

CITY OF PARK HILLS, KENTUCKY
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2012

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

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CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

List of City Officials

Don Catchen, Mayor

L.F. Skip Fangman

Monty O'Hara

Albert Fedders

Pamela Spoor

Diane Geiger

Kathy Zembrodt

Administration and Departments

Julie Alig, Clerk/Treasurer

Cody Stanley, Police Chief

Regis Huth, Fire Chief

Jay Bayer, City Engineer

Dennis Finke, Public Works

Robert A. Winter, Jr., Attorney



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

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012 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 5 and 23 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 non-major 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.

Erlanger, Kentucky

November 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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 6.

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, 2012 by \$5,245,123.

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	2012	2011
Current and other assets	\$ 219,369	\$ 134,325
Capital assets	4,420,537	5,122,211
Restricted assets	946,707	716,569
Total Assets	<u>5,586,613</u>	<u>5,973,105</u>
Liabilities		
Current liabilities	160,083	442,258
Long term liabilities	181,407	272,822
Total Liabilities	<u>341,490</u>	<u>715,080</u>
Net Assets		
Invested in capital assets, net of depreciation	4,117,823	4,442,262
Designated future expenditures	946,707	716,569
Unrestricted	180,593	99,194
Total Net Assets	<u>\$ 5,245,123</u>	<u>\$ 5,258,025</u>

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. Governmental activities decreased the City's net assets by \$12,902. This includes the excess of revenues over expenditures as well as depreciation expense of \$826,358.

General Revenues	2012	2011
Property taxes	\$ 465,186	\$ 458,985
Municipal insurance taxes	431,300	424,716
Road taxes	294,872	303,113
Fire Truck/Economic Dev. taxes	152,193	151,112
Licenses and permits	328,406	270,373
Other revenues	119,441	46,469
Total General Revenues	<u>1,791,398</u>	<u>1,654,768</u>
Expenses, net of program revenues		
General and administrative	180,871	67,816
Public safety	529,616	709,598
Public works	662,479	699,622
Building and utilities	75,739	-
Contracted services	328,805	295,473
Interest expense	26,790	29,462
Total Expenditures, net	<u>1,804,300</u>	<u>1,801,971</u>
Decrease in Net Assets	<u>\$ (12,902)</u>	<u>\$ (147,203)</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 five special revenue funds. The Statement of Revenues, Expenditures and Changes in Fund Balances reflects a excess of fund revenues over fund expenditures in the amount of \$315,242. The special revenue 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 Fire Truck/Economic Development fund collects taxes to pay for a new aerial ladder truck for the City and for various economic development projects around the City. The sanitation fund is included in Debt Service funds and is used for payment of sewer line repairs assessed by Sanitation District No. 1.

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, or (859) 431-6252.

Very Truly Yours;

Julie Alig
Park Hills City Clerk/Treasurer

CITY OF PARK HILLS, KENTUCKY**Statement of Net Assets****June 30, 2012**

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 79,703
Taxes receivable	118,917
Other accounts receivable	20,749
Total Current Assets	<u>219,369</u>
Capital Assets	
Land and improvements	109,671
Infrastructure	11,142,731
Building and improvements	245,405
Machinery and equipment	623,404
Vehicles	952,799
Less: accumulated depreciation	<u>(8,653,473)</u>
Net Capital Assets	<u>4,420,537</u>
Restricted Assets	
Creighton Fund	33,517
Special Revenue Funds cash	913,190
Total Restricted Assets	<u>946,707</u>
TOTAL ASSETS	<u>5,586,613</u>
LIABILITIES	
Current Liabilities	
Accounts payable	25,407
Accrued salaries and benefits	6,901
Current portion of debt	127,775
Total Current Liabilities	<u>160,083</u>
Long Term Liabilities	
Compensated absences	6,468
Capital leases payable	174,939
Total Long Term Liabilities	<u>181,407</u>
TOTAL LIABILITIES	<u>341,490</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,117,823
Designated	946,707
Unrestricted	180,593
TOTAL NET ASSETS	<u>\$ 5,245,123</u>

