

CITY OF TAYLOR MILL

June 30, 2008

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

**CITY OF TAYLOR MILL
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of City Commission
City of Taylor Mill

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Taylor Mill, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taylor Mill's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Taylor Mill, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008 on our consideration of the City of Taylor Mill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 6 and pages 21 through 26 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
October 3, 2008

CITY OF TAYLOR MILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED

Our discussion and analysis of the City of Taylor Mill's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's basic financial statements that begin on page 7.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 7 and 8) provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 8. For government activities these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2008 are as follows:

- The assets of the City of Taylor Mill exceeded its liabilities by \$9,488,825 (net assets) at June 30, 2008. Of this amount, \$5,186,142 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$195,820.
- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of \$5,294,562, a decrease of \$440,795 in comparison with the prior year.
- As of June 30, 2008, unreserved fund balance for the general fund was \$139,746.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF TAYLOR MILL

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, parks and recreation. Capital assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All activities of the City are included in the governmental funds. The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund.

The basic governmental fund financial statements can be found on pages 9 through 12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 20 of this report.

Government-Wide Financial Analysis

The perspective of the statement of net assets is of the City as a whole. Table 1 provides a summary of the City's net assets for 2008 compared to 2007:

**Table 1
Net Assets**

	Governmental Activities	
	2008	2007
Assets		
Current and Other Assets	\$ 5,507,404	\$ 6,108,020
Capital Assets, Net	4,109,036	3,874,145
Total Assets	9,616,440	9,982,165
Liabilities		
Current and Other Liabilities	75,086	242,133
Long-Term Liabilities	52,529	55,387
Total Liabilities	127,615	297,520
Net Assets		
Invested in Capital Assets		
Net of Related Debt	4,109,036	3,874,145
Restricted for Municipal Aid	193,647	248,790
Unrestricted	5,186,142	5,561,710
Total Net Assets	\$ 9,488,825	\$ 9,684,645

CITY OF TAYLOR MILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$9.5 million as of June 30, 2008.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

An additional portion of the City's net assets (2.0%), represents resources that are subject to restrictions on how they may be used.

Table 2 reflects the change in net assets for fiscal year 2008.

Table 2
Change in Net Assets

	Governmental Activities	
	Years Ended June 30,	
	2008	2007
Revenues		
General Revenues		
Property Taxes	\$ 1,017,697	\$ 896,260
Payroll Taxes	816,700	720,316
Insurance Tax	493,106	529,259
Utility Tax	202,087	162,255
Other Licenses and Permits	325,749	536,072
Fines and Forfeits	19,276	12,335
Interest	133,127	170,441
Miscellaneous	74,819	105,079
Donated Assets	-	500
Gain on Disposal of Capital Assets	129	-
Total General Revenues	3,082,690	3,132,850
Program Revenues		
Charges for Service	477,228	441,697
Operating Grants and Contributions	116,267	89,769
Capital Grants and Contributions	310,454	405,480
Total Program Revenues	903,949	936,946
Total Revenues	3,986,639	4,069,796
Program Expenses		
General Government	1,039,978	984,255
Police	1,144,526	1,009,819
Fire	1,103,253	991,852
Public Works	257,203	259,499
Streets	318,410	307,576
Recreation	319,089	277,014
Total Program Expenses	4,182,459	3,830,015
(Decrease) Increase in Net Assets	\$ (195,820)	\$ 239,781

CITY OF TAYLOR MILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$4.0 million and expenditures of \$4.4 million. While revenues decreased 2.1%, expenses increased by 5.4%. The decrease in revenues is largely due to license and permit revenue. The increase in expenses is due to the increase in expenses associated with the police department.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The beginning fund balance for the beginning the fiscal year was approximately \$462,000.

For the General Fund, actual revenues, in the amount of \$3.6 million, exceeded budgeted revenues in the amount of \$3.5 million. The major differences were from payroll tax revenues.

