

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
List of City Officials.	1
FINANCIAL SECTION	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-6
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets.....	7
Statement of Activities.....	8
Governmental Fund Financial Statements	
Balance Sheet-Governmental Funds.....	9
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	12
Notes to the Financial Statements.....	13-23
Required Supplementary Information:	
Budgetary Comparison Schedule - Budget to Actual - General Fund.....	24
Budgetary Comparison Schedule - Budget to Actual - Municipal Aid Road Fund.....	25
Budgetary Comparison Schedule - Budget to Actual - Vehicle Fee Fund.....	26
Budgetary Comparison Schedule - Budget to Actual - Road Tax Fund.....	27
Budgetary Comparison Schedule - Budget to Actual - Debt Service Fund.....	28
Combined Balance Sheets - Special Revenue Funds.....	29
Combined Statements of Revenues, Expenditures and Changes in Fund Balances-Special Revenue Funds.....	30
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

List of City Officials

Michael Hellmann, Mayor

Fred Brunner

Angela Finke

Drew Hollenkamp

Steven Ryan

Richard Spoor

Ted Worland

Administration and Departments

Julie Alig, Clerk/Treasurer

Rick Smith, Police Chief

Regis Huth, Fire Chief

Jay Bayer, City Engineer

Ed Jody, Building and Zoning

Dennis Finke, Public Works

Bob Winter, Attorney



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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities of the City of Park Hills, Kentucky (City), as of and for the year ended June 30, 2006, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Park Hills as of June 30, 2006, and the respective changes in financial position, 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 October 20, 2006, on our consideration of the City of Park Hills' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

The management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 24 through 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Park Hills' basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Van Gorder, Walker & Co., Inc.
Covington, Kentucky
October 20, 2006



CITY OF PARK HILLS

1106 Amsterdam Road
Park Hills, Kentucky 41011-2097
(859) 431-6252
Fax (859) 431-6410



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is required supplementary information per the Government Accounting Standards Board (GASB) that provides management with the opportunity to provide both short and long term analysis of the City of Park Hills' financial activities. The MD&A should be read in conjunction with the City's basic financial statements, which begin on page 7.

The annual report consists of a series of financial statements. The Statement of Net Assets 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. The City's fund financial statement provides more detail on the operations of the City than the government wide statements.

Reporting on the City as a Whole

The Statement of Net Assets and Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting and report the City's net assets and changes in them. The City's basic services are considered to be governmental activities and include general government, public safety and public works. Property taxes, insurance premium taxes and payroll taxes/gross receipts license fees finance most of these services.

The assets of the City exceeded its liabilities at June 30, 2006 by \$6,358,705

Effective July 1, 2003 the City's infrastructure has been historically valued and will be included in the investment in capital assets shown in the Statement of Net Assets.

Assets	
Current and other assets	\$ 1,211,900
Capital assets	5,502,960
Total Assets	<u>\$ 6,714,860</u>
Liabilities	
Long-term liabilities	\$ 276,050
Other liabilities	80,105
Total Liabilities	<u>356,155</u>
Net Assets	
Invested in capital assets, net of depreciation	5,199,304
Designated future expenditures	190,968
Unrestricted	968,433
Total Net Assets	<u>\$ 6,358,705</u>

Mayor
Michael Hellmann

Councilmembers
Fred Brunner
Angie Finke
Drew Hollenkamp
Steven Ryan
Richard Spoor
Ted Worland

City Clerk/Treasurer
Julie Alig

Legal Counsel
Robert Winter

Chief of Police
Ricardo Smith

Chief of Fire/EMS
Regis Huth

Public Works Director
Dennis Finke

City Engineer
Bayer Becker



PRINTED ON
RECYCLED PAPER

Governmental activities decreased the City's net assets by \$178,535. This decrease includes the excess of revenues over expenditures as well as depreciation expense of \$699,894.

One of the most important questions asked about the City's finances is whether the financial position has improved or deteriorated as a result of the year's operations.

General Revenues	
Property taxes	\$ 423,282
Municipal insurance taxes	319,914
Licenses and permits	606,441
Other revenues	100,767
Total General Revenues	<u>1,450,404</u>
Expenses, net of program revenues	
General and administrative	81,029
Public safety	597,000
Public works	698,356
Contracted services	252,554
Total Expenditures	<u>1,628,939</u>
Decrease in Net Assets	<u>\$ (178,535)</u>

The Statement of Revenues, Expenditures and Changes in Fund Balances reflects an increase of \$332,804 of revenues over expenditures.