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

For the Year Ended June 30, 2012

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

CITY OF PARK HILLS, KENTUCKY Balance Sheet - Governmental Funds June 30, 2012
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	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS			
Cash	\$ 79,703	\$ -	\$ 79,703
Receivables			
Accounts	19,970	-	19,970
Taxes	118,917	-	118,917
Waste	779	-	779
Due from other funds	-	5,991	5,991
Restricted assets			
Special Revenue Funds cash	-	913,190	913,190
Creighton Fund	33,517	-	33,517
TOTAL ASSETS	<u>\$ 252,886</u>	<u>\$ 919,181</u>	<u>\$ 1,172,067</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 20,335	\$ 5,072	\$ 25,407
Accrued salaries and benefits	6,901	-	6,901
Due to Special Revenue Funds	5,991	-	5,991
TOTAL LIABILITIES	<u>33,227</u>	<u>5,072</u>	<u>38,299</u>
FUND BALANCES			
Restricted	33,517	908,116	941,633
Committed	-	5,993	5,993
Unassigned	186,142	-	186,142
TOTAL FUND BALANCES	<u>219,659</u>	<u>914,109</u>	<u>1,133,768</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 252,886</u>	<u>\$ 919,181</u>	<u>\$ 1,172,067</u>

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, 2012

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

Total fund balance per balance sheet	\$ 1,133,768
Capital assets of \$13,074,010, less accumulated depreciation of \$8,653,473, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,420,537
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(6,468)
Capital leases payable	<u>(302,714)</u>
Net assets of governmental activities	<u><u>\$ 5,245,123</u></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, 2012

	General	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 1,120,546	\$ 470,406	\$ 1,590,952
Licenses and permits	75,019	-	75,019
Charges for services	193,326	27,770	221,096
Intergovernmental	14,509	69,755	84,264
Grants	2,208	124,000	126,208
Interest income	207	484	691
Loan proceeds	306,220	-	306,220
Sale of fixed assets	306,000	-	306,000
Other revenues	112,751	-	112,751
TOTAL REVENUES	<u>2,130,786</u>	<u>692,415</u>	<u>2,823,201</u>
EXPENDITURES			
Current			
General administrative expenses	173,282	17,000	190,282
Police department expenses	534,937	-	534,937
Fire/rescue department	98,945	-	98,945
Public works expenses	63,293	69,552	132,845
Building and utilities	75,739	-	75,739
Creighton fund	11,477	-	11,477
Contracted services	328,805	-	328,805
Capital outlay	106,887	317,797	424,684
Debt service	595,865	114,380	710,245
TOTAL EXPENDITURES	<u>1,989,230</u>	<u>518,729</u>	<u>2,507,959</u>
EXCESS OF REVENUES OVER EXPENDITURES	141,556	173,686	315,242
FUND BALANCES BEGINNING OF YEAR	<u>78,103</u>	<u>740,423</u>	<u>818,526</u>
FUND BALANCES END OF YEAR	<u>\$ 219,659</u>	<u>\$ 914,109</u>	<u>\$ 1,133,768</u>

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

<p>CITY OF PARK HILLS, KENTUCKY</p> <p><i>Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities</i></p> <p>For the Year Ended June 30, 2012</p>

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

Net change in fund balance - total governmental funds	\$ 315,242
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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. In the current period these amounts are:

Capital outlays	424,684
Depreciation expense	(826,358)

The issuance of long-term debt provides current financial resources to governmental funds,
while the repayment of the principal of long-term debt consumes the current financial
resources of the governmental funds. However, the issuance and repayment of
long-term debt has no effect on net assets. The amounts of debt proceeds and
principal payments are included in the governmental funds in the current period.

Principal payments	683,456
Loan proceeds	(612,220)
Gain on sale of fixed asset	6,000

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. In the current period these amounts are:

Increase in compensated absences	<u>(3,706)</u>
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Change in net assets of governmental activities	<u><u>\$ (12,902)</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2012

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 <i>Notes to Financial Statements</i> June 30, 2012
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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 Aid Road 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. The Debt Service Fund is used to pay for repairs to the sanitary sewer system which was required when the system was acquired by Sanitation District No. 1.

In 2009, the City established a fund for the acquisition of a fire truck and for economic development and property acquisition. This fund will receive a portion of revenues from the Ad Valorem property tax and will end, per ordinance, in fiscal year 2014.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The government-wide financial statements 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

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2012

the year when payment is due. Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

If applicable, operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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 Financial Statements

June 30, 2012

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, 2012. 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	\$ 79,703	\$ -	\$ -	\$ 79,703
Special Revenue	946,707	-	-	946,707
Total	<u>\$ 1,026,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,026,410</u>

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2012

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 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, 2012, 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, 2012 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 expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. An increase in expenditure of \$3,705 is recorded in the government-wide financial statements for this liability. No liability is recorded for non-vested accumulating rights to receive sick pay benefits. At June 30, 2012 the liability for compensated absences is \$6,468.

