

CITY OF PARK HILLS, KENTUCKY
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

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ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2014

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CITY OF PARK HILLS, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2014

List of City Officials

Don Catchen, Mayor

Greg Claypole

Steve Elkins

L.F. Skip Fangman

Monty O'Hara

Pamela Spoor

Kathy Zembrodt

Administration and Departments

Julie Alig, Clerk/Treasurer

Cody Stanley, Police Chief

John Scott Rigney, Fire Chief

Jay Bayer, City Engineer

Dan VonHandorf, Public Works

Todd McMurtry, Attorney



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

INDEPENDENT AUDITOR'S REPORT

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Park Hills, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

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 *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Park Hills, Kentucky as of June 30, 2014 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedules on pages 23-24 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major fund financial statements are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Park Hills, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2014

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 Position 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 Position and Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting and report the City's net position 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, 2014 by \$4,723,357.

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 Position.

Assets	2014	2013
Current and other assets	\$ 583,553	\$ 377,293
Capital assets	4,018,391	4,048,639
Restricted assets	297,821	955,805
Total Assets	<u>4,899,765</u>	<u>5,381,737</u>
Liabilities		
Current liabilities	23,741	96,916
Long term liabilities	152,667	161,890
Total Liabilities	<u>176,408</u>	<u>258,806</u>
Net Position		
Invested in capital assets, net of depreciation	3,867,099	3,873,700
Designated future expenditures	374,346	890,398
Unrestricted	481,912	358,833
Total Net Position	<u>\$ 4,723,357</u>	<u>\$ 5,122,931</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. In fiscal year 2014, governmental activities decreased the City's net position by \$399,574, compared to a decrease of \$122,192 in 2013. This includes a non-cash depreciation expense of \$882,596.

These amounts are detailed in the Statement of Activities.

General Revenues	2014	2013
Property taxes	\$ 465,818	\$ 475,292
Municipal insurance taxes	432,930	468,920
Road taxes	292,956	296,453
Fire Truck/Economic Dev. taxes	-	150,988
Licenses and permits	339,904	341,308
Other revenues	17,968	100,595
Total General Revenues	<u>1,549,576</u>	<u>1,833,556</u>
Expenses, net of program revenues		
General and administrative	170,899	148,350
Public safety	646,938	643,953
Public works	707,119	751,554
Building and utilities	44,623	50,786
Contracted services	376,088	354,093
Interest expense	3,483	7,012
Total Expenditures, net	<u>1,949,150</u>	<u>1,955,748</u>
Decrease in Net Position	<u>\$ (399,574)</u>	<u>\$ (122,192)</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, the road tax fund, and six special revenue funds. The Statement of Revenues, Expenditures and Changes in Fund Balances reflects an excess of fund expenditures over fund revenues in the amount of \$392,246. This excess is due to outlay of \$811,098 for street rebuilding projects from the road tax fund. 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 collected taxes to pay for a new aerial ladder truck for the City and for various economic development projects around the City; this fund was closed, per ordinance, in 2014. The Administration, Police and Public Works Reserve funds are committed to special purpose expenditures for each of these governmental functions.

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 Position June 30, 2014

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 476,004
Taxes receivable	43,215
Other accounts receivable	64,334
Total Current Assets	<u>583,553</u>
Capital Assets	
Land and improvements	90,818
Infrastructure	12,377,076
Building and improvements	249,622
Machinery and equipment	659,592
Vehicles	921,437
Less: accumulated depreciation	<u>(10,280,154)</u>
Net Capital Assets	<u>4,018,391</u>
Restricted Assets	
Creighton Fund	49,083
Special Revenue Funds cash	<u>248,738</u>
Total Restricted Assets	<u>297,821</u>
TOTAL ASSETS	<u>4,899,765</u>
LIABILITIES	
Current Liabilities	
Accounts payable	4,695
Accrued salaries and benefits	9,097
Current portion of debt	<u>9,949</u>
Total Current Liabilities	<u>23,741</u>
Long Term Liabilities	
Compensated absences	11,324
Capital leases payable	<u>141,343</u>
Total Long Term Liabilities	<u>152,667</u>
TOTAL LIABILITIES	<u>176,408</u>
NET POSITION	
Invested in capital assets, net of related debt	3,867,099
Restricted for:	
Road funds	262,607
Department funds	62,656
Creighton fund	49,083
Unrestricted	<u>481,912</u>
TOTAL NET POSITION	<u>\$ 4,723,357</u>

