

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2008

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2008

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CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2008

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, 2008, 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, 2008, 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 November 15, 2008, 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



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

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 23 through 29, 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.

Van Gorder, Walker & Co., Inc.

Covington, Kentucky

November 15, 2008



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, 2008 by \$6,836,518.

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	\$ 1,282,105
Capital assets	5,872,748
Total Assets	<u>\$ 7,154,853</u>
Liabilities	
Current liabilities	\$ 99,573
Long-term liabilities	218,762
Total Liabilities	<u>318,335</u>
Net Assets	
Invested in capital assets, net of debt	5,638,196
Designated future expenditures	168,528
Unrestricted	1,029,794
Total Net Assets	<u>\$ 6,836,518</u>

Mayor
Michael Hellmann

Councilmembers
Frad 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 Hulth

Public Works Director
Dennis Finke

City Engineer
Bayer Becker



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Governmental activities increased the City's net assets by \$292,915. This includes the excess of revenues over expenditures as well as depreciation expense of \$745,207.

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	\$ 443,827
Municipal insurance taxes	412,111
Licenses and permits	690,057
Other revenues	62,048
Total General Revenues	<u>1,608,043</u>
Expenses, net of program revenues	
General and administrative	62,629
Public safety	607,322
Public works	294,074
Contracted services	340,944
Interest Expense	10,159
Total Expenditures	<u>1,315,128</u>
Increase in Net Assets	<u>\$ 292,915</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 deficiency of fund revenues under fund expenditures in the amount of \$286,826. 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 2008 the City Council revised the original budget by ordinance to increase appropriations to prevent budget overruns including the following:

The General Fund Revenues increased due to a police department grant in the amount of \$2,515 and an unexpected collection of Municipal Insurance Taxes in the amount of \$132,318 and Law Enforcement Fees in the amount of \$20,000. The City also received around \$10,000 extra in miscellaneous revenue and a \$14,000 overage in the Creighton Fund. The City had originally budgeted revenue in the amount of \$40,000 in anticipation of Code Enforcement Board Fines, but only received \$269.

Expenditure differences were mainly in Capitol Improvements. The main reason for the over expenditure amount of \$122,248 was the Dixie Highway Sidewalk project. There was also an overage of spending under Contract Services in the amount of \$64,810 due mainly to unforeseen legal fees.

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, 2008**

	Governmental Activities
ASSETS	
Current Assets	\$ 1,046,609
Cash and cash equivalents	78,314
Taxes receivable	45,324
Other accounts receivable	8,752
Prepaid expenses	1,178,999
Total Current Assets	
Capital Assets	86,871
Land and improvements	13,990,449
Infrastructure	258,231
Building and improvements	606,390
Machinery and equipment	340,052
Vehicles	(9,409,245)
Less: accumulated depreciation	5,872,748
Net Capital Assets	
Restricted Assets	99,565
Creighton Fund	3,541
Property Acquisition Fund	103,106
Total Restricted Assets	7,154,853
TOTAL ASSETS	
LIABILITIES	
Current Liabilities	53,280
Accounts payable	11,741
Other current liabilities	12,500
Capital lease payable	22,052
Note payable	99,573
Total Current Liabilities	
Long Term Liabilities	18,762
Compensated absences	200,000
Capital lease payable	218,762
Total Long Term Liabilities	318,335
TOTAL LIABILITIES	
NET ASSETS	5,638,196
Invested in capital assets, net of related debt	168,528
Designated	1,029,794
Unrestricted	\$ 6,836,518
TOTAL NET ASSETS	