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, 2012

Fund Equity

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as state government restrictions or the funds restricted by the will of the City's voters. These include residual balances from the Kentucky Municipal Aid Road, Road Tax, Vehicle Fee, and the Fire Truck/Economic Development Funds.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These funds include balances from the Sanitation/Debt Service Fund.

Assigned fund balances consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. The City has no balances that are considered to be *assigned*.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

Inter-fund 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 inter-fund transactions, except reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

Comparative Data

Comparative total data for the prior year has 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.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2012

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.

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 collectability 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.

CITY OF PARK HILLS, KENTUCKY**Notes to Financial Statements****June 30, 2012**

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

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 8,695
Public safety	54,049
Public works	13,274
Infrastructure	<u>750,340</u>
Total Governmental Activities Depreciation Expense	<u>\$ 826,358</u>

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

	June 30, 2011	Additions	Deletions	June 30, 2012
Land and improvements	\$ 409,671	\$ -	\$ (300,000)	\$ 109,671
Buildings and improvements	223,327	22,078	-	245,405
Infrastructure	14,353,774	317,797	(3,528,840)	11,142,731
Vehicles	867,990	84,809	-	952,799
Machinery and equipment	623,404	-	-	623,404
Subtotal	16,478,166	424,684	(3,828,840)	13,074,010
Accumulated depreciation	<u>(11,355,955)</u>	<u>(826,358)</u>	<u>3,528,840</u>	<u>(8,653,473)</u>
Total assets, net	<u>\$ 5,122,211</u>	<u>\$ (401,674)</u>	<u>\$ (300,000)</u>	<u>\$ 4,420,537</u>

During fiscal year 2012, the City turned over its storm water assets to Sanitation District No.1. The value of these assets, as determined by Sanitation District No. 1, was \$3,528,840 and is listed as a deletion on the table above.

NOTE E – GENERAL LONG TERM DEBT*Capital Lease – Building Improvements/Equipment*

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 maturity date of this lease is December 15, 2015. 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. In March 2012, this lease was refunded at the Bank of Kentucky for \$172,638 with annual interest rate of 2.87% with a term of 5 years with a balloon payment in March of 2017. The balance at June 30, 2012 was \$170,343.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2012

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 9,387	\$ 4,833	\$ 14,220
2014	9,664	4,556	14,220
2015	9,949	4,271	14,220
2016	10,232	3,988	14,220
2017	131,111	2,780	133,891
Totals	<u>\$ 170,343</u>	<u>\$ 20,426</u>	<u>\$ 190,769</u>

Capital Lease – Fire Truck

In June 2009, the City executed a lease-purchase agreement for the purchase of a fire truck at a total cost of \$440,000. Terms of the lease-purchase agreement were 5 years at an interest rate of 5.88%. In March 2012, the City refinanced this lease with the Bank of Kentucky with an 8 month term and an interest rate of 2.28% per year. The balance at June 30, 2012 was \$103,583.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 103,583	\$ 1,462	\$ 105,045
Totals	<u>\$ 103,583</u>	<u>\$ 1,462</u>	<u>\$ 105,045</u>

Promissory Note Payable

On December 12, 2006, the City Council passed Ordinance No. 13, which approved the purchase of land for \$300,000. A promissory note with the property's former owners, with an interest rate of 3.0% per annum, was signed on December 18, 2006 to begin both principal and interest payment three years from the date of the note, on December 18, 2009. The payment of this note has been the subject of several lawsuits against the City. During the year ended June 30, 2012, this property was sold for \$306,000 and the existing note was paid in full with the proceeds of the sale.

Vehicle Note Payable

On November 10, 2010, a promissory note with 5/3 Bank for \$13,000 was signed for the purchase of a vehicle, with an interest rate of 5.9% fixed. The note's maturity date is November 10, 2011. The note was paid in full in the year ended June 30, 2012.