Expenditures and other financing uses were budgeted at \$4.1 million while actual expenditures and other financing uses were \$3.9 million. The major difference comes from expenses related to the general government and fire expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the City had \$4.1 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2008 balances compared to fiscal year 2007.

Table 3
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2008	2007
Land	\$ 417,699	\$ 417,699
Buildings	768,062	798,211
Infrastructure	2,113,603	1,881,243
Equipment	397,338	416,842
Vehicles	412,334	360,150
	\$ 4,109,036	\$ 3,874,145

CITY OF TAYLOR MILL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2008 UNAUDITED (Continued)

Outstanding Debt

At June 30, 2008, the City's only outstanding debt was an obligation for unpaid sick time to employees totaling \$52,529.

Economic Factors and Next Years Budget

The City of Taylor Mill, which celebrated 50 years of service to the citizens of its community during Fiscal Year 2007-2008, is in the process of preparing to embrace some significant changes to the community in the coming years. These changes are primarily driven by the relocation of State Route 16, also known as Taylor Mill Road, which subsequently has led to the creation of "The Districts" of Taylor Mill – a synergistic mix of downtown retail, commercial, and office development opportunities. These designated Downtown development areas offer the City the ability to manage commercial growth opportunities resulting from the construction of the new highway and thus ensuring the continued stability of our residential environment. During Fiscal Year 2007-2008 the City completed a rezoning of approximately 300 acres of land as downtown Taylor Mill, and began marketing these development opportunities at a national level. The construction of State Route 16 is slated to begin during Fiscal Year 2009-2010. Currently, the Commonwealth of Kentucky - Department of Transportation is in the process of right of way acquisition with utility relocation scheduled to commence during Fiscal Year 2008-2009. During this time frame the City is expected to see a decrease in property tax receipts due to many properties being transferred to state ownership. However, in Fiscal Year 2009-2010 the City anticipate seeing a temporary increase in payroll tax receipts as the result of the utility companies conducting utility relocation operations. It is also anticipated that the City will see various areas of the budget increase and decrease during the coming years as the landscape of the community is impacted by the construction of this new 5 lane highway.

The re-construction, maintenance, and upkeep of city owned public roads and right-of-ways continue to be a focus of the budget and with the addition of several roadways that were once county maintained, the City remains challenged to keep up with the growing demand of infrastructure repair and replacement. During Fiscal Year 2007-2008, the City had to repair two major slips on Reidlin Road in order to keep it open, and in fiscal year 2008-2009 the City will be forced to fix a slip on Wayman Branch to maintain the integrity of the infrastructure for safe passage. These major repairs are detracting from the City's ability financially to focus on smaller, less expensive repairs. The City continues to be aware of this problem and seek alternative solutions to remedy it.

In Fiscal Year 2008-2009, the City will begin working towards licensing the EMS Department for Advanced Life Support (ALS) operations, which are expected to begin in Fiscal Year 2009-2010. ALS is currently provided to the City via a contract with Transcare. However, the City anticipates not being able to renew contract for services in 2009-2010 due to Transcare eliminating their ALS program. Projected future price increases from Transcare also make it more feasible for the City to provide the service to the residents in house now versus contracting.

CITY OF TAYLOR MILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)

Economic Factors and Next Years Budget (Continued)

Other issues that are expected to effect the budget during the Fiscal Year 2008-2009, as well as, in to the future are: the need to implement anticipated increases to employer contribution requirements of the City Employee Retirement System (CERS); the need to replace and/or renovate the existing facilities which are significantly deteriorating; and the continued replacement of capital equipment in the Police and Fire/EMS Departments in accordance with the depreciation schedule. The City of Taylor Mill plans to remain debt free in future budget years, and as a result, is working towards addressing the needs of the community by planning for the referenced circumstances and future needs in a manner that continues to protect the assets and interests of the City of Taylor Mill and the residents of the community.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the City Administrator's office, City of Taylor Mill, 5225 Taylor Mill Road, Taylor Mill, Kentucky.