THE CITY'S FUNDS

The special revenue funds consist of municipal road aid, road tax and vehicle fee funds are all to be used only to replace, maintain or improve the City's roads. The sanitation fund is included in debt service funds and is used for payment of sewer line repairs assessed by Sanitation District No. 1.

Significant changes in the original budget:

In June, 2006 the City Council revised the original budget by ordinance to increase appropriations to prevent budget overruns including the following:

The General Fund Revenues were increased due to a sale of city property in the amount of \$38,760, not figured into the original budget. The city also gained revenue from the sale of a squad in the amount of \$18,000 and a police grant in the amount of \$4,866.

Delinquent taxes increased from the original budgeted amount of \$8,000 to \$14,600.

The Municipal Insurance rate increase from 7% to 10% increased the expected revenue from its original \$260,000 to \$271,024.

Significant variances of final budget to actual expenditures:

Due to unforeseen legal fees, the legal work line under Contracts was amended from \$5,000 to \$41,000 (this included unforeseen legal expenses from the Montague Landslide). A legal settlement was also paid out under Administration in the amount of \$13,918.

The expected expenditure of \$88,500 under Capital Improvements was amended to the actual amount of \$18,194 for property acquisition.

Due to personnel changes in the police department, the base pay was decreased from \$229,512 to \$215,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers 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 any questions about this report or need additional information, contact the City's Treasurer at, The City of Park Hills, 1106 Amsterdam Road, Park Hills, Kentucky, (859) 431-6252.

Very Truly Yours;

A handwritten signature in cursive script that reads "Julie Alig".

Julie Alig
Park Hills City Clerk/Treasurer

CITY OF PARK HILLS, KENTUCKY**Statement of Net Assets****June 30, 2006**

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 954,371
Taxes receivable	92,122
Other accounts receivable	35,988
Intergovernmental receivable	1,938
Prepaid expenses	10,703
Total Current Assets	<u>1,095,122</u>
Capital Assets	
Land and improvements	59,214
Infrastructure	12,309,956
Building and improvements	205,927
Machinery and equipment	575,457
Vehicles	324,479
Less: accumulated depreciation	<u>(7,972,073)</u>
Net Capital Assets	<u>5,502,960</u>
Restricted Assets	
Creighton Fund	45,617
Property Acquisition Fund	71,161
Total Restricted Assets	<u>116,778</u>
TOTAL ASSETS	<u>6,714,860</u>
LIABILITIES	
Current Liabilities	
Accounts payable	20,242
Other current liabilities	8,612
Deferred revenues	16,699
Capital lease payable	12,500
Note payable	22,052
Total Current Liabilities	<u>80,105</u>
Long Term Liabilities	
Compensated absences	6,946
Capital lease payable	225,000
Note payable	44,104
Total Long Term Liabilities	<u>276,050</u>
TOTAL LIABILITIES	<u>356,155</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,199,304
Designated	190,968
Unrestricted	968,433
TOTAL NET ASSETS	<u>\$ 6,358,705</u>

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

CITY OF PARK HILLS, KENTUCKY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Legislative and administrative	\$ 236,847	\$ 155,818	\$ -	\$ -	\$ (81,029)
Public safety	638,032	14,707	21,264	5,061	(597,000)
Public works	752,104	-	-	53,748	(698,356)
Contracted services	252,554	-	-	-	(252,554)
Total Primary Government	\$ 1,879,537	\$ 170,525	\$ 21,264	\$ 58,809	(1,628,939)
General revenues					
Taxes					
Property taxes					423,282
Insurance premium and franchise taxes					319,914
Licenses and permit fees					179,541
Payroll/gross receipts license fees					380,880
Road tax revenues					21,844
Vehicle sticker license					24,176
Licenses					25,260
Sale of fixed assets					16,234
Sanitation surcharge					48,125
Miscellaneous					11,148
Investment earnings					1,450,404
Total general revenues and special items					(178,535)
Change in net assets					6,537,240
Net assets, beginning					\$ 6,358,705
Net assets, ending					