Cruiser Lease Payable

On May 16, 2012 the City entered into a 24 month capital lease for the purchase of a police cruiser at a total cost of \$30,000. The lease involves a \$1,293 monthly payment at 3.25% per annum. The balance on this lease at June 30, 2012 was \$28,788.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2012

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 14,805	\$ 717	\$ 15,522
2014	13,983	1,539	15,522
Totals	<u>\$ 28,788</u>	<u>\$ 2,255</u>	<u>\$ 31,043</u>

Summary of General Long-Term Debt

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Principal Payments	Balance June 30, 2012
Promissory note	\$ 300,000	\$ -	\$ (300,000)	\$ -
Capital lease - building	175,000	-	(175,000)	-
Capital lease - fire truck	191,949	-	(191,949)	-
Vehicle note	13,000	-	(13,000)	-
BoK Building Lease	-	172,637	(2,294)	170,343
BoK Fire Truck Lease	-	103,583	-	103,583
BoK Fire 1 Cruiser Lease	-	30,000	(1,212)	28,788
	<u>\$ 679,949</u>	<u>\$ 306,220</u>	<u>\$ (679,949)</u>	<u>\$ 302,714</u>

Of the \$302,714 General Long-Term Debt Account Group balance at June 30, 2012, \$127,775 is a current liability due within one year of June 30, 2012 and \$174,939 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.

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 16.93% (33.25% for

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2012

hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2012.

The City of Park Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2012. The required contribution and the actual percentage contributed by the City for the current and previous five years is as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 119,211	100%
2011	134,357	100%
2010	111,009	100%
2009	102,584	100%
2008	121,379	100%
2007	87,434	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.

The City is currently involved in litigation with its former police chief, who is claiming unlawful sexual harassment, unlawful sex discrimination, and the failure to provide a statutory pre-termination due process hearing. The City plans to vigorously defend this charge. In the event of an unfavorable outcome, no estimate of a potential financial contingency has been made. The City's insurance carrier has denied coverage for this claim and the City is considering litigation against said carrier for relief of any costs, fees, and damages.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated events through November 12, 2012, the date on which the financial statements were available for issue. The City has no events subsequent to June 30, 2012 through November 12, 2012 to disclose.

CITY OF PARK HILLS, KENTUCKY

Budgetary Comparison Schedule - Budget to Actual - General Fund

For the Year Ended June 30, 2012

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 69,956	\$ 8,147	\$ 78,103	\$ 78,103	\$ -
Resources (inflows):					
TAXES					
Property taxes	457,866	5,460	463,326	465,187	1,861
Municipal insurance tax	320,000	-	320,000	386,066	66,066
Payroll/gross receipts taxes	230,000	33,000	263,000	269,293	6,293
TOTAL TAXES	<u>1,007,866</u>	<u>38,460</u>	<u>1,046,326</u>	<u>1,120,546</u>	<u>74,220</u>
LICENSES AND PERMITS					
Occupational license	25,000	(5,000)	20,000	25,006	5,006
Franchise fees	44,000	1,312	45,312	45,236	(76)
Other fees and licenses	4,575	(150)	4,425	4,777	352
TOTAL LICENSES AND PERMITS	<u>73,575</u>	<u>(3,838)</u>	<u>69,737</u>	<u>75,019</u>	<u>5,282</u>
INTERGOVERNMENTAL	<u>15,580</u>	<u>(2,470)</u>	<u>13,110</u>	<u>14,509</u>	<u>1,399</u>
CHARGES FOR SERVICES					
Trash collection fees	164,683	-	164,683	161,647	(3,036)
Law enforcement fees, civic duty	12,000	298	12,298	14,679	2,381
Fund administration	17,000	-	17,000	17,000	-
TOTAL CHARGES FOR SERVICES	<u>193,683</u>	<u>298</u>	<u>193,981</u>	<u>193,326</u>	<u>(655)</u>
OTHER REVENUES					
Creighton revenue	24,000	-	24,000	33,250	9,250
Code enforcement board fines	2,000	4,000	6,000	8,700	2,700
Police fines	15,536	(8,342)	7,194	4,794	(2,400)
Interest income	800	(600)	200	207	7
Grants	1,481	(1,481)	-	2,208	2,208
Tax overpayments	3,000	(3,000)	-	1,961	1,961
Transfer from other funds	-	38,414	38,414	38,314	(100)
Insurance reimbursement	-	5,328	5,328	5,328	-
Police training reimbursement	-	6,000	6,000	6,000	-
Sale of fixed assets	-	-	-	306,000	306,000
Loan proceeds	-	306,220	306,220	306,220	-
Miscellaneous	3,000	12,342	15,342	14,404	(938)
TOTAL OTHER REVENUES	<u>49,817</u>	<u>358,881</u>	<u>408,698</u>	<u>727,386</u>	<u>318,688</u>
Amounts available for appropriation	<u>1,410,477</u>	<u>399,478</u>	<u>1,809,955</u>	<u>2,208,889</u>	<u>398,934</u>
Charges to appropriations (outflows):					
General administration expenses	150,249	23,220	173,469	173,282	187
Police department expenses	575,500	(40,790)	534,710	534,937	(227)
Fire/rescue department expenses	115,664	(11,872)	103,792	98,945	4,847
Public works expenses	72,434	(6,207)	66,227	63,293	2,934
Building and utilities	67,000	5,726	72,726	75,739	(3,013)
Creighton fund	34,000	(18,761)	15,239	11,477	3,762
Contract services	273,446	66,160	339,606	328,805	10,801
Capital improvements	31,250	376,242	407,492	702,752	(295,260)
Total appropriations	<u>1,319,543</u>	<u>393,718</u>	<u>1,713,261</u>	<u>1,989,230</u>	<u>(275,969)</u>
Budgetary fund balance, June 30	<u>\$ 90,934</u>	<u>\$ 5,760</u>	<u>\$ 96,694</u>	<u>\$ 219,659</u>	<u>\$ 122,965</u>