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, 2008

Functions/Programs Primary Government Governmental Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Legislative and administrative	\$ 243,519	\$ 180,813	\$ 77	\$ -	\$ (62,629)
Public safety	692,777	27,629	55,311	2,515	(607,322)
Public works	851,420	17,547	52,702	487,097	(294,074)
Contracted services	340,944	-	-	-	(340,944)
Interest expense	10,159	-	-	-	(10,159)
Total Governmental Activities	\$ 2,138,819	\$ 225,989	\$ 108,090	\$ 489,612	(1,315,128)
General Revenues					
Taxes					
Property taxes					
Insurance premium and franchise taxes					
Licenses and permit fees					
Payroll/gross receipts license fees					
Road tax revenues					
Vehicle sticker license					
Licenses					
Miscellaneous					
Investment earnings					
Total general revenues and special items					
Change in net assets					
Net assets, beginning					
Net assets, ending					
<div> <div>443,827</div> <div>412,111</div> <div>198,611</div> <div>432,362</div> <div>36,450</div> <div>22,634</div> <div>30,141</div> <div>31,907</div> <div>1,608,043</div> <div>292,915</div> <div>6,543,603</div> <div>\$ 6,836,518</div> </div>					

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

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

June 30, 2008

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 493,509	\$ 553,100	\$ 1,046,609
Receivables			
Accounts	9,760	35,231	44,991
Taxes	78,314	-	78,314
Waste	333	-	333
Prepaid expenses	8,752	-	8,752
Due from General Fund	-	21,426	21,426
Restricted assets			
Property Acquisition Fund	3,541	-	3,541
Creighton Fund	99,565	-	99,565
TOTAL ASSETS	<u>\$ 693,774</u>	<u>\$ 609,757</u>	<u>\$ 1,303,531</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 21,117	\$ 32,163	\$ 53,280
Other current liabilities	11,741	-	11,741
Due to Special Revenue Funds	21,426	-	21,426
TOTAL LIABILITIES	<u>54,284</u>	<u>32,163</u>	<u>86,447</u>
FUND BALANCES			
Designated for debt service	-	65,422	65,422
Reserved	103,106	-	103,106
Unreserved, undesignated	536,384	512,172	1,048,556
TOTAL FUND BALANCES	<u>639,490</u>	<u>577,594</u>	<u>1,217,084</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 693,774</u>	<u>\$ 609,757</u>	<u>\$ 1,303,531</u>

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

<p>CITY OF PARK HILLS, KENTUCKY <i>Reconciliation of the Balance Sheet - Governmental Funds</i> <i>to the Statement of Net Assets</i> June 30, 2008</p>

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

Total fund balance per balance sheet	\$ 1,217,084
Capital assets of \$15,281,993, less accumulated depreciation of \$9,409,245, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,872,748
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	
Compensated absences	(18,762)
Capital lease payable	(212,500)
Note payable	<u>(22,052)</u>
Net assets of governmental activities	<u>\$ 6,836,518</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 For the Year Ended June 30, 2008

		Special	Total
	General	Revenue	Governmental
REVENUES			Funds
Taxes	\$ 1,015,482	\$ 468,812	\$ 1,484,294
Licenses and permits	61,701	-	61,701
Charges for services	209,186	17,547	226,733
Intergovernmental	20,329	538,291	558,620
Grants	4,023	-	4,023
Interest income	14,730	17,177	31,907
Other revenues	64,456	-	64,456
TOTAL REVENUES	<u>1,389,907</u>	<u>1,041,827</u>	<u>2,431,734</u>
EXPENDITURES			
Current			
General administrative expenses	166,238	11,000	177,238
Police department expenses	566,940	-	566,940
Fire/rescue department	91,741	-	91,741
Public works expenses	139,505	7,798	147,303
Building and utilities	54,115	-	54,115
Contracted services	340,944	-	340,944
Capital outlay	72,281	1,223,287	1,295,568
Debt service	22,659	22,052	44,711
TOTAL EXPENDITURES	<u>1,454,423</u>	<u>1,264,137</u>	<u>2,718,560</u>
DEFICIENCY OF REVENUES			
UNDER EXPENDITURES	<u>(64,516)</u>	<u>(222,310)</u>	<u>(286,826)</u>
FUND BALANCES BEGINNING OF YEAR	<u>704,006</u>	<u>799,904</u>	<u>1,503,910</u>
FUND BALANCES END OF YEAR	<u>\$ 639,490</u>	<u>\$ 577,594</u>	<u>\$ 1,217,084</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*****For the Year Ended June 30, 2008**

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

Net change in fund balance - total governmental funds \$ (286,826)

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 (\$1,295,568) exceeds depreciation expense (\$745,207) in the current period. 550,361