CITY OF TAYLOR MILL
STATEMENT OF NET ASSETS
June 30, 2008

	Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 3,118,745
Accounts Receivable	2,384,029
Accrued Interest Receivable	4,630
Total Current Assets	5,507,404
Noncurrent Assets	
Capital Assets	
Land	417,699
Buildings	1,317,489
Infrastructure	5,570,576
Equipment	1,649,876
Vehicles	1,599,764
Less Accumulated Depreciation	(6,446,368)
Total Capital Assets	4,109,036
Total Assets	9,616,440
Liabilities	
Current Liabilities	
Accounts Payable	10,774
Accrued Liabilities	64,312
Total Current Liabilities	75,086
Noncurrent Liabilities	
Compensated Absences	52,529
Total Noncurrent Liabilities	52,529
Total Liabilities	127,615
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,109,036
Restricted for Municipal Aid	193,647
Unrestricted	5,186,142
Total Net Assets	\$ 9,488,825

See accompanying notes.

**CITY OF TAYLOR MILL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Total Governmental Activities
Primary Government					
Governmental Activities					
General Government	\$ 1,039,978	\$ 343,798	\$ 3,673	\$ -	\$ (692,507)
Police	1,144,526	-	80,679	-	(1,063,847)
Fire	1,103,253	97,580	31,915	8,250	(965,508)
Public Works	257,203	-	-	-	(257,203)
Streets	318,410	-	-	302,204	(16,206)
Recreation	319,089	35,850	-	-	(283,239)
Total Primary Government	\$ 4,182,459	\$ 477,228	\$ 116,267	\$ 310,454	(3,278,510)
General Revenues					
Property Taxes					1,017,697
Payroll Taxes					816,700
Insurance Tax					493,106
Utility Tax					202,087
Other Licenses and Permits					325,749
Fines and Forfeitures					19,276
Interest					133,127
Miscellaneous					74,819
Gain on Sale of Capital Assets					129
Total General Revenues					<u>3,082,690</u>
Change in Net Assets					(195,820)
Prior Period Adjustment					(123,497)
Net Assets July 1, 2007					<u>9,808,142</u>
Net Assets June 30, 2008					<u>\$ 9,488,825</u>

See accompanying notes.

**CITY OF TAYLOR MILL
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	<u>General Fund</u>	<u>Municipal Aid Fund</u>	<u>Recreation Fund</u>	<u>Capital Improvement Fund</u>	<u>Emergency Fund</u>	<u>Community Events Fund</u>	<u>Total Governmental Funds</u>
Assets							
Cash and Cash Equivalents	\$ (164,732)	\$ 193,647	\$ 307,019	\$ 2,221,921	\$ 529,301	\$ 31,589	\$ 3,118,745
Receivables							
Property Taxes	129,051	-	-	-	-	-	129,051
Waste Assessments	8,705	-	-	-	-	-	8,705
Accounts	367,814	-	-	1,875,000	-	-	2,242,814
Other	3,459	-	-	-	-	-	3,459
Accrued Interest Receivable	4,630	-	-	-	-	-	4,630
Total Assets	<u>\$ 348,927</u>	<u>\$ 193,647</u>	<u>\$ 307,019</u>	<u>\$ 4,096,921</u>	<u>\$ 529,301</u>	<u>\$ 31,589</u>	<u>\$ 5,507,404</u>
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$ 8,599	\$ -	\$ 1,220	\$ 955	\$ -	\$ -	\$ 10,774
Accrued Liabilities	62,826	-	1,486	-	-	-	64,312
Deferred Revenue	137,756	-	-	-	-	-	137,756
Total Liabilities	<u>209,181</u>	<u>-</u>	<u>2,706</u>	<u>955</u>	<u>-</u>	<u>-</u>	<u>212,842</u>
Fund Balances							
Unreserved							
General Fund	139,746	-	-	-	-	-	139,746
Recreation Fund	-	-	304,313	-	-	-	304,313
Capital Improvement Fund	-	-	-	4,095,966	-	-	4,095,966
Emergency Fund	-	-	-	-	529,301	-	529,301
Community Events Fund	-	-	-	-	-	31,589	31,589
Reserved							
Municipal Aid Fund	-	193,647	-	-	-	-	193,647
Total Fund Balances	<u>139,746</u>	<u>193,647</u>	<u>304,313</u>	<u>4,095,966</u>	<u>529,301</u>	<u>31,589</u>	<u>5,294,562</u>
Total Liabilities and Fund Balances	<u>\$ 348,927</u>	<u>\$ 193,647</u>	<u>\$ 307,019</u>	<u>\$ 4,096,921</u>	<u>\$ 529,301</u>	<u>\$ 31,589</u>	<u>\$ 5,507,404</u>