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

CITY OF PARK HILLS, KENTUCKY***Budgetary Comparison Schedule - Budget to Actual - Municipal Aid Road Fund*****For the Year Ended June 30, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 46,164	\$ 7,518	\$ 53,682	\$ 53,682	\$ -
Resources (inflows):					
Intergovernmental revenue	62,000	-	62,000	63,764	1,764
Interest income	75	(35)	40	37	(3)
Amounts available for appropriation:	<u>108,239</u>	<u>7,483</u>	<u>115,722</u>	<u>117,483</u>	<u>1,761</u>
Charges to appropriations (outflows):					
Street maintenance	-	50,000	50,000	46,021	3,979
Capital improvements	60,075	(60,075)	-	-	-
Administration	2,000	-	2,000	2,000	-
Total appropriations	<u>62,075</u>	<u>(10,075)</u>	<u>52,000</u>	<u>48,021</u>	<u>3,979</u>
Budgetary fund balance, June 30	<u>\$ 46,164</u>	<u>\$ 17,558</u>	<u>\$ 63,722</u>	<u>\$ 69,462</u>	<u>\$ 5,740</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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 80,526	\$ 676	\$ 81,202	\$ 81,203	\$ 1
Resources (inflows):					
Personal property taxes - auto	27,500	1,450	28,950	29,332	382
Interest income	150	(100)	50	44	(6)
Amounts available for appropriation:	<u>108,176</u>	<u>2,026</u>	<u>110,202</u>	<u>110,579</u>	<u>377</u>
Charges to appropriations (outflows):					
Administration	4,000	-	4,000	4,000	-
Vehicle replacement reserve	10,650	(10,650)	-	-	-
Loan payoff	13,000	754	13,754	13,754	-
Miscellaneous	-	497	497	497	-
Total appropriations	<u>27,650</u>	<u>(9,399)</u>	<u>18,251</u>	<u>18,251</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 80,526</u>	<u>\$ 11,425</u>	<u>\$ 91,951</u>	<u>\$ 92,328</u>	<u>\$ 377</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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 526,443	\$ 12,186	\$ 538,629	\$ 538,627	\$ (2)
Resources (inflows):					
Road tax revenue	285,000	6,000	291,000	290,921	(79)
Interest income	1,000	(635)	365	356	(9)
Reimbursement from water/sanitation	-	8,570	8,570	8,570	-
Transfers from other funds	-	-	-	3,951	3,951
Amounts available for appropriation:	<u>812,443</u>	<u>26,121</u>	<u>838,564</u>	<u>842,425</u>	<u>3,861</u>
Charges to appropriations (outflows):					
Capital improvements	278,000	(278,000)	-	-	
Street maintenance	-	200,000	200,000	160,376	39,624
Administration	8,000	-	8,000	8,000	-
Total appropriations	<u>286,000</u>	<u>(78,000)</u>	<u>208,000</u>	<u>168,376</u>	<u>39,624</u>
Budgetary fund balance, June 30	<u>\$ 526,443</u>	<u>\$ 104,121</u>	<u>\$ 630,564</u>	<u>\$ 674,049</u>	<u>\$ 43,485</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, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 38,867	\$ 488	\$ 39,355	\$ 39,355	\$ -
Resources (inflows):					
Interest income	75	(61)	14	14	-
Amounts available for appropriation:	38,942	427	39,369	39,369	-
Charges to appropriations (outflows):					
Streets/utilities	38,942	(37,889)	1,053	1,053	-
Transfer to other funds	-	38,316	38,316	38,314	2
Total appropriations	38,942	427	39,369	39,367	2
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Fire Truck/Economic Development Fund
For the Year Ended June 30, 2012**