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

CITY OF PARK HILLS, KENTUCKY**Balance Sheet - Governmental Funds**

June 30, 2006

	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS			
Cash	\$ 208,569	\$ 745,802	\$ 954,371
Receivables			
Accounts	22,993	9,172	32,165
Taxes	91,510	-	91,510
Waste	136	-	136
Intergovernmental receivable	1,938	-	1,938
Prepaid expenses	10,703	-	10,703
Due from Road Tax Fund	3,325	-	3,325
Restricted assets			
Property Acquisition Fund	71,161	-	71,161
Creighton Fund	45,617	-	45,617
TOTAL ASSETS	<u>\$ 455,952</u>	<u>\$ 754,974</u>	<u>\$ 1,210,926</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,879	\$ 12,038	\$ 16,917
Other current liabilities	8,612	-	8,612
Due to General Fund	-	3,325	3,325
Deferred revenues	16,699	-	16,699
TOTAL LIABILITIES	<u>30,190</u>	<u>15,363</u>	<u>45,553</u>
FUND BALANCES			
Designated for debt service	-	74,190	74,190
Reserved	116,778	-	116,778
Unreserved, undesignated	308,984	665,421	974,405
TOTAL FUND BALANCES	<u>425,762</u>	<u>739,611</u>	<u>1,165,373</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 455,952</u>	<u>\$ 754,974</u>	<u>\$ 1,210,926</u>

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

<p>CITY OF PARK HILLS, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets June 30, 2006</p>
--

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

Total fund balance per balance sheet	\$ 1,165,373
--------------------------------------	--------------

Capital assets of \$13,475,033, less accumulated depreciation of \$7,972,073, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,502,960
--	-----------

Receivables not received within 60 days are not available for governmental fund reporting, but are recognized in the statement of activities.	974
---	-----

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	
Compensated absences	(6,946)
Capital lease payable	(237,500)
Note payable	<u>(66,156)</u>

Net assets of governmental activities	<u>\$ 6,358,705</u>
---------------------------------------	---------------------

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

CITY OF PARK HILLS, KENTUCKY**Statement of Revenues, Expenditures and****Changes in Fund Balances - Governmental Funds****Year Ended June 30, 2006**

	General Fund	Special Revenue Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 883,817	\$ 402,406	\$ 1,286,223
Licenses and permits	62,802	-	62,802
Charges for services	170,389	16,234	186,623
Intergovernmental	21,264	53,748	75,012
Grants	5,061	-	5,061
Sales of fixed assets	57,260	-	57,260
Interest income	4,184	6,964	11,148
Other revenues	47,898	-	47,898
TOTAL REVENUES	1,252,675	479,352	1,732,027
EXPENDITURES			
Current			
General administrative expenses	153,870	11,000	164,870
Police department expenses	487,707	-	487,707
Fire/rescue department	80,006	-	80,006
Public works expenses	127,158	4,112	131,270
Building and utilities	44,778	-	44,778
Contracted services	252,554	-	252,554
Capital outlay	18,000	173,974	191,974
Debt service	24,012	22,052	46,064
TOTAL EXPENDITURES	1,188,085	211,138	1,399,223
EXCESS OF REVENUES OVER EXPENDITURES	64,590	268,214	332,804
FUND BALANCES BEGINNING OF YEAR	361,172	471,397	832,569
FUND BALANCES END OF YEAR	\$ 425,762	\$ 739,611	\$ 1,165,373

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

CITY OF PARK HILLS, KENTUCKY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2006

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

Net change in fund balance-total governmental funds	\$ 332,804
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$191,974) was less than depreciation expense (\$699,894) in the current period.	(507,920)
The repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. However, the repayment of long-term debt has no effect on net assets. The amount of principal payments is included in the governmental funds in the current period.	34,552
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(31,025)
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.	<u>(6,946)</u>
Change in net assets of governmental activities	<u>\$ (178,535)</u>

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

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City operates under a Mayor and Council form of government. The government is governed by an elected mayor and six council members. As required by generally accepted accounting principles these financial statements represent the primary government. The City has no component units or entities for which the government is considered to be financially accountable.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements.