See accompanying notes.

CITY OF TAYLOR MILL
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2008

Total Fund Balance - Governmental Funds \$ 5,294,562

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	10,555,404	
Accumulated Depreciation	<u>6,446,368</u>	4,109,036

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		137,756
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.		<u>(52,529)</u>
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Net Assets of Governmental Activities in the Statement of Net Assets		\$ <u>9,488,825</u>
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See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	<u>General Fund</u>	<u>Municipal Aid Fund</u>	<u>Recreation Fund</u>	<u>Capital Improvement Fund</u>	<u>Emergency Fund</u>	<u>Community Events Fund</u>	<u>Total Governmental Funds</u>
Revenues							
Taxes	\$ 1,827,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,827,171
Licenses and Permits	1,020,942	-	-	-	-	-	1,020,942
Intergovernmental	124,517	302,204	-	-	-	-	426,721
Charges for Services	441,378	-	35,850	-	-	-	477,228
Fines & Forfeitures	19,276	-	-	-	-	-	19,276
Interest	120,613	12,514	-	-	-	-	133,127
Miscellaneous	52,251	-	1,280	1,080	-	26,208	80,819
Total Revenues	<u>3,606,148</u>	<u>314,718</u>	<u>37,130</u>	<u>1,080</u>	<u>-</u>	<u>26,208</u>	<u>3,985,284</u>
Expenditures							
Current							
General Government	995,324	-	-	17,738	-	-	1,013,062
Police	1,082,756	-	-	-	-	-	1,082,756
Fire	974,762	-	-	-	-	-	974,762
Public Works	230,844	-	-	3,052	-	-	233,896
Streets	-	44,705	-	-	-	-	44,705
Recreation	-	-	183,146	-	-	89,935	273,081
Capital Outlay	58,276	325,156	3,460	411,828	-	5,097	803,817
Total Expenditures	<u>3,341,962</u>	<u>369,861</u>	<u>186,606</u>	<u>432,618</u>	<u>-</u>	<u>95,032</u>	<u>4,426,079</u>
Excess (Deficit) of Revenues Over Expenditures	<u>264,186</u>	<u>(55,143)</u>	<u>(149,476)</u>	<u>(431,538)</u>	<u>-</u>	<u>(68,824)</u>	<u>(440,795)</u>
Other Financing Sources (Uses)							
Transfers In	-	-	425,000	114,734	46,850	-	586,584
Transfers Out	(586,584)	-	-	-	-	-	(586,584)
Total Other Financing (Uses) Sources	<u>(586,584)</u>	<u>-</u>	<u>425,000</u>	<u>114,734</u>	<u>46,850</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(322,398)</u>	<u>(55,143)</u>	<u>275,524</u>	<u>(316,804)</u>	<u>46,850</u>	<u>(68,824)</u>	<u>(440,795)</u>
Fund Balance July 1, 2007, as Previously Stated	585,641	248,790	28,789	4,412,770	482,451	100,413	5,858,854
Prior Period Adjustment	(123,497)	-	-	-	-	-	(123,497)
Fund Balance July 1, 2007 as Restated	<u>462,144</u>	<u>248,790</u>	<u>28,789</u>	<u>4,412,770</u>	<u>482,451</u>	<u>100,413</u>	<u>5,735,357</u>
Fund Balance June 30, 2008	<u>\$ 139,746</u>	<u>\$ 193,647</u>	<u>\$ 304,313</u>	<u>\$ 4,095,966</u>	<u>\$ 529,301</u>	<u>\$ 31,589</u>	<u>\$ 5,294,562</u>

See accompanying notes.

