

CITY OF PARK HILLS, KENTUCKY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2007

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CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2007

List of City Officials

Michael Hellmann, Mayor

Fred Brunner

Angela Finke

Ted Kleymeyer

Monty O'Hara

Steven Ryan

Ted Worland

Administration and Departments

Julie Alig, Clerk/Treasurer

Rick Smith, Police Chief

Regis Huth, Fire Chief

Jay Bayer, City Engineer

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, 2007, 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'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 the standards applicable to financial audits contained in the *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, Kentucky as of June 30, 2007, 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 October 10, 2007, on our consideration of the City of Park Hills, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 required 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, Kentucky's 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 nonmajor fund 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 10, 2007



CITY OF PARK HILLS

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

Fax (859) 431-6410

MANAGEMENT'S DISCUSSION AND ANALYSIS



Mayor
Michael Hellmann

Councilmembers
Fred Brunner
Angie Finke
Ted Kleymeyer
Monty O'Hara
Steven Ryan
Ted Worland

City Clerk/Treasurer
Julie Alig

City Attorney
Robert A. Winter, Jr.

Chief of Police
Ricardo Smith

Chief of Fire/EMS
Regis Huth

Public Works Director
Dennis Finke

City Engineer
Bayer Becker

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, 2007 by \$6,543,603

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	\$ 1,553,766
Capital assets	5,322,387
Total Assets	<u>\$ 6,876,153</u>

Liabilities

Current liabilities	\$ 84,408
Long-term liabilities	248,142
Total Liabilities	<u>332,550</u>

Net Assets

Invested in capital assets, net of debt	5,053,283
Designated future expenditures	167,817
Unrestricted	1,322,503
Total Net Assets	<u>\$ 6,543,603</u>



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Governmental activities increased the City's net assets by \$184,898. This includes the excess of revenues over expenditures as well as depreciation expense of \$732,603.

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	\$ 428,637
Municipal insurance taxes	424,956
Licenses and permits	626,113
Other revenues	33,558
Total General Revenues	<u>1,513,264</u>
Expenses, net of program revenues	
General and administrative	28,518
Public safety	550,659
Public works	409,967
Contracted services	328,522
Interest Expense	10,700
Total Expenditures	<u>1,328,366</u>
Increase in Net Assets	<u>\$ 184,898</u>

THE CITY'S FUNDS

The City maintains its budget and daily operations on a current financial resources focus, known as "*fund accounting*". The City's funds consist of the general fund and four special revenue funds. The Statement of Revenues, Expenditures and Changes in Fund Balances reflects a net \$338,537 of fund revenues over fund expenditures. 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, 2007 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 an unexpected collection of Municipal Insurance Taxes in the amount of \$75,239, not figured into the original budget. The City also gained revenue from the sale of a Corvette and two police cruisers in the amount of \$9,717.

Delinquent taxes increased from the original budgeted amount of \$4,000 to \$10,325.

Significant variances of final budget to actual expenditures:

Due to unforeseen legal fees, the legal work line under Contracts was amended from \$10,000 to \$56,000.

The expected expenditure of \$250,000 under Capital Improvements for the Dixie Highway Sidewalk project was amended to the actual amount of \$20,978, the remaining \$229,022 to be expended next spring.

The City also began a Historical District Program and added the expenditures for this project to the amended budget in the amount of \$12,000.

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.