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than expenditures.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

Fund Financial Statements

Fund financial statements, as applicable, are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Funds Types

The City reports the following governmental funds:

General Fund

This fund is the government's primary operating fund. This fund accounts for all financial resources of the general government not accounted for in another fund.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains special revenue funds for Municipal Road Aid Funds, Road Tax Funds, and Vehicle Fee Funds. These funds are used to account for the receipt and disbursement of funds in accordance with Kentucky Revised Statutes for Kentucky Mutual Aid Fund and to account for the use of a vehicle sticker license for road maintenance as stated by ordinance. The City also maintains a Debt Service Fund to account for the repayment of a note to Sanitation District No. 1.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related 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 in the year when payment is due. Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

If applicable, operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are taxes, interest and charges for services. Fines and licenses and permits are not susceptible to accrual because generally, they are not measurable until received in cash.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental funds. All annual appropriations continue in effect until a new budget is adopted.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired.

The City is authorized by state statute to invest in:

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2006. The categories are described as follows:

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department agent but not in the entity's name.

Fund	Category			Fair Value
	1	2	3	
General Fund	\$ 325,347	\$ -	\$ -	\$ 325,347
Special Revenue	674,635	-	-	674,635
Debt Service	71,167	-	-	71,167
Total	<u>\$ 1,071,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,071,149</u>

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

Restricted Assets

The City has one externally restricted fund, the Creighton Fund. The assets of that fund are restricted by the donor, for use by the City of Park Hills to Fire Department applications. The City also has one internally restricted fund, the Property Acquisition Fund, which has been set aside for the purchase of additional property and/or restoration of existing City property. The balances in the two funds at June 30, 2006 were \$45,617 and \$71,161, respectively.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. An expenditure of \$6,946 is recorded in the government-wide financial statements for this liability. No liability is recorded for nonvested accumulating rights to receive sick pay benefits. At June 30, 2006 the liability for compensated absences is \$6,946.

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

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. All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- 1) In accordance with City code, 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) Public hearings are 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.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

5) Appropriations continue in effect until a new budget is adopted.

6) The City Council may authorize supplemental appropriations during the year.
The City had one budget amendment 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.

NOTE C – DEPOSITS

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, 2006, the depository bank had securities pledged to fully collateralize the bank balance.

NOTE D – RECEIVABLES

Property values are assessed as of January 1. Taxes are levied on July 1 and are due and payable on or before August 31. The City bills and collects its own property taxes. An adjustment is made at June 30 to recognize property taxes levied during the year which are still receivable at year end. A deferred revenue account is established for delinquent taxes to the extent that their collectibility is improbable.

NOTE E – FIXED ASSETS

The following is a summary of changes in the general fixed assets account group during the fiscal year.

	June 30, 2005	Additions	Deletions	June 30, 2006
Land	\$ 73,214	\$ 18,000	\$ (32,000)	\$ 59,214
Buildings and improvements	255,927	-	(50,000)	205,927
Infrastructure	12,135,982	173,974	-	12,309,956
Vehicles	374,826	-	(50,347)	324,479
Equipment	575,457	-	-	575,457
Subtotal	13,415,406	191,974	(132,347)	13,475,033
Accumulated depreciation	(7,372,526)	(699,894)	100,347	(7,972,073)
Total assets, net	<u>\$ 6,042,880</u>	<u>\$ (507,920)</u>	<u>\$ (32,000)</u>	<u>\$ 5,502,960</u>

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

Depreciation expense was charged to government functions as follows:

Governmental activities	
Administration	\$ 15,000
Public safety	65,690
Public works	11,206
Infrastructure	607,998
Total governmental activities depreciation expense	<u>\$ 699,894</u>

NOTE F – GENERAL LONG TERM DEBT

General long-term debt consists of the following:

Capital Leases

The City executed a lease-purchase agreement in July 2000 for the purchase of equipment and renovations to the city building at a total cost of \$150,000. Term of the lease-purchase agreement is 10 years at an interest rate of 5.95%. This lease was refinanced in April 2002 at a 4.57% interest rate. The City executed a lease agreement in May of 2005 for the refinancing of the April 2002 obligation and for the purchase of real property in the City of Park Hills at a total cost of \$250,000. Terms of the lease-purchase agreement are 10 years at an annual interest rate of 4.5%. The remaining April 2002 lease-purchase obligation of \$99,226 plus \$3,843 in interest was paid in full from the proceeds of the May 2005 lease agreement.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 12,500	\$ 10,548	\$ 23,048
2008	12,500	9,986	22,486
2009	12,500	9,423	21,923
2010	12,500	8,861	21,361
2011	12,500	8,298	20,798
Thereafter	175,000	30,403	205,403
Totals	<u>\$ 237,500</u>	<u>\$ 77,519</u>	<u>\$ 315,019</u>

Note Payable

The City executed a 0% ten-year \$220,520 note effective July 1, 1995 with the Sanitation District in accordance with a Municipal Merger Agreement. The City is to make annual

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

equal payments to the District in the amount of \$22,052 beginning on January 1, 2000. Annual debt service requirements are as follows:

Year Ending	Principal
2,007	\$ 22,052
2,008	22,052
2,009	22,052
Total	<u>\$ 66,156</u>

The Sanitation District is collecting the fee on a quarterly basis based upon water usage in the City of Park Hills to satisfy this debt obligation.