CITY OF TAYLOR MILL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Change in Fund Balances - Total Governmental Funds \$ (440,795)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Depreciation Expense	(544,775)	
Capital Outlays	<u>785,537</u>	240,762

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold (5,871)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 7,226

In the Statement of Activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave. 2,858

Change in Net Assets - Governmental Activities \$ (195,820)

See accompanying notes.

**CITY OF TAYLOR MILL
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Commission of the City of Taylor Mill (the “City”) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General, Municipal Aid, Recreation, Capital Improvement, Emergency, and Community Events Funds.

The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Taylor Mill.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

The City of Taylor Mill is a Charter City, in which citizens elect the mayor at large and four commissioners whom together form the City Commission. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Presentation

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total assets. Fiduciary funds are reported using the economic resources measurement focus.

The City has the following funds:

Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Special Revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Assets**

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	40 Years
Building Improvements	10 - 20 Years
Public Domain Infrastructure	25 - 40 Years
Vehicles	5 - 10 Years
Office Equipment	3 - 5 Years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of Estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column of the statements of net assets except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances. The City has no interfund balances.

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the City does have a policy to pay specified amounts when employees separate from service with the City. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- a.) In accordance with City ordinance, by May 31, the Mayor submits to the City Commission, a proposed operating budget on the modified accrual basis of accounting 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.
- b.) A public meeting is conducted to obtain citizen comment.
- c.) By July 1, the budget is legally enacted through passage of an ordinance.
- d.) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- e.) Appropriations continue in effect until a new budget is adopted.
- f.) The Commission may authorize supplemental appropriations 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 Commission. The Commission adopted three supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

NOTE 4 – DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investments of public funds.

The City is authorized to invest in:

- a.) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- b.) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- c.) Obligations of any corporation of the United States government.
- d.) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

Deposits

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2008, the City’s deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City’s behalf and the FDIC insurance.

Investments

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2008.

Credit risk – investments. The City’s investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

NOTE 5 – SALE OF UTILITY SYSTEM

The City entered into an agreement dated November 10, 2003 for the sale of the utility system to the Northern Kentucky Water District. The system officially transferred on March 31, 2004. Based on the terms of the agreement, the Northern Kentucky Water District will pay the City the sum of \$3,000,000 according to an installment plan set out in the agreement. The City received \$125,000 at the closing, and the remaining balance of the agreement as of June 30, 2008 is \$1,875,000. This receivable is reflected in the Capital Improvement Fund. The following schedule shows the remaining payments for the purchase.

Years Ending June 30,	
2008	\$ 250,000
2009	175,000
2010	175,000
2011	175,000
2012	175,000
2013 – 2017	875,000
2018	<u>50,000</u>
Total	<u>\$1,875,000</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 417,699	\$ -	\$ -	\$ 417,699
Depreciable Capital Assets				
Buildings	1,317,489	-	-	1,317,489
Infrastructure	5,070,610	499,966	-	5,570,576
Equipment	1,565,131	103,573	18,828	1,649,876
Vehicles	1,417,766	181,998	-	1,599,764
Total Depreciable Capital Assets	<u>9,370,996</u>	<u>785,537</u>	<u>18,828</u>	<u>10,137,705</u>
Total Capital Assets at Historical Cost	<u>9,788,695</u>	<u>785,537</u>	<u>18,828</u>	<u>10,555,404</u>
Less: Accumulated Depreciation				
Buildings	519,278	30,149	-	549,427
Infrastructure	3,189,367	267,606	-	3,456,973
Equipment	1,148,289	117,206	12,957	1,252,538
Vehicles	1,057,616	129,814	-	1,187,430
Total Accumulated Depreciation	<u>5,914,550</u>	<u>544,775</u>	<u>12,957</u>	<u>6,446,368</u>
Depreciable Capital Assets, Net	<u>3,456,446</u>	<u>240,762</u>	<u>5,871</u>	<u>3,691,337</u>
Governmental Activities Capital Assets - Net	<u>\$ 3,874,145</u>	<u>\$ 240,762</u>	<u>\$ 5,871</u>	<u>\$ 4,109,036</u>