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 29,838	\$ (2,283)	\$ 27,555	\$ 27,556	\$ 1
Resources (inflows):					
Real estate taxes	151,000	-	151,000	150,153	(847)
Interest income	50	(10)	40	33	(7)
124K Grant	124,000	-	124,000	124,000	-
SD1 Contribution	16,200	3,000	19,200	19,200	-
Transfer from other funds	-	-	-	2,040	2,040
Amounts available for appropriation:	<u>321,088</u>	<u>707</u>	<u>321,795</u>	<u>322,982</u>	<u>1,187</u>
Charges to appropriations (outflows):					
Administrative	3,000	-	3,000	3,000	-
Economic Development	176,374	(155,268)	21,106	21,106	-
Loan Payoff	111,876	108,732	220,608	220,608	-
Total appropriations	<u>291,250</u>	<u>(46,536)</u>	<u>244,714</u>	<u>244,714</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 29,838</u>	<u>\$ 47,243</u>	<u>\$ 77,081</u>	<u>\$ 78,268</u>	<u>\$ 1,187</u>

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

CITY OF PARK HILLS, KENTUCKY Combined Balance Sheet - Special Revenue Funds June 30, 2012
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	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Fire Truck/ Economic Development Fund	Debt Service Fund	Totals	
						2012	2011
ASSETS							
Restricted cash	\$ 74,534	\$ 92,328	\$ 670,098	\$ 76,228	\$ 2	\$ 913,190	\$ 681,173
Due from other funds	-	-	3,951	2,040	-	5,991	58,004
Accounts receivable	-	-	-	-	-	-	5,508
TOTAL ASSETS	<u>\$ 74,534</u>	<u>\$ 92,328</u>	<u>\$ 674,049</u>	<u>\$ 78,268</u>	<u>\$ 2</u>	<u>\$ 919,181</u>	<u>\$ 744,685</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 5,072	\$ -	\$ -	\$ -	\$ -	\$ 5,072	\$ 4,262
TOTAL LIABILITIES	<u>5,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,072</u>	<u>4,262</u>
FUND BALANCE							
Restricted	69,462	92,328	670,098	76,228	-	908,116	643,064
Committed	-	-	3,951	2,040	2	5,993	97,359
TOTAL FUND BALANCE	<u>69,462</u>	<u>92,328</u>	<u>674,049</u>	<u>78,268</u>	<u>2</u>	<u>914,109</u>	<u>740,423</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 74,534</u>	<u>\$ 92,328</u>	<u>\$ 674,049</u>	<u>\$ 78,268</u>	<u>\$ 2</u>	<u>\$ 919,181</u>	<u>\$ 744,685</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, 2012

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Fire Truck/ Economic Development Fund	Debt Service Fund	Totals	
						2012	2011
Revenues							
Taxes	\$ -	\$ 29,332	\$ 290,921	\$ 150,153	\$ -	\$ 470,406	\$ 483,207
Intergovernmental	63,764	-	3,951	2,040	-	69,755	64,543
Grant	-	-	-	124,000	-	124,000	-
Charges for services	-	-	8,570	19,200	-	27,770	123,053
Interest income	37	44	356	33	14	484	1,329
Total Revenues	63,801	29,376	303,798	295,426	14	692,415	672,132
Expenditures							
General government	2,000	4,000	8,000	3,000	-	17,000	11,000
Public works	46,021	497	160,376	21,106	39,367	267,367	543,398
Debt service	-	13,754	-	220,608	-	234,362	100,626
Total Expenditures	48,021	18,251	168,376	244,714	39,367	518,729	655,024
Excess/(Deficiency) of Revenues Over/(Under)Expenditures	15,780	11,125	135,422	50,712	(39,353)	173,686	17,108
Fund Balances Beginning of Year	53,682	81,203	538,627	27,556	39,355	740,423	723,315
Fund Balances End of Year	\$ 69,462	\$ 92,328	\$ 674,049	\$ 78,268	\$ 2	\$ 914,109	\$ 740,423

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



Van Gorder, Walker & Co., Inc.
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**To the Honorable Mayor and
Members of the Council
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, 2012, which collectively comprise the City of Park Hills, Kentucky's basic financial statements and have issued our report thereon dated November 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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.

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*.

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.
Erlanger, Kentucky
November 12, 2012