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2005:

	Balance June 30, 2005	New Issues	Principal Payments	Balance June 30, 2006
Sanitation note	\$ 88,208	\$ -	\$ 22,052	\$ 66,156
Capital leases	250,000	-	12,500	237,500
Totals	<u>\$ 338,208</u>	<u>\$ -</u>	<u>\$ 34,552</u>	<u>\$ 303,656</u>

Of the \$303,656 General Long-Term Debt Account Group balance at June 30, 2006, \$34,552 is a current liability due within one year of June 30, 2006 and \$269,104 is a long-term liability, due in more than one year from the date of these financial statements.

NOTE G – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not result in a liability to the City.

NOTE H – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits. The Plan issues a publicly available financial report that includes financial statements and

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2006

required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The City contributed 10.98% (25.01% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2006.

The City of Park Hills made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2006. The required contribution and the actual percentage contributed for the City the current and previous four years is as follows:

Year	Required Contribution	Percentage Contributed
2006	\$ 81,070	100%
2005	\$ 65,427	100%
2004	\$ 55,764	100%
2003	\$ 70,549	100%
2002	\$ 70,550	100%

NOTE I – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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 J – 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 effectively managed risk through various employee education and prevention programs.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE K – GASB 34

State and local governmental entities were required to change their financial reporting with the adoption of GASB Statement No. 34. The City has adopted this Statement as of July 1, 2003. The new financial reporting model requires financial statements integrated with government-wide reporting and enhanced fund reporting. It also requires a section for management's discussion and analysis (MD&A) and the reporting of the City's infrastructure and depreciation.

CITY OF PARK HILLS, KENTUCKY

Budgetary Comparison Schedule - Budget to Actual - General Fund

Year Ended June 30, 2006

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 307,668	\$ 53,504	\$ 361,172	\$ 361,172	\$ -
Resources (inflows):					
TAXES					
Property taxes	403,075	11,462	414,537	422,988	8,451
Municipal insurance tax	260,000	11,024	271,024	281,288	10,264
Payroll/gross receipts taxes	194,000	(20,000)	174,000	179,541	5,541
TOTAL TAXES	<u>857,075</u>	<u>2,486</u>	<u>859,561</u>	<u>883,817</u>	<u>24,256</u>
LICENSES AND PERMITS					
Occupational license	15,000	3,000	18,000	19,093	1,093
Franchise fees	30,500	6,600	37,100	38,626	1,526
Other fees and licenses	3,650	825	4,475	4,440	(35)
Building and zoning fees	2,600	(1,962)	638	643	5
TOTAL LICENSES AND PERMITS	<u>51,750</u>	<u>8,463</u>	<u>60,213</u>	<u>62,802</u>	<u>2,589</u>
INTERGOVERNMENTAL	<u>22,758</u>	<u>(1,688)</u>	<u>21,070</u>	<u>21,264</u>	<u>194</u>
CHARGES FOR SERVICES					
Trash collection fees	141,286	3,124	144,410	144,682	272
Law enforcement fees, civic duty	15,750	(927)	14,823	14,707	(116)
Fund administration	11,000	-	11,000	11,000	-
TOTAL CHARGES FOR SERVICES	<u>168,036</u>	<u>2,197</u>	<u>170,233</u>	<u>170,389</u>	<u>156</u>
OTHER REVENUES					
Creighton revenue	32,000	(2,000)	30,000	29,222	(778)
Police fines	6,000	1,200	7,200	7,385	185
Interest income	4,000	(400)	3,600	4,184	584
Sale of fixed assets	-	57,260	57,260	57,260	-
Grants	-	4,866	4,866	5,061	195
Insurance claim	-	2,394	2,394	2,394	-
Miscellaneous	650	8,212	8,862	8,897	35
TOTAL OTHER REVENUES	<u>42,650</u>	<u>71,532</u>	<u>114,182</u>	<u>114,403</u>	<u>221</u>
Amounts available for appropriation	<u>1,449,937</u>	<u>136,494</u>	<u>1,586,431</u>	<u>1,613,847</u>	<u>27,416</u>
Charges to appropriations (outflows):					
General administration expenses	131,750	20,969	152,719	152,552	167
Police department expenses	528,832	(31,368)	497,464	487,707	9,757
Fire/rescue department expenses	77,800	3,177	80,977	77,506	3,471
Public works expenses	93,355	(2,408)	90,947	91,116	(169)
Building and utilities	47,950	1,055	49,005	44,778	4,227
Contract services	214,565	41,036	255,601	252,554	3,047
Capital improvements	149,900	(64,056)	85,844	81,872	3,972
Total appropriations	<u>1,244,152</u>	<u>(31,595)</u>	<u>1,212,557</u>	<u>1,188,085</u>	<u>24,472</u>
Budgetary fund balance before other financing sources	<u>205,785</u>	<u>168,089</u>	<u>373,874</u>	<u>425,762</u>	<u>51,888</u>
Other financing sources					
Carry over from prior year	20,000	(20,000)	-	-	-
Budgetary fund balance, June 30	<u>\$ 225,785</u>	<u>\$ 148,089</u>	<u>\$ 373,874</u>	<u>\$ 425,762</u>	<u>\$ 51,888</u>