Depreciation was charged to functions as follows:

General Government	\$ 21,893
Police	70,031
Fire	121,480
Public Works	19,154
Streets	267,606
Recreation	44,611
Total	<u>\$ 544,775</u>

NOTE 7 – LONG TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2008.

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retired</u>	<u>June 30, 2008</u>
Compensated Absences	\$ <u>55,387</u>	\$ <u>-</u>	\$ <u>2,858</u>	\$ <u>52,529</u>

NOTE 8 – EMPLOYEE'S RETIREMENT SYSTEM

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-Living Adjustments (COLA) are provided at the discretion of the state legislature.

Non-Hazardous Contributions - For the year ended June 30, 2008, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2008, participating employers contributed 16.17% of each employee's creditable compensation. Administrative costs of Kentucky Retirement System (KRS) are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2008, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second Year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2008, participating employers contributed 33.87% of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

NOTE 8 – EMPLOYEE’S RETIREMENT SYSTEM (Continued)

The required contribution and the actual percentage contributed for the City the current and previous two years are as follows:

<u>Year</u>	<u>Contribution</u>	<u>Contributed</u>
2008	\$ 404,276	100%
2007	305,164	100%
2006	236,002	100%

Deferred Compensation Plans

The City also participates in a 401(k) plan administered by the Kentucky Employees Deferred Compensation Authority. All payments to the Authority are payroll withheld. The City does not contribute to the plan for any employee.

NOTE 9 – 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 obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2008 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 10 – CLAIMS AND JUDGEMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE 11 – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2008, the City discovered an error in previously reported Accounts Receivable and Payroll Taxes Revenue and Other Licenses and Permits Revenue. For the year ended June 30, 2007, Accounts Receivable, Payroll Taxes Revenue and Other Licenses and Permits Revenue were overstated by an incorrect estimation of the Accounts Receivable balance at June 30, 2007.

For the year ended June 30, 2007, the change in net assets decreased \$123,497 due to the correction of the error. Total assets decreased and net assets decreased by \$123,497. General Fund net assets as a result of the correction are restated at \$462,144 as of June 30, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
				Favorable
Revenues				
Taxes				
Property	\$ 855,500	\$ 1,050,500	\$ 1,004,447	\$ (46,053)
Bank Deposit	13,000	10,500	10,613	113
Payroll	750,000	725,000	812,111	87,111
Licenses and Permits	1,007,025	1,034,300	1,020,942	(13,358)
Intergovernmental	77,225	110,425	124,517	14,092
Charges for Services	416,900	425,000	441,378	16,378
Fines and Forfeitures	10,500	18,640	19,276	636
Interest	80,000	109,500	120,613	11,113
Miscellaneous	31,700	45,750	52,251	6,501
Total Revenues	<u>3,241,850</u>	<u>3,529,615</u>	<u>3,606,148</u>	<u>76,533</u>
Expenditures				
Current:				
General Government	942,784	1,066,520	995,324	71,196
Police	1,033,630	1,121,255	1,082,756	38,499
Fire	960,905	1,032,455	974,762	57,693
Public Works	225,818	250,442	230,844	19,598
Capital Outlay	51,450	58,000	58,276	(276)
Total Expenditures	<u>3,214,587</u>	<u>3,528,672</u>	<u>3,341,962</u>	<u>186,710</u>
Excess of Revenues Over Expenditures	27,263	943	264,186	263,243
Other Financing Uses				
Operating Transfers Out	27,263	549,734	586,584	(36,850)
Net Change in Fund Balances	<u>-</u>	<u>(548,791)</u>	<u>(322,398)</u>	<u>226,393</u>
Fund Balance July 1, 2007				
as Previously Stated	585,641	585,641	585,641	-
Prior Period Adjustment	<u>(123,497)</u>	<u>(123,497)</u>	<u>(123,497)</u>	<u>-</u>
Fund Balance July 1, 2007 as Restated	<u>462,144</u>	<u>462,144</u>	<u>462,144</u>	<u>-</u>
Fund Balance June 30, 2008	<u>\$ 462,144</u>	<u>\$ (86,647)</u>	<u>\$ 139,746</u>	<u>\$ 226,393</u>

