Total General Revenues	<u>5,717,115</u>	<u>5,338,852</u>
Program Revenues		
Charges for Service	898,654	872,105
Operating Grants and Contributions	58,567	64,371
Capital Grants and Contributions	<u>283,515</u>	<u>427,984</u>
Total Program Revenues	<u>1,240,736</u>	<u>1,364,460</u>
Total Revenues	<u>6,957,851</u>	<u>6,703,312</u>
Program Expenses		
General Government	1,373,397	1,468,073
Police	1,432,388	1,393,506
Fire	895,439	815,427
Public Works	751,599	780,556
Parks	28,235	24,549
Recreation	154,984	167,302
Maintenance and Repairs	21,675	156,255
Interest	191,755	211,819
Amortization	10,525	9,189
Depreciation	<u>1,067,302</u>	<u>1,187,077</u>
Total Program Expenses	<u>5,927,299</u>	<u>6,213,753</u>
Increase in Net Assets	<u>\$ 1,030,552</u>	<u>\$ 489,559</u>

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$11.6 million and expenditures and other financing uses of \$10.7 million. While revenues increased 5.08%, expenses decreased by 4.23%. The increase in revenues is largely due to tax revenue and property sale. The decrease in expenses is due to the decrease in capital outlay.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on the modified accrual basis of accounting. The beginning fund balance for beginning the fiscal year was \$4.6 million.

For the General Fund, budgeted revenues and other financing sources, in the amount of \$7.6 million, exceeded actual revenues and other financing sources in the amount of \$291,024. The major differences come from intergovernmental revenues other grants.

Expenditures and other financing uses were budgeted at \$7.9 million while actual expenditures and other financing uses were \$6.5 million. The major difference comes from expenses related to capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the City had \$21.8 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2012 balances compared to fiscal year 2011.

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2012	2011
Land	\$ 1,471,935	\$ 1,471,935
Construction in Progress	192,089	184,238
Building Improvements	7,093,661	7,319,725
Vehicles and Equipment	1,336,638	1,284,987
Park Improvements	610,088	673,543
Streets	11,118,152	10,803,608
	\$ 21,822,563	\$ 21,738,036

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The current year capital asset activity included the following activity:

Addition of New Streets	\$ 989,474
Disposal of Old Streets and Equipment	(416,141)
Addition of Vehicles and Equipment	346,893
Addition of Construction in Progress	7,851
Depreciation	(1,067,302)
Disposal of Accumulated Depreciation	<u>223,752</u>
Change	<u>\$ 84,527</u>

Debt

At June 30, 2012, the City had \$4.6 million in outstanding bonds.

The following is a summary of the City's debt transactions during 2012.

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Refunding/ Repayments</u>	<u>June 30, 2012</u>
Bonds Outstanding	<u>\$ 4,875,443</u>	<u>\$ 3,312,966</u>	<u>\$ 3,620,000</u>	<u>\$ 4,568,409</u>

Economic Factors in Next Year's Budget

The City remains in solid financial ground, and we have weathered the financial issues that have been strong concerns for the last two plus years. Revenues and expenses generally remained flat, while our fund balance increased nicely due to continued financial conservation. The last quarter of the budget year showed upticks in revenue, however, financial uncertainty continues to be the dominant concern for budgeting forecasts.

The budget for 2012-2013 is \$7,502,500. This represents a decrease of \$133,488 (1.75%), from the 2011-2012 budget.

Taxes are remaining at the .240 per \$100 of property, the same as the last two years. All other taxes and fees remain the same, however, preliminary indications from the City Council are that a 4% increase in property tax rates will be considered in order to accommodate the costs of the new Advanced Life Support function being taken on by the Fire Department.

The budget includes \$600,000 in CMAQ funds for the Dudley Road project.

**CITY OF EDGEWOOD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the City Administrator's office, City of Edgewood, 385 Dudley Road, Edgewood, Kentucky 41017.