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

For the Year Ended June 30, 2014

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

CITY OF PARK HILLS, KENTUCKY Balance Sheet - Governmental Funds June 30, 2014
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	General Fund	Road Tax Fund	Non-Major Funds	Total Governmental Funds
ASSETS				
Cash	\$ 384,026	\$ 91,978	\$ -	\$ 476,004
Receivables				
Accounts	54,858	-	6,319	61,177
Taxes	43,215	-	-	43,215
Waste	467	-	-	467
Intergovernmental	2,690	-	-	2,690
Due from other funds	20,642	2,938	15,570	39,150
Restricted assets				
Special Revenue Funds cash	-	-	248,738	248,738
Creighton Fund	49,083	-	-	49,083
TOTAL ASSETS	<u>\$ 554,981</u>	<u>\$ 94,916</u>	<u>\$ 270,627</u>	<u>\$ 920,524</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 4,695	\$ -	\$ 4,695
Accrued salaries and benefits	9,097	-	-	9,097
Due to other funds	3,565	35,585	-	39,150
TOTAL LIABILITIES	<u>12,662</u>	<u>40,280</u>	<u>-</u>	<u>52,942</u>
FUND BALANCES				
Restricted	49,083	54,636	207,971	311,690
Committed	-	-	62,656	62,656
Unassigned	493,236	-	-	493,236
TOTAL FUND BALANCES	<u>542,319</u>	<u>54,636</u>	<u>270,627</u>	<u>867,582</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 554,981</u>	<u>\$ 94,916</u>	<u>\$ 270,627</u>	<u>\$ 920,524</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 Position
June 30, 2014

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

Total fund balance per balance sheet	\$ 867,582
Capital assets of \$14,298,545, less accumulated depreciation of \$10,280,154, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,018,391
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(11,324)
Capital leases payable	<u>(151,292)</u>
Net position of governmental activities	<u><u>\$ 4,723,357</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, 2014

	General Fund	Road Tax Fund	Non-Major Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,137,151	\$ 292,956	\$ 17,425	\$ 1,447,532
Licenses and permits	84,076	-	-	84,076
Charges for services	289,852	-	-	289,852
Intergovernmental	15,960	30,000	71,656	117,616
Interest income	2,795	193	98	3,086
Other revenues	71,958	-	-	71,958
Transfers from other funds	162	121,297	25,000	146,459
TOTAL REVENUES	<u>1,601,954</u>	<u>444,446</u>	<u>114,179</u>	<u>2,160,579</u>
EXPENDITURES				
Current				
General administrative expenses	161,451	11,000	6,000	178,451
Police department expenses	602,001	-	-	602,001
Fire/rescue department	114,570	-	-	114,570
Public works expenses	71,727	72,914	12,986	157,627
Building and utilities	44,623	-	-	44,623
Creighton fund	33,763	-	-	33,763
Contracted services	377,001	-	-	377,001
Capital outlay	50,483	811,098	9,620	871,201
Debt service	27,129	-	-	27,129
Transfers to other funds	25,000	-	121,459	146,459
TOTAL EXPENDITURES	<u>1,507,748</u>	<u>895,012</u>	<u>150,065</u>	<u>2,552,825</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	94,206	(450,566)	(35,886)	(392,246)
FUND BALANCES BEGINNING OF YEAR	<u>448,113</u>	<u>505,202</u>	<u>306,513</u>	<u>1,259,828</u>
FUND BALANCES END OF YEAR	<u>\$ 542,319</u>	<u>\$ 54,636</u>	<u>\$ 270,627</u>	<u>\$ 867,582</u>

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

<p>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, 2014</p>
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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (392,246)
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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	871,201
Depreciation expense	(882,596)

The funds report the proceeds from the sale of land as \$20,000; but in the statement of activities, only the gain over the book value of \$18,853 is recorded.

Book value of undepreciated land	(18,853)
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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 position. The amounts of debt proceeds and principal payments are included in the governmental funds in the current period.