Julie Alig
Park Hills City Clerk/Treasurer

CITY OF PARK HILLS, KENTUCKY

Statement of Net Assets

June 30, 2007

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,269,857
Taxes receivable	118,973
Other accounts receivable	36,491
Intergovernmental receivable	1,656
Prepaid expenses	27,738
Total Current Assets	<u>1,454,715</u>
Capital Assets	
Land and improvements	77,767
Infrastructure	12,736,667
Building and improvements	244,575
Machinery and equipment	593,964
Vehicles	333,452
Less: accumulated depreciation	(8,664,038)
Net Capital Assets	<u>5,322,387</u>
Restricted Assets	
Creighton Fund	72,434
Property Acquisition Fund	26,617
Total Restricted Assets	<u>99,051</u>
TOTAL ASSETS	<u>6,876,153</u>
LIABILITIES	
Current Liabilities	
Accounts payable	32,021
Other current liabilities	1,136
Deferred revenues	16,699
Capital lease payable	12,500
Note payable	22,052
Total Current Liabilities	<u>84,408</u>
Long Term Liabilities	
Compensated absences	13,590
Capital lease payable	212,500
Note payable	22,052
Total Long Term Liabilities	<u>248,142</u>
TOTAL LIABILITIES	<u>332,550</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,053,283
Designated	167,817
Unrestricted	1,322,503
TOTAL NET ASSETS	<u>\$ 6,543,603</u>

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

For the Year Ended June 30, 2007

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

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

June 30, 2007

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash	\$ 487,430	\$ 782,427	\$ 1,269,857
Receivables			
Accounts	23,269	10,561	33,830
Taxes	118,973	-	118,973
Waste	2,661	-	2,661
Intergovernmental receivable	1,656	-	1,656
Prepaid expenses	27,738	-	27,738
Due from Special Revenue Funds	3,325	-	3,325
Due from General Fund	-	18,691	18,691
Restricted assets			
Property Acquisition Fund	26,617	-	26,617
Creighton Fund	72,434	-	72,434
TOTAL ASSETS	\$ 764,103	\$ 811,679	\$ 1,575,782
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 23,571	\$ 8,450	\$ 32,021
Other current liabilities	1,136	-	1,136
Due to General Fund	-	3,325	3,325
Due to Special Revenue Funds	18,691	-	18,691
Deferred revenues	16,699	-	16,699
TOTAL LIABILITIES	60,097	11,775	71,872
FUND BALANCES			
Designated for debt service	-	68,766	68,766
Reserved	99,051	-	99,051
Unreserved, undesignated	604,955	731,138	1,336,093
TOTAL FUND BALANCES	704,006	799,904	1,503,910
TOTAL LIABILITIES AND FUND BALANCES	\$ 764,103	\$ 811,679	\$ 1,575,782

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

CITY OF PARK HILLS, KENTUCKY***Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets*****June 30, 2007**

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

Total fund balance per balance sheet	\$ 1,503,910
Capital assets of \$13,986,425, less accumulated depreciation of \$8,664,038, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,322,387
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	
Compensated absences	(13,590)
Capital lease payable	(225,000)
Note payable	<u>(44,104)</u>
Net assets of governmental activities	<u>\$ 6,543,603</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 Balance - Governmental Funds
Year Ended June 30, 2007**

	General	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 997,490	\$ 404,326	\$ 1,401,816
Licenses and permits	78,864	-	78,864
Charges for services	201,987	15,984	217,971
Intergovernmental	19,067	87,458	106,525
Grants	262,500	-	262,500
Sales of fixed assets	9,717	-	9,717
Interest income	8,041	7,405	15,446
Other revenues	37,868	-	37,868
TOTAL REVENUES	<u>1,615,534</u>	<u>515,173</u>	<u>2,130,707</u>
EXPENDITURES			
Current			
General administrative expenses	147,313	11,000	158,313
Police department expenses	461,994	-	461,994
Fire/rescue department	79,876	-	79,876
Public works expenses	103,696	13,808	117,504
Building and utilities	48,679	-	48,679
Contracted services	328,522	-	328,522
Capital outlay	144,010	408,020	552,030
Debt service	23,200	22,052	45,252
TOTAL EXPENDITURES	<u>1,337,290</u>	<u>454,880</u>	<u>1,792,170</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>278,244</u>	<u>60,293</u>	<u>338,537</u>
FUND BALANCES BEGINNING OF YEAR	<u>425,762</u>	<u>739,611</u>	<u>1,165,373</u>
FUND BALANCES END OF YEAR	<u>\$ 704,006</u>	<u>\$ 799,904</u>	<u>\$ 1,503,910</u>

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, 2007**

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

Net change in fund balance-total governmental funds	\$ 338,537
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$552,030) was less than depreciation expense (\$732,603) in the current period.	(180,573)
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. This is the change in the amount throughout the year.	(974)
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>(6,644)</u>
Change in net assets of governmental activities	<u>\$ 184,898</u>

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

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 of Park Hills 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.