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

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. (5,172)

Change in net assets of governmental activities \$ 292,915

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

CITY OF PARK HILLS, KENTUCKY Notes to the Financial Statements June 30, 2008

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 the Financial Statements June 30, 2008

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 the Financial Statements June 30, 2008

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 are generally 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 the Financial Statements June 30, 2008

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, 2008. 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	\$ 596,615	\$ -	\$ -	\$ 596,615
Special Revenue	487,678	-	-	487,678
Debt Service	65,422	-	-	65,422
Total	<u>\$ 1,149,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,149,715</u>

CITY OF PARK HILLS, KENTUCKY Notes to the Financial Statements June 30, 2008

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 the Financial Statements June 30, 2008

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 \$1,000 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, 2007	Additions	Deletions	June 30, 2008
Land and improvements	\$ 77,767	\$ 9,104	\$ -	\$ 86,871
Buildings and improvements	244,575	13,656	-	258,231
Infrastructure	12,736,667	1,253,782	-	13,990,449
Vehicles	333,452	6,600	-	340,052
Machinery and equipment	593,964	12,426	-	606,390
Subtotal	13,986,425	1,295,568	-	15,281,993
Accumulated Depreciation	(8,664,038)	(745,207)	-	(9,409,245)
Total assets, net	<u>\$ 5,322,387</u>	<u>\$ 550,361</u>	<u>\$ -</u>	<u>\$ 5,872,748</u>

CITY OF PARK HILLS, KENTUCKY Notes to the Financial Statements June 30, 2008

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 10,217
Public safety	32,405
Public works	3,063
Infrastructure	<u>699,522</u>
Total Governmental Activities Depreciation Expense	<u>\$ 745,207</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. Terms of the lease-purchase agreement are 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
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
2013	12,500	7,173	19,673
Thereafter	<u>150,000</u>	<u>15,494</u>	<u>165,494</u>
Totals	<u>\$ 212,500</u>	<u>\$ 56,985</u>	<u>\$ 269,485</u>

CITY OF PARK HILLS, KENTUCKY Notes to the Financial Statements June 30, 2008

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 equal annual 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>
2009	\$ 22,052
Total	<u>\$ 22,052</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, 2008:

	<u>Balance June 30, 2007</u>	<u>New Issues</u>	<u>Principal Payments</u>	<u>Balance June 30, 2008</u>
Sanitation note	\$ 44,104	\$ -	\$ 22,052	\$ 22,052
Capital leases	225,000	-	12,500	212,500
Totals	<u>\$ 269,104</u>	<u>\$ -</u>	<u>\$ 34,552</u>	<u>\$ 234,552</u>

Of the \$234,552 General Long-Term Debt Account Group balance at June 30, 2008, \$34,552 is a current liability due within one year of June 30, 2008 and \$200,000 is a long-term liability, due in more than one year from the date of these financial statements.

NOTE F – 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 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.

CITY OF PARK HILLS, KENTUCKY Notes to the Financial Statements June 30, 2008

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 16.17% (33.87% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2008.

The City of Park Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2008. The required contribution and the actual percentage contributed by the City for the current and previous four years is as follows:

Year	Required Contribution	Percentage Contributed
2008	\$ 121,379	100%
2007	87,434	100%
2006	81,070	100%
2005	65,427	100%
2004	55,764	100%

NOTE G – 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 H – 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.

NOTE I – CONTINGENT LIABILITIES

On October 25, 2007, one insurance company, Jefferson National Life Insurance Company, amended its quarterly insurance premium tax returns for the City for tax years 2005, 2006, and 2007. The company is arguing that annuity premiums previously included as subject to insurance premium taxation are, in actuality, exempt from such taxation, and is claiming a refund of \$200,871. The City has argued that the tax may be imposed upon these annuity premiums under applicable statutes. This matter has not been formally resolved at June 30, 2008. The City is also a plaintiff in several suits against property owners who have not paid legally enacted *ad valorem* taxes on various properties within the City.