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 3,764,567
Investments	1,015,736
Accounts Receivable	
Property Taxes	20,014
Payroll Taxes	899,772
Waste Fees	8,791
Other	32,850
Other Current Assets	39,033
Total Current Assets	5,780,763
Noncurrent Assets	
Bond Issuance Costs	88,111
Capital Assets	
Land	1,471,935
Construction in Process	192,089
Depreciable Capital Assets	33,048,877
Less Accumulated Depreciation	(12,890,338)
Total Noncurrent Assets	21,910,674
Total Assets	27,691,437
Liabilities	
Current Liabilities	
Accounts Payable and Accrued Expenses	112,877
Accrued Payroll and Withholdings	201,554
Current Portion of Bond Obligations	339,600
Total Current Liabilities	654,031
Noncurrent Liabilities	
Bond Obligations	4,228,809
Total Liabilities	4,882,840
Net Assets	
Invested in Capital Assets, Net of Related Debt	17,342,265
Restricted for Debt Service	-
Unrestricted	5,466,332
Total Net Assets	\$ 22,808,597

See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					Primary Government
Governmental Activities					Total Governmental Activities
General Government	\$ 1,373,397	\$ 750,996	\$ -	\$ -	(622,401)
Police	1,432,388	-	58,567	-	(1,373,821)
Fire	895,439	147,658	-	8,250	(739,531)
Public Works	751,599	-	-	275,265	(476,334)
Parks	28,235	-	-	-	(28,235)
Recreation	154,984	-	-	-	(154,984)
Maintenance and Repairs	21,675	-	-	-	(21,675)
Interest on Long-Term Debt	191,755	-	-	-	(191,755)
Amortization	10,525	-	-	-	(10,525)
Depreciation, unallocated	1,067,302	-	-	-	(1,067,302)
Total Primary Government	\$ 5,927,299	898,654	58,567	283,515	(4,686,563)
General Revenues					
Payroll taxes					3,563,268
Real estate taxes					1,744,415
Other taxes					432,968
Licenses and Permits					74,430
Fines and Forfeitures					9,447
Earnings on Investments					11,721
Miscellaneous					21,005
Loss on Sale of Capital Assets					(140,139)
Total General Revenues					5,717,115
Change in Net Assets					1,030,552
Net Assets July 1, 2011					21,778,045
Net Assets June 30, 2012					\$ 22,808,597

See accompanying notes.

**CITY OF EDGEWOOD, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 3,764,567	\$ -	\$ 3,764,567
Investments	1,015,736	-	1,015,736
Accounts Receivable			
Property Taxes	20,014	-	20,014
Payroll Taxes	899,772	-	899,772
Waste Fees	8,791	-	8,791
Other Receivables	32,850	-	32,850
Prepaid Expenses	39,033	-	39,033
	<u>\$ 5,780,763</u>	<u>\$ -</u>	<u>\$ 5,780,763</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 112,877	\$ -	\$ 112,877
Deferred Revenues	28,804	-	28,804
Other Accrued Expenses	201,554	-	201,554
	<u>343,235</u>	<u>-</u>	<u>343,235</u>
Fund Balances			
Nonspendable			
Prepaid Expenses	39,033	-	39,033
Restricted:			
Debt Service	-	-	-
Assigned to:			
Capital Projects	1,523,513	-	1,523,513
Unassigned	3,874,982	-	3,874,982
	<u>5,437,528</u>	<u>-</u>	<u>5,437,528</u>
Total Fund Balances	<u>5,437,528</u>	<u>-</u>	<u>5,437,528</u>
Total Liabilities and Fund Balances	<u>\$ 5,780,763</u>	<u>\$ -</u>	<u>\$ 5,780,763</u>

See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balance - Governmental Funds \$ 5,437,528

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 34,712,901	
Accumulated Depreciation	<u>(12,890,338)</u>	
		21,822,563

Costs incurred with the issuance of general obligation bonds are not financial resources and therefore are not reported as assets in governmental funds.