See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL AID FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 109,000	\$ 302,000	\$ 302,204	\$ 204
Interest	<u>5,000</u>	<u>11,500</u>	<u>12,514</u>	<u>1,014</u>
Total Revenues	<u>114,000</u>	<u>313,500</u>	<u>314,718</u>	<u>1,218</u>
Expenditures				
Current:				
Streets	47,500	51,750	44,705	7,045
Capital Outlay	<u>300,000</u>	<u>450,000</u>	<u>325,156</u>	<u>124,844</u>
Total Expenditures	<u>347,500</u>	<u>501,750</u>	<u>369,861</u>	<u>131,889</u>
(Deficit) Excess of Revenues Over Expenditures	<u>(233,500)</u>	<u>(188,250)</u>	<u>(55,143)</u>	<u>133,107</u>
Fund Balance July 1, 2007	<u>248,790</u>	<u>248,790</u>	<u>248,790</u>	<u>-</u>
Fund Balance June 30, 2008	<u>\$ 15,290</u>	<u>\$ 60,540</u>	<u>\$ 193,647</u>	<u>\$ 133,107</u>

See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
RECREATION FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
				Favorable
Revenues				
Charges for Services	\$ 45,300	\$ 44,250	\$ 35,850	\$ (8,400)
Miscellaneous	<u>-</u>	<u>1,230</u>	<u>1,280</u>	<u>50</u>
Total Revenues	<u>45,300</u>	<u>45,480</u>	<u>37,130</u>	<u>(8,350)</u>
Expenditures				
Current:				
Recreation	163,986	230,011	183,146	46,865
Capital Outlay	<u>750</u>	<u>130,500</u>	<u>3,460</u>	<u>127,040</u>
Total Expenditures	<u>164,736</u>	<u>360,511</u>	<u>186,606</u>	<u>173,905</u>
(Deficit) Excess of Revenues Over Expenditures	<u>(119,436)</u>	<u>(315,031)</u>	<u>(149,476)</u>	<u>165,555</u>
Other Financing Sources				
Operating Transfers In	-	435,000	425,000	(10,000)
Net Change in Fund Balance	<u>(119,436)</u>	<u>119,969</u>	<u>275,524</u>	<u>155,555</u>
Fund Balance July 1, 2007	<u>28,789</u>	<u>28,789</u>	<u>28,789</u>	<u>-</u>
Fund Balance June 30, 2008	<u><u>\$ (90,647)</u></u>	<u><u>\$ 148,758</u></u>	<u><u>\$ 304,313</u></u>	<u><u>\$ 155,555</u></u>