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.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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 Municipal Road Aid Fund and to account for the use of a vehicle sticker license for road maintenance as stated by ordinance.

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 (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 are reported 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.

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.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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.

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.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2007

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 certificates of deposit with an initial maturity date within three months of the date acquired. The City maintains no other investments.

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 deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2007. The categories are described as follows:

Category 1 - Insured or 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	\$ 586,481	\$ -	\$ -	\$ 586,481
Special Revenue	713,661	-	-	713,661
Debt Service	68,766	-	-	68,766
Total	<u>\$ 1,368,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,368,908</u>

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Interest Rate Risk – In accordance with City policy, interest rate risk is limited by investing in only certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio.

Credit Risk – The City's limits its investments to certificates of deposit issued by banks within the Commonwealth of Kentucky; these certificates have no credit rating applied.

Concentration of Credit Risk – The City has no policy which limits the concentration of credit risk.

Custodial Credit Risk – For deposits, this is the risk that, in the event of a bank failure, the City's deposits will not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository has pledged securities, in conjunction with the FDIC insurance, in an amount at least equal to the amount of City funds on deposit at all times. As of June 30, 2007, the City's deposits are entirely insured with FDIC insurance and/or collateralized with securities held by the financial institutions on the City's behalf.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items.

Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure 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 \$6,644 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, 2007 the liability for compensated absences is \$13,590.

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 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.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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.
- 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.

CITY OF PARK HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE C – RECEIVABLES

Property values are assessed as of January 1. Taxes are levied on July 1 and are due and payable on or before September 30. 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 D – FIXED ASSETS

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets. All fixed assets are valued at historical cost or historical estimated cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The City has elected to capitalize assets with a cost of \$500 or more. Capital assets are depreciated using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded in operations.

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

Buildings	40 years
Building Improvements	10-20 years
Infrastructure	25-40 years
Vehicles	5-10 years
Machinery and equipment	3-5 years

The following is a summary of the changes in fixed assets during the fiscal year:

	June 30, 2006	Additions	Deletions	June 30, 2007
Land and improvements	\$ 59,214	\$ 18,553	\$ -	\$ 77,767
Buildings and improvements	205,927	38,648	-	244,575
Infrastructure	12,309,956	426,711	-	12,736,667
Vehicles	324,479	49,611	(40,638)	333,452
Machinery and equipment	575,457	18,507	-	593,964
Subtotal	13,475,033	552,030	(40,638)	13,986,425
Accumulated Depreciation	(7,972,073)	(732,603)	40,638	(8,664,038)
Total assets, net	\$ 5,502,960	\$ (180,573)	\$ -	\$ 5,322,387

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2007

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 9,671
Public safety	78,074
Public works	8,025
Infrastructure	<u>636,833</u>
Total Governmental Activities Depreciation Expense	<u>\$ 732,603</u>

NOTE E – 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 May 2005 lease agreement.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2012	12,500	7,736	20,236
Thereafter	<u>162,500</u>	<u>22,667</u>	<u>185,167</u>
Totals	<u>\$ 225,000</u>	<u>\$ 66,971</u>	<u>\$ 291,971</u>

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2007

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

<u>Year Ending</u>	<u>Principal</u>
2008	\$ 22,052
2009	22,052
Total	<u>\$ 44,104</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:

	<u>Balance June 30, 2006</u>	<u>New Issues</u>	<u>Principal Payments</u>	<u>Balance June 30, 2007</u>
Sanitation note	\$ 66,156	\$ -	\$ 22,052	\$ 44,104
Capital leases	<u>237,500</u>	<u>-</u>	<u>12,500</u>	<u>225,000</u>
Totals	<u>\$ 303,656</u>	<u>\$ -</u>	<u>\$ 34,552</u>	<u>\$ 269,104</u>

Of the \$269,104 General Long-Term Debt Account Group balance at June 30, 2007, \$34,552 is a current liability due within one year of June 30, 2007 and \$234,552 is a long-term liability, due in more than one year from the date of these financial statements.