CITY OF PARK HILLS, KENTUCKY

Budgetary Comparison Schedule - Budget to Actual - General Fund

For the Year Ended June 30, 2008

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 374,142	\$ 329,864	\$ 704,006	\$ 704,006	\$ -
Resources (inflows):					
TAXES					
Property taxes	434,640	8,602	443,242	443,827	585
Municipal insurance tax	285,000	132,318	417,318	373,044	(44,274)
Payroll/gross receipts taxes	202,000	1,000	203,000	198,611	(4,389)
TOTAL TAXES	921,640	141,920	1,063,560	1,015,482	(48,078)
LICENSES AND PERMITS					
Occupational license	15,000	3,000	18,000	17,794	(206)
Franchise fees	43,000	(3,706)	39,294	39,067	(227)
Other fees and licenses	3,650	(2,270)	1,380	4,840	3,460
TOTAL LICENSES AND PERMITS	61,650	(2,976)	58,674	61,701	3,027
INTERGOVERNMENTAL	22,766	(2,360)	20,406	20,329	(77)
CHARGES FOR SERVICES					
Trash collection fees	173,300	-	173,300	169,813	(3,487)
Law enforcement fees, civic duty	10,000	21,474	31,474	28,373	(3,101)
Fund administration	11,000	-	11,000	11,000	-
TOTAL CHARGES FOR SERVICES	194,300	21,474	215,774	209,186	(6,588)
OTHER REVENUES					
Creighton revenue	20,000	14,000	34,000	33,358	(642)
Code enforcement board fines	40,000	(39,731)	269	269	-
Police fines	5,500	500	6,000	6,440	440
Interest income	6,500	7,926	14,426	14,730	304
Grants	-	2,515	2,515	4,023	1,508
Miscellaneous	15,850	(809)	15,041	24,389	9,348
TOTAL OTHER REVENUES	87,850	(15,599)	72,251	83,209	10,958
Amounts available for appropriation	1,662,348	472,323	2,134,671	2,093,913	(40,758)
Charges to appropriations (outflows):					
General administration expenses	141,550	18,463	160,013	166,238	(6,225)
Police department expenses	570,722	(9,769)	560,953	589,599	(28,646)
Fire/rescue department expenses	90,722	4,401	95,123	91,741	3,382
Public works expenses	108,458	12,764	121,222	139,505	(18,283)
Building and utilities	49,950	5,960	55,910	54,115	1,795
Contract services	279,662	64,810	344,472	340,944	3,528
Capital improvements	49,050	73,688	122,738	72,281	50,457
Total appropriations	1,290,114	170,317	1,460,431	1,454,423	6,008
Budgetary fund balance, June 30	\$ 372,234	\$ 302,006	\$ 674,240	\$ 639,490	\$ (34,750)

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, 2008

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ -	\$ 12,299	\$ 12,299	\$ 12,299	\$ -
Resources (inflows):					
Intergovernmental revenue	48,000	4,000	52,000	52,702	702
Interest income	300	(226)	74	70	(4)
Amounts available for appropriation:	48,300	16,073	64,373	65,071	698
Charges to appropriations (outflows):					
Street maintenance	40,943	5,075	46,018	48,018	(2,000)
Administration	2,000	-	2,000	2,000	-
Total appropriations	42,943	5,075	48,018	50,018	(2,000)
Budgetary fund balance, June 30	<u>\$ 5,357</u>	<u>\$ 10,998</u>	<u>\$ 16,355</u>	<u>\$ 15,053</u>	<u>\$ (1,302)</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, 2008

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ -	\$ 61,774	\$ 61,774	\$ 66,154	\$ 4,380
Resources (inflows):					
Personal property taxes - auto	24,000	12,455	36,455	36,450	(5)
Interest income	500	836	1,336	1,331	(5)
Amounts available for appropriation:	24,500	75,065	99,565	103,935	4,370
Charges to appropriations (outflows):					
Street maintenance	18,000	(17,425)	575	575	-
Administration	4,000	-	4,000	4,000	-
Total appropriations	22,000	(17,425)	4,575	4,575	-
Budgetary fund balance, June 30	<u>\$ 2,500</u>	<u>\$ 92,490</u>	<u>\$ 94,990</u>	<u>\$ 99,360</u>	<u>\$ 4,370</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, 2008