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Municipal Road Aid Fund**
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amendments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Budgetary fund balance, July 1	\$ 3,147	\$ 5,750	\$ 8,897	\$ 8,897	\$ -
Resources (inflows):					
Intergovernmental revenue	47,704	-	47,704	48,103	399
Interest income	300	(100)	200	168	(32)
Amounts available for appropriation:	<u>51,151</u>	<u>5,650</u>	<u>56,801</u>	<u>57,168</u>	<u>367</u>
Charges to appropriations (outflows):					
Street maintenance	48,151	(18,151)	30,000	32,438	(2,438)
Administration	2,000	-	2,000	2,000	-
Attorney fees	1,000	(1,000)	-	-	-
Total appropriations	<u>51,151</u>	<u>(19,151)</u>	<u>32,000</u>	<u>34,438</u>	<u>(2,438)</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 24,801</u>	<u>\$ 24,801</u>	<u>\$ 22,730</u>	<u>\$ (2,071)</u>

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Vehicle Fee Fund****For the Year Ended June 30, 2006**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 45,860	\$ (2,418)	\$ 43,442	\$ 43,442	\$ -
Resources (inflows):					
Personal property taxes - auto	24,000	(1,000)	23,000	21,844	(1,156)
Interest income	400	100	500	488	(12)
Amounts available for appropriation:	<u>70,260</u>	<u>(3,318)</u>	<u>66,942</u>	<u>65,774</u>	<u>(1,168)</u>
Charges to appropriations (outflows):					
Street Maintenance	66,260	(66,260)	-	-	-
Administration	4,000	-	4,000	4,000	-
Total appropriations	<u>70,260</u>	<u>(66,260)</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 62,942</u>	<u>\$ 62,942</u>	<u>\$ 61,774</u>	<u>\$ (1,168)</u>

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Road Tax Fund****For the Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amendments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Budgetary fund balance, July 1	\$ 337,343	\$ 2,418	\$ 339,761	\$ 339,761	\$ -
Resources (inflows):					
Road tax revenue	374,263	6,737	381,000	380,562	(438)
Interest income	2,500	3,200	5,700	5,597	(103)
Other revenue	-	5,645	5,645	5,645	-
Amounts available for appropriation:	<u>714,106</u>	<u>18,000</u>	<u>732,106</u>	<u>731,565</u>	<u>(541)</u>
Charges to appropriations (outflows):					
Street maintenance	709,106	(114,106)	595,000	145,648	449,352
Administration	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total appropriations	<u>714,106</u>	<u>(114,106)</u>	<u>600,000</u>	<u>150,648</u>	<u>449,352</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 132,106</u>	<u>\$ 132,106</u>	<u>\$ 580,917</u>	<u>\$ 448,811</u>