NOTE F – CONTINGENT LIABILITIES

At June 30, 2007 the City was a defendant in two counterclaim lawsuits, filed as a result of the City's levy of civil fines and penalties against the plaintiff. The plaintiff filed a counterclaim alleging a violation of civil rights, abuse of process, outrageous conduct, and declaratory relief, among other claims. Subsequent to the date of these financial statements, the plaintiff has agreed to dismiss its claims against the City. The City is also a plaintiff in a several suits against property owners who have not paid legally enacted *ad valorem* taxes on various properties within the City.

NOTE G – 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.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2007

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 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 13.19% (28.21% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2007.

The City of Park Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2007. 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
2007	\$ 87,434	100%
2006	81,070	100%
2005	65,427	100%
2004	55,764	100%
2003	70,549	100%
2002	70,550	100%

NOTE H – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal 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 I – 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, 2007

NOTE J – 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, 2007

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 373,874	\$ 51,888	\$ 425,762	\$ 425,762	\$ -
Resources (inflows):					
TAXES					
Property taxes	415,000	17,145	432,145	429,611	(2,534)
Municipal insurance tax	270,000	75,239	345,239	381,132	35,893
Payroll/gross receipts taxes	199,850	(13,103)	186,747	186,747	-
TOTAL TAXES	<u>884,850</u>	<u>79,281</u>	<u>964,131</u>	<u>997,490</u>	<u>33,359</u>
LICENSES AND PERMITS					
Occupational license	15,000	4,742	19,742	19,742	-
Franchise fees	44,175	(351)	43,824	43,824	-
Other fees and licenses	3,650	715	4,365	4,365	-
Building and zoning fees	50	9,323	9,373	10,933	1,560
TOTAL LICENSES AND PERMITS	<u>62,875</u>	<u>14,429</u>	<u>77,304</u>	<u>78,864</u>	<u>1,560</u>
INTERGOVERNMENTAL	<u>22,758</u>	<u>(4,141)</u>	<u>18,617</u>	<u>19,067</u>	<u>450</u>
CHARGES FOR SERVICES					
Trash collection fees	173,302	1,879	175,181	177,706	2,525
Law enforcement fees, civic duty	17,100	(2,485)	14,615	13,281	(1,334)
Fund administration	11,000	-	11,000	11,000	-
TOTAL CHARGES FOR SERVICES	<u>201,402</u>	<u>(606)</u>	<u>200,796</u>	<u>201,987</u>	<u>1,191</u>
OTHER REVENUES					
Creighton revenue	29,000	473	29,473	29,473	-
Police fines	6,100	(1,030)	5,070	5,070	-
Interest income	4,000	4,041	8,041	8,041	-
Sale of fixed assets	3,000	6,717	9,717	9,717	-
Grants	262,500	-	262,500	262,500	-
Transfer from other funds	-	18,691	18,691	-	(18,691)
Miscellaneous	600	4,636	5,236	3,325	(1,911)
TOTAL OTHER REVENUES	<u>305,200</u>	<u>33,528</u>	<u>338,728</u>	<u>318,126</u>	<u>(20,602)</u>
Amounts available for appropriation	<u>1,850,959</u>	<u>174,379</u>	<u>2,025,338</u>	<u>2,041,296</u>	<u>15,958</u>
Charges to appropriations (outflows):					
General administration expenses	135,838	8,547	144,385	147,313	(2,928)
Police department expenses	530,096	(72,872)	457,224	485,194	(27,970)
Fire/rescue department expenses	97,026	(3,192)	93,834	79,876	13,958
Public works expenses	96,832	(1,706)	95,126	103,696	(8,570)
Building and utilities	54,350	(3,410)	50,940	48,679	2,261
Contract services	265,075	64,057	329,132	328,522	610
Capital improvements	343,600	(161,026)	182,574	144,010	38,564
Total appropriations	<u>1,522,817</u>	<u>(169,602)</u>	<u>1,353,215</u>	<u>1,337,290</u>	<u>15,925</u>
Budgetary fund balance before other financing sources	<u>328,142</u>	<u>343,981</u>	<u>672,123</u>	<u>704,006</u>	<u>31,883</u>
Other financing sources					
Carry over from prior year	46,000	(46,000)	-	-	-
Budgetary fund balance, June 30	<u>\$ 374,142</u>	<u>\$ 297,981</u>	<u>\$ 672,123</u>	<u>\$ 704,006</u>	<u>\$ 31,883</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, 2007