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 88,423	\$ (19,657)	\$ 68,766	\$ 68,766	\$ -
Resources (inflows):					
Sanitation surcharge	17,000	-	17,000	17,547	547
Interest income	750	414	1,164	1,161	(3)
Amounts available for appropriation:	106,173	(19,243)	86,930	87,474	544
Charges to appropriations (outflows):					
Sanitation District note payment	22,052	-	22,052	22,052	-
Total appropriations	22,052	-	22,052	22,052	-
Budgetary fund balance, June 30	\$ 84,121	\$ (19,243)	\$ 64,878	\$ 65,422	\$ 544

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

CITY OF PARK HILLS, KENTUCKY
Combined Balance Sheets - Special Revenue Funds
June 30, 2008

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2008	Memo Only 2007
ASSETS						
Cash	\$ 509	\$ 92,713	\$398,387	\$ 61,491	\$553,100	\$ 782,427
Due from other funds	12,044	6,647	2,735	-	21,426	18,691
Accounts receivable	4,500	-	26,800	3,931	35,231	10,561
TOTAL ASSETS	<u>\$ 17,053</u>	<u>\$ 99,360</u>	<u>\$427,922</u>	<u>\$ 65,422</u>	<u>\$609,757</u>	<u>\$ 811,679</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 2,000	\$ -	\$ 30,163	\$ -	\$ 32,163	\$ 8,450
Due to other funds	-	-	-	-	-	3,325
TOTAL LIABILITIES	<u>2,000</u>	<u>-</u>	<u>30,163</u>	<u>-</u>	<u>32,163</u>	<u>11,775</u>
FUND BALANCE						
Designated	-	-	-	65,422	65,422	68,766
Unreserved, undesignated	15,053	99,360	397,759	-	512,172	731,138
TOTAL FUND BALANCE	<u>15,053</u>	<u>99,360</u>	<u>397,759</u>	<u>65,422</u>	<u>577,594</u>	<u>799,904</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 17,053</u>	<u>\$ 99,360</u>	<u>\$427,922</u>	<u>\$ 65,422</u>	<u>\$609,757</u>	<u>\$ 811,679</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
For the Year Ended June 30, 2008

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2008	Memo Only 2007
REVENUES						
Taxes	\$ -	\$ 36,450	\$ 432,362	\$ -	\$ 468,812	\$ 404,326
Intergovernmental	52,702	-	485,589	-	538,291	87,458
Charges for services	-	-	-	17,547	17,547	15,984
Interest income	70	1,331	14,615	1,161	17,177	7,405
TOTAL REVENUES	<u>52,772</u>	<u>37,781</u>	<u>932,566</u>	<u>18,708</u>	<u>1,041,827</u>	<u>515,173</u>
EXPENDITURES						
General government	2,000	4,000	5,000	-	11,000	11,000
Public works	48,018	575	1,182,492	-	1,231,085	421,828
Debt service	-	-	-	22,052	22,052	22,052
TOTAL EXPENDITURES	<u>50,018</u>	<u>4,575</u>	<u>1,187,492</u>	<u>22,052</u>	<u>1,264,137</u>	<u>454,880</u>
EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER)EXPENDITURES	<u>2,754</u>	<u>33,206</u>	<u>(254,926)</u>	<u>(3,344)</u>	<u>(222,310)</u>	<u>60,293</u>
FUND BALANCES BEGINNING OF YEAR	<u>12,299</u>	<u>66,154</u>	<u>652,685</u>	<u>68,766</u>	<u>799,904</u>	<u>739,611</u>
FUND BALANCES END OF YEAR	<u>\$ 15,053</u>	<u>\$ 99,360</u>	<u>\$ 397,759</u>	<u>\$ 65,422</u>	<u>\$ 577,594</u>	<u>\$ 799,904</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, 2008, which collectively comprise the City of Park Hills, Kentucky's basic financial statements and have issued our report thereon dated November 15, 2008. 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 on 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.



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

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 November 15, 2008.

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.

Van Gorder, Walker & Co., Inc.
Covington, Kentucky
November 15, 2008