Bond Issuance Costs	130,355	
Accumulated Amortization	<u>(42,244)</u>	
		88,111

Bond Premium	(30,532)	
Accumulated Amortization	<u>10,178</u>	
		(20,354)

Bond Discount	63,968	
Accumulated Amortization	<u>(1,622)</u>	
		62,346

Deferred Refunding Costs	518,637	
Accumulated Amortization	<u>(34,038)</u>	
		484,599

Other assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds. 28,804

Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds:

Bonds Payable		<u>(5,095,000)</u>
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Net Assets of Governmental Activities in the Statement of Net Assets		\$ <u><u>22,808,597</u></u>
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See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 5,751,147	\$ -	\$ 5,751,147
Licenses and Permits	74,430	-	74,430
Fines and Forfeitures	9,447	-	9,447
Other Revenue	73,255	-	73,255
Earnings on Investments	11,721	-	11,721
Intergovernmental Revenue	526,320	-	526,320
Charges for Services	898,654	-	898,654
	<u>7,344,974</u>	<u>-</u>	<u>7,344,974</u>
Total Revenues			
	<u>7,344,974</u>	<u>-</u>	<u>7,344,974</u>
Expenditures			
Current:			
General Government	1,377,997	-	1,377,997
Police	1,432,388	-	1,432,388
Fire	895,439	-	895,439
Public Works	751,599	-	751,599
Parks	28,235	-	28,235
Recreation	154,984	-	154,984
Debt Service			
Principal	-	325,000	325,000
Interest	-	161,184	161,184
Bond Issuance Costs	-	52,690	52,690
Capital Outlay	1,361,293	-	1,361,293
	<u>6,001,935</u>	<u>538,874</u>	<u>6,540,809</u>
Total Expenditures			
	<u>6,001,935</u>	<u>538,874</u>	<u>6,540,809</u>
Excess (Deficit) of Revenues Over Expenditures	<u>1,343,039</u>	<u>(538,874)</u>	<u>804,165</u>
Other Financing Sources (Uses)			
Operating Transfers In	-	470,191	470,191
Operating Transfers Out	(470,191)	-	(470,191)
Proceeds from Issuance of Refunding Bonds	-	3,801,032	3,801,032
Payment to Refunded Bond Escrow Agent	-	(3,746,055)	(3,746,055)
	<u>(470,191)</u>	<u>525,168</u>	<u>54,977</u>
Total Other Financing (Uses) Sources			
	<u>(470,191)</u>	<u>525,168</u>	<u>54,977</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	872,848	(13,706)	859,142
Fund Balance July 1, 2011	<u>4,564,680</u>	<u>13,706</u>	<u>4,578,386</u>
Fund Balance June 30, 2012	<u>\$ 5,437,528</u>	<u>\$ -</u>	<u>\$ 5,437,528</u>

See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Change in Fund Balances - Total Governmental Funds	\$		859,142
Amounts reported for Governmental Activities in the Statement of Activities are different because:			
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities. This amount by which capital outlays exceed depreciation in the period.			
Depreciation Expense		\$ (1,067,302)	
Capital Outlays		<u>1,344,218</u>	276,916
Governmental funds report the grant receipts when received because they provide current financial resources. In contrast, the Statement of Activities reports the grant revenue when earned. The cash was received in the current year. However, the expenses that are being reimbursed in the grant were incurred in the prior year and the revenue was considered earned at the time of the expense.			(184,238)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.			(10,496)
Repayment of bond and note payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets,			325,000
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or (loss) on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed.			(192,389)
Costs incurred in connection with the issuance of general obligation bonds are reported in governmental funds as other financing uses. However, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over the life of the related bond as annual amortization expense in the Statement of Activities. This is the amount by which amortization exceeds bond costs in the period.			(10,525)
The bond premium/discount is reported for governmental activities as a component of bonds payable and amortized over the life of the bond it is attributable to as a component of interest expense, but is not reported in the governmental funds. This is the amount of amortized interest expense.			3,467
Deferred refunding costs are reported for governmental activities as a component of bonds payable and amortized over the life of the bond it is attributable to as a component of interest expense, but is not reported in the governmental funds. This is the amount of amortized interest expense.			(34,038)
The proceeds from the issuance of bonds provide current financial resources and are reported in the fund financial statements as other financing sources. However, they are presented as liabilities in the Statement of Net Assets and not shown on the Statement of Activities.			(3,801,032)
Bond issuance costs use current financial resources and are reported in governmental funds as an other financing use. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over the term of the bond as amortization expense.			52,690
Payments made to the refunded bond escrow agent use current financial resources are not reported as revenues in the governmental funds. However, for governmental activities, those funds are used to defease the outstanding bonds payable and have reduced the balance on the Statement of Net Assets			<u>3,746,055</u>
Change in Net Assets - Governmental Activities	\$		<u>1,030,552</u>