Principal payments	23,646
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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	(726)
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Change in net position of governmental activities	<u>\$ (399,574)</u>
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The accompanying notes are an integral part of the financial statements.

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

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

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

Fund Financial Statements

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

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

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 was used to pay for repairs to the sanitary sewer system which was required when the system was acquired by Sanitation District No. 1. The Road Tax Fund is a major fund, all others are non-major funds.

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

During fiscal year 2013, the City added four reserve funds for each of the City's major functional areas. The Administration, Police, Fire, and Public Works Reserve Funds will serve to hold funds allocated to those purposes from excess City funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

CITY OF PARK HILLS, KENTUCKY <i>Notes to Financial Statements</i> June 30, 2014
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incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due. Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

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

Basis of Accounting

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

CITY OF PARK HILLS, KENTUCKY <i>Notes to Financial Statements</i> June 30, 2014
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Budgets

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

Encumbrances

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

Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term 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, 2014. 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.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

Fund	Category			Fair Value
	1	2	3	
General Fund	\$ 476,004	\$ -	\$ -	\$ 476,004
Special Revenue	297,821	-	-	297,821
Total	<u>\$ 773,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,825</u>

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, 2014, 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, 2014 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 \$726 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, 2014 the liability for compensated absences is \$11,324.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

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.

Fund Equity

Net position is the difference between assets and liabilities. Net position 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 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. The residual balances of the Administration Reserve, Police Reserve, Fire Reserve, and Public Works Reserve funds are considered committed funds.

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.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

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.

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 position. All fixed assets are valued at historical cost or

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

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 position. 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

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 9,273
Public safety	62,209
Public works	14,685
Infrastructure	796,429

Total Governmental Activities Depreciation Expense \$ 882,596

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

	June 30, 2013	Additions	Deletions	June 30, 2014
Land and improvements	\$ 109,671	\$ -	\$ (18,853)	\$ 90,818
Buildings and improvements	245,405	4,217	-	249,622
Infrastructure	11,565,978	811,098	-	12,377,076
Vehicles	892,189	51,327	(22,079)	921,437
Machinery and equipment	655,033	4,559	-	659,592
Subtotal	13,468,276	871,201	(40,932)	14,298,545
Accumulated depreciation	(9,419,637)	(882,596)	22,079	(10,280,154)
Total assets, net	<u>\$ 4,048,639</u>	<u>\$ (11,395)</u>	<u>\$ (18,853)</u>	<u>\$ 4,018,391</u>

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. In March 2012, this

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2014

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, 2014 was \$151,292.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 9,949	\$ 4,271	\$ 14,220
2016	10,232	3,988	14,220
2017	131,111	2,780	133,891
Totals	<u>\$ 151,292</u>	<u>\$ 11,039</u>	<u>\$ 162,331</u>

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 involved a \$1,293 monthly payment at 3.25% per annum. This lease was paid in full at June 30, 2014.

Summary of General Long-Term Debt

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Principal Payments	Balance June 30, 2014
BoK Building Lease	\$ 160,956	\$ -	\$ (9,664)	\$ 151,292
BoK Fire 1 Cruiser Lease	13,982	-	(13,982)	-
	<u>\$ 174,938</u>	<u>\$ -</u>	<u>\$ (23,646)</u>	<u>\$ 151,292</u>

Of the \$151,292 General Long-Term Debt Account Group balance at June 30, 2014, \$9,949 is a current liability due within one year of June 30, 2014 and \$141,343 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 Financial Statements June 30, 2014

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 18.89% (35.70% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2014.

The City of Park Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2014.

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>
2014	\$ 137,707	100%
2013	127,981	100%
2012	119,211	100%
2011	134,357	100%
2010	111,009	100%
2009	102,584	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.

As of June 30, 2014, the City was involved in litigation with its former police chief, who was claiming unlawful sexual harassment, unlawful sex discrimination, and the failure to provide a statutory pre-termination due process hearing. The City vigorously defended this charge. This suit was settled in August 2014, a date subsequent to end of the reporting period, but before the date on which these financial statements were available for issue. As part of the settlement, the City paid the former chief \$150,000 and all claims have been released.