	<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	\$ 24,801	\$ (2,071)	\$ 22,730	\$ 22,730	\$ -
Resources (inflows):					
Intergovernmental revenue	48,000	3,897	51,897	47,838	(4,059)
Interest income	300	(178)	122	122	-
Amounts available for appropriation:	<u>73,101</u>	<u>1,648</u>	<u>74,749</u>	<u>70,690</u>	<u>(4,059)</u>
Charges to appropriations (outflows):					
Street maintenance	71,101	1,399	72,500	56,391	16,109
Administration	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>	<u>-</u>
Total appropriations	<u>73,101</u>	<u>1,399</u>	<u>74,500</u>	<u>58,391</u>	<u>16,109</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 249</u>	<u>\$ 249</u>	<u>\$ 12,299</u>	<u>\$ 12,050</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, 2007**

	<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	\$ 62,757	\$ (983)	\$ 61,774	\$ 61,774	\$ -
Resources (inflows):					
Personal property taxes - auto	24,000	(3,200)	20,800	20,725	(75)
Interest income	500	140	640	634	(6)
Amounts available for appropriation:	<u>87,257</u>	<u>(4,043)</u>	<u>83,214</u>	<u>83,133</u>	<u>(81)</u>
Charges to appropriations (outflows):					
Street Maintenance	83,257	(63,631)	19,626	12,979	6,647
Administration	4,000	-	4,000	4,000	-
Total appropriations	<u>87,257</u>	<u>(63,631)</u>	<u>23,626</u>	<u>16,979</u>	<u>6,647</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 59,588</u>	<u>\$ 59,588</u>	<u>\$ 66,154</u>	<u>\$ 6,566</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, 2007

	<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	\$ 132,106	\$ 448,811	\$ 580,917	\$ 580,917	\$ -
Resources (inflows):					
Road tax revenue	385,000	-	385,000	383,601	(1,399)
Interest income	4,000	3,200	6,005	6,005	-
Other revenue	-	39,620	39,620	39,620	-
Amounts available for appropriation:	<u>521,106</u>	<u>490,436</u>	<u>1,011,542</u>	<u>1,010,143</u>	<u>(1,399)</u>
Charges to appropriations (outflows):					
Street maintenance	516,106	(156,106)	360,000	352,458	7,542
Administration	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total appropriations	<u>521,106</u>	<u>(156,106)</u>	<u>365,000</u>	<u>357,458</u>	<u>7,542</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 646,542</u>	<u>\$ 646,542</u>	<u>\$ 652,685</u>	<u>\$ 6,143</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, 2007**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 74,975	\$ (785)	\$ 74,190	\$ 74,190	\$ -
Resources (inflows):					
Sanitation surcharge	17,000	-	17,000	15,984	(1,016)
Interest income	750	(156)	594	644	50
Amounts available for appropriation:	<u>92,725</u>	<u>(941)</u>	<u>91,784</u>	<u>90,818</u>	<u>(966)</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>\$ 70,673</u>	<u>\$ (941)</u>	<u>\$ 69,732</u>	<u>\$ 68,766</u>	<u>\$ (966)</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, 2007