See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	Total Retirement Plans
Assets	
Investments - Mutual Funds	\$ <u>155,763</u>
Net Assets	
Held in Trust for Pension Benefits	\$ <u>155,763</u>

See accompanying notes.

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2012

	<u>Total Retirement Plans</u>
Additions	
Employer Contributions	\$ 1,712
Employee Contributions	<u>10,587</u>
Total Additions	<u>12,299</u>
Deductions	
Benefits	243,506
Investment Loss	1,504
Bank Fees	<u>120</u>
Total Deductions	<u>245,130</u>
Change in Net Assets	(232,831)
Net Assets - July 1, 2011	<u>388,594</u>
Net Assets - June 30, 2012	<u><u>\$ 155,763</u></u>

See accompanying notes.

**CITY OF EDGEWOOD, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Edgewood, Kentucky (the "City") designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund and the Debt Service Fund.

The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Edgewood, Kentucky.

The City of Edgewood, Kentucky is a Charter City, in which citizens elect the mayor at large and seven council members. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Presentation

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total assets. Fiduciary funds are reported using the economic resources measurement focus.

The City has the following funds:

Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. This is a major fund of the City.

Fiduciary Funds

- (A) Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support city programs. The reporting focus is on net assets and changes in net assets.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Capital Assets

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Building Improvements	30 – 40 Years
Land Improvements	20 Years
Public Domain Infrastructure	25 Years
Vehicles	5 – 20 Years
General Equipment and Furniture	5 – 7 Years
Public Works Equipment	5 – 10 Years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Governmental Fund Balances**

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Council.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, 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.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statements of net assets except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances. The City has no interfund balances.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Bond Issuance Costs**

On governmental fund financial statements, costs associated with the issuance of bonds are expensed in the year paid as an "other financing use". These costs are not expenses in the government-wide financial statements, but instead are capitalized and amortized over the life of the related bonds. On the statement of net assets, bond issuance costs are shown net of accumulated amortization of \$42,244 as of June 30, 2012.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- a) In accordance with City ordinance, by May 31, the Mayor submits to the City Council, a proposed operating budget on the modified accrual basis of accounting 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.
- b) A public meeting is conducted to obtain citizen comment.
- c) By July 1, the budget is legally enacted through passage of an ordinance.
- d) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- e) Appropriations continue in effect until a new budget is adopted.
- f) The Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council. The Council adopted three supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

NOTE 4 – DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investments of public funds.

The City is authorized to invest in:

- a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- c) Obligations of any corporation of the United States government.
- d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2012, \$250,000 of the City’s deposits were covered by FDIC depository insurance. The remaining \$4,075,271 is collateralized by securities held by the financial institution’s trust department or agent, but not in the City’s name.

The carrying amount of the City’s deposits with financial institutions at June 30, 2012 was:

Cash and cash equivalents:	\$3,764,567
Less: money market mutual fund	<u>(507,890)</u>
Cash and cash equivalents with financial institutions	<u>3,256,677</u>
 Investments:	
Certificates of deposit	<u>1,015,736</u>
Total investments with financial institutions	<u>1,015,736</u>
 Total deposits with financial institutions	<u>\$4,272,413</u>

Investments

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 or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2012.