See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAPITAL IMPROVEMENT FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ 1,000	\$ 1,080	\$ 80
Expenditures				
Current:				
General	98,000	107,000	17,738	89,262
Public Works	-	-	3,052	(3,052)
Capital Outlay	<u>1,639,100</u>	<u>2,451,000</u>	<u>411,828</u>	<u>2,039,172</u>
Total Expenditures	<u>1,737,100</u>	<u>2,558,000</u>	<u>432,618</u>	<u>2,125,382</u>
Deficit of Revenues Over Expenditures	(1,737,100)	(2,557,000)	(431,538)	(2,125,462)
Other Financing Sources				
Transfers In	<u>27,263</u>	<u>114,734</u>	<u>114,734</u>	<u>-</u>
Net Change in Fund Balance	(1,709,837)	(2,442,266)	(316,804)	(2,125,462)
Fund Balance July 1, 2007	<u>4,412,770</u>	<u>4,412,770</u>	<u>4,412,770</u>	<u>-</u>
Fund Balance June 30, 2008	<u>\$ 2,675,670</u>	<u>\$ 1,970,504</u>	<u>\$ 4,095,966</u>	<u>\$ (2,125,462)</u>

See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
EMERGENCY FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Favorable</u>
Other Financing Sources				
Transfers In	\$ -	\$ -	\$ 46,850	\$ 46,850
Net Change in Fund Balance	-	-	46,850	46,850
Fund Balance July 1, 2007	<u>482,451</u>	<u>482,451</u>	<u>482,451</u>	<u>-</u>
Fund Balance June 30, 2008	<u>\$ 482,451</u>	<u>\$ 482,451</u>	<u>\$ 529,301</u>	<u>\$ 46,850</u>

See accompanying notes.

CITY OF TAYLOR MILL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
COMMUNITY EVENTS FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Favorable</u>
Revenues				
Miscellaneous	\$ 24,900	\$ 22,425	\$ 26,208	\$ 3,783
Expenditures				
Current:				
Recreation	89,675	95,575	89,935	5,640
Capital Outlay	6,500	6,500	5,097	1,403
 Total Expenditures	 96,175	 102,075	 95,032	 7,043
 (Deficit) Excess of Revenues Over Expenditures	 (71,275)	 (79,650)	 (68,824)	 10,826
 Fund Balance July 1, 2007	 100,413	 100,413	 100,413	 -
 Fund Balance June 30, 2008	 \$ 29,138	 \$ 20,763	 \$ 31,589	 \$ 10,826

See accompanying notes.



**INDEPENDENT AUDITORS' 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**

Honorable Mayor
Members of City Commission
City of Taylor Mill

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Taylor Mill as of and for the year ended June 30, 2008, which collectively comprise the City of Taylor Mill's basic financial statements and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements included as an appendix to the state audit contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Taylor Mill'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 Taylor Mill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Taylor Mill's internal control over financial reporting.

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 Taylor Mill'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 Taylor Mill's financial statements that is more than inconsequential will not be prevented or detected by the City of Taylor Mill's internal control.

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 Taylor Mill's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2008-1

Management has requested that we prepare the City's financial statements including the footnotes. Although we have prepared the financial statements, the financial statements still remain the responsibility of management. A proper system of internal controls over financial reporting is essential in order to prevent, detect, and correct, misstatements. We noted that the City does not have the necessary expertise in order to prepare the financial statements, including footnotes; in accordance with the complex requirements of the U.S. generally accepted accounting principles. Our firm has implemented the appropriate controls over the financial statement preparation; however, our controls cannot be considered as the City's internal controls. Accordingly, a significant deficiency in the City's internal controls exists in regards to the financial statement reporting function.

Finding 2008-2

Although the small size of the City's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. One of the most critical areas of separation (but not the only one) is cash, where we noted that one person handles incoming checks, prepares the deposit slip, posts receipts to customer accounts, and handles all correspondence with current and delinquent tax payers. The result is the danger that intentional or unintentional errors could be made and not detected. We recommend that another individual opens the mail, prepares a prelist of the cash received, and prepares the deposit slip. The changing of these simple steps would not require the addition of any new employees or add significant time to either employee's time.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taylor Mill'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 mayor, city commission, management, others within the City and the Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.