	Municipal	Vehicle	Road	Debt	Totals	
	Aid	Fee	Tax	Service		Memo
	Fund	Fund	Fund	Fund	2007	Only
ASSETS						2006
Cash	\$ 2,766	\$ 57,780	\$656,010	\$ 65,871	\$782,427	\$ 745,802
Taxes receivable	-	-	-	-	-	-
Due from other funds	12,044	6,647	-	-	18,691	-
Accounts receivable	5,939	1,727	-	2,895	10,561	9,172
TOTAL ASSETS	<u>\$ 20,749</u>	<u>\$ 66,154</u>	<u>\$656,010</u>	<u>\$ 68,766</u>	<u>\$811,679</u>	<u>\$ 754,974</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 8,450	\$ -	\$ -	\$ -	\$ 8,450	\$ 12,038
Due to other funds	-	-	3,325	-	3,325	3,325
Deferred revenue	-	-	-	-	-	-
TOTAL LIABILITIES	<u>8,450</u>	<u>-</u>	<u>3,325</u>	<u>-</u>	<u>11,775</u>	<u>15,363</u>
FUND BALANCE						
Designated	-	-	-	68,766	68,766	74,190
Unreserved, undesignated	12,299	66,154	652,685	-	731,138	665,421
TOTAL FUND BALANCE	<u>12,299</u>	<u>66,154</u>	<u>652,685</u>	<u>68,766</u>	<u>799,904</u>	<u>739,611</u>
TOTAL LIABILITIES						
AND FUND BALANCE	<u>\$ 20,749</u>	<u>\$ 66,154</u>	<u>\$656,010</u>	<u>\$ 68,766</u>	<u>\$811,679</u>	<u>\$ 754,974</u>

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

CITY OF PARK HILLS, KENTUCKY**Combined Statement of Revenues, Expenditures and Changes in
Fund Balances - Special Revenue Funds****Year Ended June 30, 2007**

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2007	Memo Only 2006
REVENUES						
Taxes	\$ -	\$ 20,725	\$ 383,601	\$ -	\$ 404,326	\$ 402,406
Licenses	-	-	-	-	-	-
Intergovernmental	47,838	-	39,620	-	87,458	53,748
Charges for services	-	-	-	15,984	15,984	16,234
Interest income	122	634	6,005	644	7,405	6,964
TOTAL REVENUES	<u>47,960</u>	<u>21,359</u>	<u>429,226</u>	<u>16,628</u>	<u>515,173</u>	<u>479,352</u>
EXPENDITURES						
General government	2,000	4,000	5,000	-	11,000	11,000
Public works	56,391	12,979	352,458	-	421,828	120,366
Debt service	-	-	-	22,052	22,052	22,052
TOTAL EXPENDITURES	<u>58,391</u>	<u>16,979</u>	<u>357,458</u>	<u>22,052</u>	<u>454,880</u>	<u>153,418</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER)EXPENDITURES	<u>(10,431)</u>	<u>4,380</u>	<u>71,768</u>	<u>(5,424)</u>	<u>60,293</u>	<u>325,934</u>
FUND BALANCES BEGINNING OF YEAR	<u>22,730</u>	<u>61,774</u>	<u>580,917</u>	<u>74,190</u>	<u>739,611</u>	<u>169,926</u>
FUND BALANCES END OF YEAR	<u>\$ 12,299</u>	<u>\$ 66,154</u>	<u>\$ 652,685</u>	<u>\$ 68,766</u>	<u>\$ 799,904</u>	<u>\$ 495,860</u>

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 and each major fund of the City of Park Hills, Kentucky (City), as of and for the year ended June 30, 2007, which collectively comprise the City of Park Hills, Kentucky's basic financial statements and have issued our report thereon dated October 10, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the City of Park Hills, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Park Hills, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Park Hills, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Park Hills, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Park Hills, Kentucky's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Lack of Segregation of Duties

Condition: We noted that, 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.

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 significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Park Hills, Kentucky's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Park Hills, Kentucky, in a separate letter dated October 10, 2007.

This report is intended solely for the information and use of the audit committee and the City Council and is not intended to be and should not be used by anyone other than these specified parties.



Van Gorder, Walker & Co., Inc.
Covington, Kentucky
October 10, 2007