Credit risk – investments. The City’s investments are subject to minimal credit risk because they are primarily invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

At June 30, 2012, the City’s investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of deposit	\$ <u>1,015,736</u>	Less than 5 Years
	\$ <u>1,015,736</u>	

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,471,935	-	-	\$ 1,471,935
Construction in Progress	<u>184,238</u>	<u>7,851</u>	<u>-</u>	<u>- 192,089</u>
Total Not Being Depreciated Capital Assets	<u>1,656,173</u>	<u>7,851</u>	<u>-</u>	<u>1,664,024</u>
Depreciable Capital Assets				
Streets	17,000,531	989,474	416,141	17,573,864
Building and Improvements	8,816,502	-	-	8,816,502
Vehicles and Equipment	4,407,953	346,893	-	4,754,846
Park Improvements	<u>1,903,665</u>	<u>-</u>	<u>-</u>	<u>1,903,665</u>
Total Depreciable Capital Assets	<u>32,128,651</u>	<u>1,336,367</u>	<u>416,141</u>	<u>33,048,877</u>
Total Capital Assets at Historical Cost	<u>33,784,824</u>	<u>1,344,218</u>	<u>416,141</u>	<u>34,712,901</u>
Less Accumulated Depreciation				
Streets	6,197,223	482,241	223,752	6,455,712
Building and Improvements	1,496,777	226,064	-	1,722,841
Vehicles and Equipment	3,122,666	295,540	-	3,418,206
Park Improvements	<u>1,230,122</u>	<u>63,455</u>	<u>-</u>	<u>1,293,577</u>
Total Accumulated Depreciation	<u>12,046,788</u>	<u>1,067,302</u>	<u>223,752</u>	<u>12,890,338</u>
Depreciable Capital Assets, Net	<u>20,081,863</u>	<u>269,065</u>	<u>192,389</u>	<u>20,158,539</u>
Governmental Activities Capital Assets - Net	<u>\$ 21,738,036</u>	<u>\$ 276,916</u>	<u>\$ 192,389</u>	<u>\$ 21,822,563</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 – LONG TERM DEBT**City Building Bonds, Series 2004**

This \$4,250,000 bond was obtained to finance construction of the City building. Interest payments were due June 1 and December 1. The principal payments were paid on December 1. The interest rate varied between 4.25% and 5% and the final payment was due on December 1, 2034.

On December 29, 2011, the City issued \$3,865,000 in General Obligation Refunding Bonds, Series 2011 with an average interest rate of 2.8% to advance refund \$3,295,000 of outstanding City Building Bonds, Series 2004, with scheduled maturity dates on or after December 1, 2016, with an average interest rate of 4.9%. The net proceeds of \$3,746,055 (after payment of \$52,690 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Series 2004 bonds. As a result, the Series 2004 bonds with maturity dates on or after December 1, 2016 are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2012, \$3,295,000 of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$518,637. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2035 using the effective interest method. The City completed the advance refunding to reduce its total debt service payments over the next 23 years by \$429,065 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$218,279.

The outstanding balance of the unrefunded portion of the Series 2004 bonds at June 30, 2012 is \$390,000. The unrefunded bonds are scheduled to mature as follows:

<u>Years Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	4.250 %	\$ 90,000	\$ 15,174	\$ 105,175
2014	4.250 %	95,000	11,244	106,244
2015	4.500 %	100,000	6,975	106,975
2016	4.500 %	<u>105,000</u>	<u>2,363</u>	<u>107,363</u>
Total		<u>\$ 390,000</u>	<u>\$ 35,757</u>	<u>\$ 425,757</u>

General Obligation Refunding Bonds, Series 2010

This \$1,305,000 bond was obtained to refund the general revenue bond, series 1997. Interest payments are due June 1 and December 1. The principal payments are paid on December 1. The interest rate is 2.00% and the final payment is due on December 1, 2015.

The General Obligation Refunding Bond (General Revenue) is scheduled to mature as follows:

<u>Years Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	2.00 %	\$ 235,000	\$ 14,450	\$ 249,450
2014	2.00 %	240,000	9,700	249,700
2015	2.00 %	245,000	4,850	249,850
2016	2.00 %	<u>120,000</u>	<u>1,200</u>	<u>121,200</u>
Total		<u>\$ 840,000</u>	<u>\$ 30,200</u>	<u>\$ 870,200</u>

NOTE 6 – LONG TERM DEBT (Continued)**General Obligation Refunding Bonds, Series 2011**

This \$3,865,000 bond was obtained to refund part of the City Building Bonds, Series 2004. Interest payments on the Series 2011 bond are due June 1 and December 1. The principal payments are paid on December 1. The interest rate is 2.0% until 2022 and between 2.375% and 3.25% until the final payment which is due on December 1, 2034.