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Debt Service Fund****For the Year Ended June 30, 2006**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 79,758</u>	<u>\$ (461)</u>	<u>\$ 79,297</u>	<u>\$ 79,297</u>	<u>\$ -</u>
Resources (inflows):					
Sanitation surcharge	17,000	-	17,000	16,234	(766)
Interest income	<u>750</u>	<u>(20)</u>	<u>730</u>	<u>711</u>	<u>(19)</u>
Amounts available for appropriation:	<u>97,508</u>	<u>(481)</u>	<u>97,027</u>	<u>96,242</u>	<u>(785)</u>
Charges to appropriations (outflows):					
Sanitation District note payment	<u>22,052</u>	<u>-</u>	<u>22,052</u>	<u>22,052</u>	<u>-</u>
Total appropriations	<u>22,052</u>	<u>-</u>	<u>22,052</u>	<u>22,052</u>	<u>-</u>
Budgetary fund balance, June 30	<u><u>\$ 75,456</u></u>	<u><u>\$ (481)</u></u>	<u><u>\$ 74,975</u></u>	<u><u>\$ 74,190</u></u>	<u><u>\$ (785)</u></u>

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

CITY OF PARK HILLS, KENTUCKY**Combined Balance Sheets - Special Revenue Funds****June 30, 2006**

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2006	Memo Only 2005
ASSETS						
Cash	\$ 26,071	\$ 59,684	\$588,880	\$ 71,167	\$745,802	\$466,601
Taxes receivable	-	-	-	-	-	4,472
Accounts receivable	4,059	2,090	-	3,023	9,172	9,972
TOTAL ASSETS	<u>\$ 30,130</u>	<u>\$ 61,774</u>	<u>\$588,880</u>	<u>\$ 74,190</u>	<u>\$754,974</u>	<u>\$481,045</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 7,400	\$ -	\$ 4,638	\$ -	\$ 12,038	\$ 5,975
Due to other funds	-	-	3,325	-	3,325	-
Deferred revenue	-	-	-	-	-	3,673
TOTAL LIABILITIES	<u>7,400</u>	<u>-</u>	<u>7,963</u>	<u>-</u>	<u>15,363</u>	<u>9,648</u>
FUND BALANCE						
Designated	-	-	-	74,190	74,190	79,297
Unreserved, undesignated	22,730	61,774	580,917	-	665,421	392,100
TOTAL FUND BALANCE	<u>22,730</u>	<u>61,774</u>	<u>580,917</u>	<u>74,190</u>	<u>739,611</u>	<u>471,397</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 30,130</u>	<u>\$ 61,774</u>	<u>\$588,880</u>	<u>\$ 74,190</u>	<u>\$754,974</u>	<u>\$481,045</u>

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

CITY OF PARK HILLS, KENTUCKY**Combined Statements of Revenues, Expenditures and Changes in
Fund Balances - Special Revenue Funds****Year Ended June 30, 2006**

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2006	Memo Only 2005
REVENUES						
Taxes	\$ -	\$ 21,844	\$ 380,562	\$ -	\$ 402,406	\$ 364,587
Licenses	-	-	-	-	-	22,149
Intergovernmental	48,103	-	5,645	-	53,748	47,828
Charges for services	-	-	-	16,234	16,234	16,538
Interest income	168	488	5,597	711	6,964	3,787
TOTAL REVENUES	48,271	22,332	391,804	16,945	479,352	454,889
EXPENDITURES						
General government	2,000	4,000	5,000	-	11,000	11,000
Public works	32,438	-	145,648	-	178,086	120,366
Debt service	-	-	-	22,052	22,052	22,052
TOTAL EXPENDITURES	34,438	4,000	150,648	22,052	211,138	153,418
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER)EXPENDITURES	13,833	18,332	241,156	(5,107)	268,214	301,471
FUND BALANCES BEGINNING OF YEAR	8,897	43,442	339,761	79,297	471,397	169,926
FUND BALANCES END OF YEAR	\$ 22,730	\$ 61,774	\$ 580,917	\$ 74,190	\$ 739,611	\$ 471,397

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



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

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 of
City of Park Hills, Kentucky

We have audited the financial statements of the governmental activities of the City of Park Hills, Kentucky, as of and for the year ended June 30, 2006, which comprises the City of Park Hills, Kentucky's basic financial statements and have issued our report thereon dated October 20, 2006. 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

In planning and performing our audit, we considered the City of Park Hills, Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Park Hills, Kentucky's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Lack of Segregation of Duties

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

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

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



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

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Park Hills, 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 the audit committee, management, City Council, 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.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Covington, Kentucky
October 20, 2006