The City's insurance carrier denied coverage for this claim and the City and the insurance carrier were involved in litigation for relief of any costs, fees, and damages. This litigation was also settled as part of the former chief's settlement.

CITY OF PARK HILLS, KENTUCKY <i>Notes to Financial Statements</i> June 30, 2014
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NOTE I – RESTATEMENT OF PRIOR YEAR BALANCES

The "Memo Only" balances for 2013 have been restated to account for small changes in presentation between fiscal year 2013 and fiscal year 2014.

NOTE J – SUBSEQUENT EVENTS

Management has evaluated events through October 15, 2014, the date on which the financial statements were available for issue. With the exception of the litigation settlement mentioned in NOTE H above, the City has no events subsequent to June 30, 2014 through October 15, 2014 to disclose.

CITY OF PARK HILLS, KENTUCKY
Budgetary Comparison Schedule - Budget to Actual - General Fund
For the Year Ended June 30, 2014

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 287,639	\$ 160,474	\$ 448,113	\$ 448,113	\$ -
Resources (inflows):					
TAXES					
Property taxes	465,102	(16,470)	448,632	465,818	17,186
Municipal insurance tax	330,000	45,000	375,000	379,325	4,325
Payroll/gross receipts taxes	230,000	60,000	290,000	292,008	2,008
TOTAL TAXES	1,025,102	88,530	1,113,632	1,137,151	23,519
LICENSES AND PERMITS					
Occupational license	15,000	11,000	26,000	26,601	601
Franchise fees	46,394	7,123	53,517	53,605	88
Other fees and licenses	4,600	(685)	3,915	3,870	(45)
TOTAL LICENSES AND PERMITS	65,994	17,438	83,432	84,076	644
INTERGOVERNMENTAL	17,467	(1,481)	15,986	15,960	(26)
CHARGES FOR SERVICES					
Trash collection fees	164,683	(3,683)	161,000	159,966	(1,034)
Law enforcement fees, civic duty	11,000	-	11,000	7,886	(3,114)
Bromley contract	105,000	-	105,000	105,000	-
Fund administration	17,000	-	17,000	17,000	-
TOTAL CHARGES FOR SERVICES	297,683	(3,683)	294,000	289,852	(4,148)
OTHER REVENUES					
Creighton revenue	35,000	-	35,000	37,310	2,310
Code enforcement board fines	2,000	(2,000)	-	-	-
Police fines	6,000	(5,000)	1,000	830	(170)
Interest income	300	-	300	2,795	2,495
Tax overpayments	1,500	3,054	4,554	4,554	-
Transfer from other funds	-	-	-	162	162
Insurance reimbursement	-	4,118	4,118	4,118	-
Police training reimbursement	4,000	(3,000)	1,000	967	(33)
Sale of fixed assets	-	22,185	22,185	22,185	-
Legal fee reimbursement	-	-	-	913	913
Miscellaneous	2,000	5,216	7,216	1,081	(6,135)
TOTAL OTHER REVENUES	50,800	24,573	75,373	74,915	(458)
Amounts available for appropriation	1,744,685	285,851	2,030,536	2,050,067	19,531
Charges to appropriations (outflows):					
General administration expenses	149,882	12,717	162,599	163,075	(476)
Police department expenses	660,500	(49,632)	610,868	619,176	(8,308)
Fire/rescue department expenses	129,488	(6,562)	122,926	118,836	4,090
Public works expenses	73,442	(5,395)	68,047	72,023	(3,976)
Building and utilities	59,100	(8,377)	50,723	44,623	6,100
Creighton fund	-	40,000	40,000	33,763	6,237
Contract services	285,146	78,320	363,466	377,001	(13,535)
Capital improvements	55,520	66,516	122,036	79,251	42,785
Total appropriations	1,413,078	127,587	1,540,665	1,507,748	32,917
Budgetary fund balance, June 30	\$ 331,607	\$ 158,264	\$ 489,871	\$ 542,319	\$ 52,448