The General Obligation Refunding Bond (City Building) is scheduled to mature as follows:

<u>Years Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	2.00 %	\$ 45,000	\$ 99,656	\$ 144,656
2014	2.00 %	45,000	98,756	143,756
2015	2.00 %	45,000	97,856	142,856
2016	2.00 %	50,000	96,906	146,906
2017	2.00 %	155,000	94,856	249,856
2018	2.00 %	160,000	91,706	251,706
2019	2.00 %	165,000	88,456	253,456
2020	2.00 %	165,000	85,156	250,156
2021	2.00 %	170,000	81,806	251,806
2022	2.00 %	170,000	78,406	248,406
2023	2.00 %	175,000	74,956	249,956
2024	2.375 %	180,000	71,069	251,069
2025	2.375 %	180,000	66,794	246,794
2026	2.625 %	185,000	62,228	247,228
2027	2.625 %	195,000	57,241	252,241
2028	2.750 %	200,000	51,931	251,931
2029	3.000 %	205,000	46,106	251,106
2030	3.000 %	215,000	39,806	254,806
2031	3.000 %	220,000	33,281	253,281
2032	3.125 %	225,000	26,466	251,466
2033	3.125 %	230,000	19,356	249,356
2034	3.250 %	240,000	11,863	251,863
2035	3.250 %	<u>245,000</u>	<u>3,981</u>	<u>248,981</u>
Total		<u>\$ 3,865,000</u>	<u>\$ 1,478,638</u>	<u>\$ 5,343,638</u>

NOTE 6 – LONG TERM DEBT (Continued)

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

<u>Governmental Activities</u>	<u>Debt Outstanding June 30, 2011</u>	<u>Additions of New Debt</u>	<u>Retirements and Repayments</u>	<u>Debt Outstanding June 30, 2012</u>	<u>Amounts Due Within 1 Year</u>
General Obligation Refunding Bonds Series 2010	\$ 1,075,000	\$ -	\$ 235,000	\$ 840,000	\$ 235,000
City Building Bonds Series 2004	3,775,000	-	3,385,000	390,000	90,000
General Obligation Refunding Bonds Series 2011	<u>-</u>	<u>3,865,000</u>	<u>-</u>	<u>3,865,000</u>	<u>45,000</u>
	<u>\$ 4,850,000</u>	<u>\$ 3,865,000</u>	<u>\$ 3,620,000</u>	<u>\$ 5,095,000</u>	<u>\$ 370,000</u>
				Deferred Refunding Amount (484,599)	(32,708)
				Unamortized Bond Premium 20,354	5,089
				Unamortized Bond Discount (62,346)	(2,781)
				Net Bonds Payable \$ 4,568,409	\$ <u>339,600</u>
				Less: Current Portion, net (339,600)	
				Noncurrent Bond Obligation \$ <u>4,228,809</u>	

Conduit Debt Obligations

The City has issued Industrial Building Revenue Bonds to provide financial assistance to a private-sector entity for the purchase of property including land and a building. The bonds are secured by the property financed and are payable solely from the private-sector entity. Neither the City nor any political subdivision thereof, is obligated in any manner for repayment of the bond. Accordingly, the bond is not reported as a liability in the accompanying financial statements. As of June 30, 2012, there was one Industrial Building Revenue Bond outstanding with a principal amount payable of \$7,447,495.

NOTE 7 – 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 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 beneficiaries of plan members under certain circumstances. Cost-of-Living Adjustments (COLA) are provided at the discretion of the state legislature.

NOTE 7 – EMPLOYEE’S RETIREMENT SYSTEM (Continued)

Non-Hazardous Contributions - For the year ended June 30, 2012, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last 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, 2012, participating employers contributed 18.96% of each employee’s creditable compensation. Administrative costs of Kentucky Retirement System (KRS) are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2012, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second Year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed 35.76% of each employee’s creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

<u>Years</u>	<u>Contribution</u>	<u>Contributed</u>
2012	\$ 560,707	100%
2011	\$ 492,790	100%
2010	\$ 499,133	100%

City Pension Plan

Non-hazardous duty employees are eligible to contribute an additional 2% to the City’s previous defined contribution pension plan. The City contributes up to 4.5%. The City’s contribution for the City’s pension obligations for the fiscal year ended June 30, 2012 was \$1,712.

401(k) Plan and 457 Plan

The City also permits employees to participate in a 401(k) or 457 plan sponsored by the Commonwealth of Kentucky.

NOTE 8 – 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 risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2012 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.

NOTE 9 – CLAIMS AND JUDGEMENTS

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.

NOTE 10 – RELATED PARTY TRANSACTIONS

During the fiscal year ending June 30, 2012, the City of Edgewood had \$4,347 in related party transactions with Summit Fire Apparatus. Summit Fire Apparatus is owned by a City of Edgewood Councilman.

NOTE 11 – SUBSEQUENT EVENT

Management has evaluated events through December 28, 2012, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2012 through December 28, 2012 to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Real Estate Tax	\$ 1,758,900	\$ 1,758,900	\$ 1,754,911	\$ (3,989)
Payroll Tax	3,465,000	3,465,000	3,563,268	98,268
Net Profits Tax	187,000	187,000	265,035	78,035
Bank Deposit Tax	58,800	58,800	59,362	562
Franchise Tax	25,400	25,400	25,651	251
Cable Return	77,500	77,500	82,920	5,420
Licenses and Permits				
Occupational Licenses	67,500	67,500	66,478	(1,022)
ABC Licenses	7,800	7,800	7,792	(8)
Garage Permits	1,000	1,000	160	(840)
Building and Zoning	500	500	0	(500)
Fines and Forfeitures				
Real Estate Penalties and Interest	2,500	2,500	8,305	5,805
Police	1,500	1,500	1,142	(358)
Other Revenues				
Property Sale	1,000	1,000	52,250	51,250
Miscellaneous	1,500	1,500	18,365	16,865
Memorials	100	100	105	5
Concessions	1,500	1,500	1,085	(415)
Newsletter Adds	1,898	1,898	1,450	(448)
Earnings on Investments	9,500	9,500	11,721	2,221
Intergovernmental				
KLEFPF	55,800	55,800	58,567	2,767
LGEAF	300	300	325	25
Base Court Revenue	17,000	17,000	15,974	(1,026)
Municipal Aid	184,900	184,900	221,506	36,606
FD State Aid	8,500	8,500	8,250	(250)
Other Grants	800,000	800,000	221,698	(578,302)
Charges for Services				
Waste	655,000	655,000	642,331	(12,669)
EMS Response Fee	140,000	140,000	147,658	7,658
Contract Fire Department	100	100	739	639
Board of Adj	500	500	-	(500)
SRO Fee	28,000	28,000	32,304	4,304
Senior Center Rent	25,000	25,000	28,361	3,361
Recreational Programs	52,000	52,000	47,261	(4,739)
Total Revenues	<u>7,635,998</u>	<u>7,635,998</u>	<u>7,344,974</u>	<u>(291,024)</u>