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, 2014

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 163,915	\$ 341,287	\$ 505,202	\$ 505,202	\$ -
Resources (inflows):					
Road tax revenue	296,000	14,033	310,033	292,956	(17,077)
Interest income	1,200	(700)	500	193	(307)
Water/sanitation reimbursement	-	10,885	10,885	-	(10,885)
Dixie Highway grant	300,000	(267,345)	32,655	30,000	(2,655)
Transfers from other funds	115,000	6,297	121,297	121,297	-
Amounts available for appropriation:	<u>876,115</u>	<u>104,457</u>	<u>980,572</u>	<u>949,648</u>	<u>(30,924)</u>
Charges to appropriations (outflows):					
Street maintenance	565,115	364,457	929,572	855,189	74,383
Dixie Highway improvements	300,000	(260,000)	40,000	28,823	11,177
Administration	11,000	-	11,000	11,000	-
Total appropriations	<u>876,115</u>	<u>104,457</u>	<u>980,572</u>	<u>895,012</u>	<u>85,560</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,636</u>	<u>\$ 54,636</u>

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

CITY OF PARK HILLS, KENTUCKY

Combined Balance Sheet - Non-Major Funds

June 30, 2014

	Municipal Aid Fund	Vehicle Fee Fund	Fire Truck/ Economic Development Fund	Administration Reserve Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	Restated (Memo Only) 2013
ASSETS									
Restricted cash	\$ 89,144	\$ 96,938	\$ -	\$ 3,782	\$ 40,013	\$ 5,003	\$ 13,858	\$ 248,738	\$ 312,009
Accounts receivable	5,691	628	-	-	-	-	-	6,319	-
Due from other funds	15,570	-	-	-	-	-	-	15,570	-
TOTAL ASSETS	\$ 110,405	\$ 97,566	\$ -	\$ 3,782	\$ 40,013	\$ 5,003	\$ 13,858	\$ 270,627	\$ 312,009
LIABILITIES AND FUND BALANCE									
LIABILITIES									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,494
Due to other funds	-	-	-	-	-	-	-	-	2
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	5,496
FUND BALANCE									
Restricted	110,405	97,566	-	-	-	-	-	207,971	306,513
Committed	-	-	-	3,782	40,013	5,003	13,858	62,656	-
TOTAL FUND BALANCE	110,405	97,566	-	3,782	40,013	5,003	13,858	270,627	306,513
TOTAL LIABILITIES AND FUND BALANCE	\$ 110,405	\$ 97,566	\$ -	\$ 3,782	\$ 40,013	\$ 5,003	\$ 13,858	\$ 270,627	\$ 312,009

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 - Non-Major Funds

For the Year Ended June 30, 2014

	Municipal Aid Fund	Vehicle Fee Fund	Fire Truck/ Economic Development Fund	Administration Reserve Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	Restated (Memo Only) 2013
								2014	2013
Revenues									
Taxes	\$ -	\$ 17,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,425	\$ 177,407
Intergovernmental	71,656	-	-	-	-	-	-	71,656	74,631
Sale of assets	-	-	-	-	-	-	-	-	17,250
Interest income	34	42	-	2	11	3	6	98	247
Transfers from other funds	-	-	-	-	20,000	-	5,000	25,000	30,000
Total Revenues	71,690	17,467	-	2	20,011	3	5,006	114,179	299,535
Expenditures									
General government	2,000	4,000	-	1,220	-	-	-	7,220	7,488
Public works	12,741	245	-	-	-	-	8,400	21,386	90,547
Debt service	-	-	-	-	-	-	-	-	105,047
Transfers to other funds	160	-	121,299	-	-	-	-	121,459	30,000
Total Expenditures	14,901	4,245	121,299	1,220	-	-	8,400	150,065	233,082
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	56,789	13,222	(121,299)	(1,218)	20,011	3	(3,394)	(35,886)	66,453
Fund Balances Beginning of Year	53,616	84,344	121,299	5,000	20,002	5,000	17,252	306,513	240,060
Fund Balances End of Year	\$ 110,405	\$ 97,566	\$ -	\$ 3,782	\$ 40,013	\$ 5,003	\$ 13,858	\$ 270,627	\$ 306,513

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



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

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John P. Walker, CPA, MBA
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Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities and each major fund of the City of Park Hills, Kentucky as of June 30, 2014 and the related notes to the financial statements which collectively comprise the City of Park Hills, Kentucky's financial statements, and have issued our report thereon dated October 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Park Hills, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Park Hills, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Park Hills, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.



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

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.

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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2014