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES) (Continued)
GENERAL FUND
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
General Government				
Personnel	385,834	385,834	320,101	65,733
Contractual	997,100	997,100	898,108	98,992
Operation/Maintenance	220,000	220,000	159,788	60,212
Police				
Personnel	1,333,990	1,333,990	1,282,994	50,996
Contractual	35,700	35,700	34,729	971
Operation/Maintenance	123,450	123,450	114,665	8,785
Fire				
Personnel	769,329	769,329	715,526	53,803
Contractual	57,560	57,560	56,042	1,518
Operation/Maintenance	149,000	149,000	123,871	25,129
Public Works				
Personnel	619,805	619,805	562,246	57,559
Contractual	18,000	18,000	15,050	2,950
Operation/Maintenance	238,900	238,900	174,303	64,597
Parks				
Operation/Maintenance	30,400	30,400	28,235	2,165
Recreation				
Personnel	64,084	64,084	71,885	(7,801)
Operation/Maintenance	106,100	106,100	83,099	23,001
Capital Outlay - Current Budget	1,995,150	1,995,150	1,202,356	792,794
Capital Outlay - Prior Appropriations	188,100	188,100	158,937	29,163
Total Expenditures	<u>7,332,502</u>	<u>7,332,502</u>	<u>6,001,935</u>	<u>1,330,567</u>
Excess of Revenues Over Expenditures	303,496	303,496	1,343,039	1,039,543
Other Financing (Uses) Sources				
Transfers Out	<u>(525,898)</u>	<u>(525,898)</u>	<u>(470,191)</u>	<u>55,707</u>
(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(222,402)	(222,402)	872,848	1,095,250
Fund Balance July 1, 2011	<u>4,564,680</u>	<u>4,564,680</u>	<u>4,564,680</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ 4,342,278</u>	<u>\$ 4,342,278</u>	<u>\$ 5,437,528</u>	<u>\$ 1,095,250</u>

CITY OF EDGEWOOD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
Year Ended June 30, 2012

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Expenditures				
Debt Service	525,898	525,898	486,184	39,714
Deficit of Revenues Over Expenditures	<u>(525,898)</u>	<u>(525,898)</u>	<u>(486,184)</u>	<u>39,714</u>
Other Financing Sources (Uses)				
Operating Transfers In	525,898	525,898	470,191	(55,707)
Proceeds from Issuance of Refunding Bonds	-	-	3,801,032	3,801,032
Payment to Refunded Bond Escrow Agent	-	-	(3,746,055)	(3,746,055)
Bond Issuance Costs	-	-	(52,690)	(52,690)
Total Other Financing Sources	<u>525,898</u>	<u>525,898</u>	<u>472,478</u>	<u>(53,420)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	(13,706)	(13,706)
Fund Balance July 1, 2011	<u>13,706</u>	<u>13,706</u>	<u>13,706</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ 13,706</u>	<u>\$ 13,706</u>	<u>\$ -</u>	<u>\$ (13,706)</u>



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**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 City Council
City of Edgewood, Kentucky

We have audited the financial statements of the governmental activities and each major fund of City of Edgewood, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City of Edgewood, Kentucky's basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Edgewood, Kentucky, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Edgewood, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Edgewood, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Edgewood, Kentucky's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bramel G. Ackley, P.S.C.

December 28, 2012



December 28, 2012

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

We have audited the financial statements of the governmental activities and each major fund of City of Edgewood, Kentucky for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 16, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Edgewood, Kentucky are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Edgewood, Kentucky's financial statements were:

Management's estimate of the allowance and reserve for delinquent taxes and waste receivable is based on previous experience with collection of those accounts and anticipated collections. We evaluated the key factors and assumptions used to develop the allowance and reserve for delinquent taxes and waste receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expense of capital assets is based on the useful life of the asset using the straight line method. We evaluated the key factors and assumptions used to develop the depreciation expense and useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 28, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Mayor and City Council and management of City of Edgewood, Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Bramel E. Ackley, P.S.C.

City of Edgewood, Kentucky
SUMMARY OF AUDIT DIFFERENCES
 Governmental Activities
 Year Ended June 30, 2012

	Current Year Over (Under) Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
Unadjusted audit differences:	
Accrued interest expense on bond payable (one month)	\$ 11,166
Lykins Oil Company current year expense paid on 07/23/12; not in payables	9,469
Depreciation expense overstated on streets	-3,591
Cumulative effect (before effect of prior year differences)	\$17,044
Effect of unadjusted audit differences—prior year:	
Accrued interest expense on bond payable (one month)	-16,995
Lykins Oil Company prior year expense paid on 07/25/11; not in payables	-12,244
Cumulative effect (after effect of prior year differences)	\$ -12,195

	Balance Sheet	Statement(s) of Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
Reclassification adjustments:		
None	\$ N/A	\$ N/A