

CITY OF TAYLOR MILL, KENTUCKY

June 30, 2010

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT*



VonLehman & Company Inc. vlcpa.com
4755 Lake Forest Drive, Suite 100 Cincinnati, OH 45242-3836 513.891.5911 F 513.891.5969
250 Grandview Drive, Suite 300 Fort Mitchell, KY 41017-5610 859.331.3300 F 859.331.4358

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of City Commission
City of Taylor Mill, Kentucky

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Taylor Mill, Kentucky, as of and for the year ended June 30, 2010, 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, Kentucky'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 and each major fund of the City of Taylor Mill, Kentucky, as of June 30, 2010, 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 September 28, 2010 on our consideration of the City of Taylor Mill, Kentucky'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 24 through 30 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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 28, 2010

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

Our discussion and analysis of the City of Taylor Mill, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's basic financial statements that begin on page 8.

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 8 and 9) 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 10. 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 2010 are as follows:

- The assets of the City exceeded its liabilities by \$9,258,112 (net assets) at June 30, 2010. Of this amount, \$5,105,081 (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 \$316,049, including an increase attributed to a prior period adjustment of \$156,262.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$5,060,576, a decrease of \$505,486 including the above mentioned prior period adjustment in comparison with the prior year.
- As of June 30, 2010, unreserved fund balance for the general fund was \$268,736.

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.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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.

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 are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 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 seven 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 10 through 13 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 14 through 22 of this report.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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 2010 compared to 2009:

**Table 1
Net Assets**

	Governmental Activities	
	2010	2009
Assets		
Current and Other Assets	\$ 5,437,975	\$ 5,825,093
Capital Assets, Net	4,169,099	3,995,483
Total Assets	9,607,074	9,820,576
Liabilities		
Current and Other Liabilities	234,723	121,391
Long-Term Liabilities	114,239	125,024
Total Liabilities	348,962	246,415
Net Assets		
Invested in Capital Assets		
Net of Related Debt	4,106,267	3,916,943
Restricted for Municipal Aid	46,764	186,570
Unrestricted	5,105,081	5,470,648
Total Net Assets	\$ 9,258,112	\$ 9,574,161

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 \$9.3 million as of June 30, 2010.

A large 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 (0.5%) represents resources that are subject to restrictions on how they may be used.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal years 2010 and 2009.

**Table 2
Change in Net Assets**

	<u>Governmental Activities</u>	
	<u>Years Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenues		
General Revenues		
Property Taxes	\$ 1,295,792	\$ 1,140,718
Payroll Taxes	676,865	769,286
Insurance Tax	494,699	503,412
Utility Tax	201,114	213,304
Other Licenses and Permits	211,429	699,360
Fines and Forfeits	16,880	9,423
Interest	40,060	67,008
Miscellaneous	101,502	301,098
(Loss) Gain on Disposal of Capital Assets	<u>(4,053)</u>	<u>20,674</u>
Total General Revenues	<u>3,034,288</u>	<u>3,724,283</u>
Program Revenues		
Charges for Service	515,112	486,083
Operating Grants and Contributions	229,016	91,959
Capital Grants and Contributions	<u>333,433</u>	<u>190,360</u>
Total Program Revenues	<u>1,077,561</u>	<u>768,402</u>
Total Revenues	<u>4,111,849</u>	<u>4,492,685</u>
Program Expenses		
General Government	963,281	1,076,968
Police	1,222,771	1,218,993
Fire	1,273,351	1,170,151
Public Works	321,893	284,130
Streets	531,926	404,206
Recreation	<u>270,938</u>	<u>252,901</u>
Total Program Expenses	<u>4,584,160</u>	<u>4,407,349</u>
Change in Net Assets	(472,311)	85,336
Prior Period Adjustment	<u>156,262</u>	<u>-</u>
(Decrease) Increase in Net Assets	<u>\$ (316,049)</u>	<u>\$ 85,336</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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 \$4.1 million and expenditures of \$4.8 million. While revenues decreased 7.9%, expenses increased by 13.8%. 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 capital outlay.

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 \$470,249.

For the General Fund, actual revenues, in the amount of \$3.7 million, exceeded budgeted revenues in the amount of \$3.6 million. The major difference was from intergovernmental revenues.

Expenditures and other financing uses were budgeted at \$3.6 million while actual expenditures and other financing uses were \$3.6 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the City had \$4.2 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2010 balances compared to fiscal year 2009.

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

	Governmental Activities	
	2010	2009
Land	\$ 635,199	\$ 417,699
Construction in Progress	51,117	-
Buildings	709,438	738,749
Infrastructure	2,019,279	2,042,216
Equipment	491,194	469,198
Vehicles	262,872	327,621
	\$ 4,169,099	\$ 3,995,483

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

Outstanding Debt

At June 30, 2010, the City had an obligation for unpaid sick time to employees totaling \$67,115.

At June 30, 2010, the City had \$62,832 of outstanding capital lease obligations of which \$15,708 is considered current.

Economic Factors and Next Year's Budget

The City of Taylor Mill 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 a portion of State Route 16, which impacts the Downtown Taylor Mill area, is considered to be the driving impetus for all future commercial development in our area. The Commonwealth of Kentucky – Department of Transportation recently completed the property acquisition for the KY 16 project and most of the buildings on those properties acquired have now been demolished. As a result, the City is anticipated to see a decrease in property tax receipts due to these properties being transferred to state ownership. The City does expect to see an increase in payroll tax receipts as the result of utility relocation and construction of the new highway. In conjunction with this project the City is working on installing underground utilities, as well as, additional beautification and gateway projects that will enhance the overall community. The road project is anticipated to be under construction by June of 2011 and completed within approximately 2 years.

The reconstruction, 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 was required to fix a slip on Wayman Branch to maintain the integrity of the infrastructure for safe passage. In Fiscal Year 2009-2010, we found it necessary to rebuild a bridge that had deteriorated on Grand Avenue. 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.

Many years ago, the City identified the need to construct a new municipal building that would better accommodate our growing operations, as well as, create the opportunity for us to be more energy efficient, share operational resources, and remedy building deficiencies. As a result, a line item was created in the Capital Improvement Fund for the purpose of earmarking monies for this project. Over time, the fund grew from the deposit of surplus revenues and proceeds from the sale of the water department. In Fiscal Year 2009-2010, the City hired CDS & Associates to perform a feasibility study and in Fiscal Year 2010 – 2011 they were also hired to prepare schematic designs for the new facility. The driving force behind this project has been the recession and a decline in the construction market. It is anticipated that due to economic conditions this project could realize a savings of approximately 15% if we proceed in the near future. Currently, the project is in the review stages and it is undetermined as to when and if it will proceed.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 3,280,496
Accounts Receivable	2,155,460
Accrued Interest Receivable	<u>2,019</u>
Total Current Assets	<u>5,437,975</u>
Noncurrent Assets	
Capital Assets	
Land	635,199
Construction in Progress	51,117
Buildings	1,317,489
Infrastructure	6,011,505
Equipment	1,998,294
Vehicles	1,563,574
Less Accumulated Depreciation	<u>(7,408,079)</u>
Total Capital Assets	<u>4,169,099</u>
Total Assets	<u>9,607,074</u>
Liabilities	
Current Liabilities	
Accounts Payable	137,094
Accrued Liabilities	81,921
Capital Lease Obligations - Current Portion	<u>15,708</u>
Total Current Liabilities	<u>234,723</u>
Noncurrent Liabilities	
Compensated Absences	67,115
Capital Lease Obligations - Long Term Portion	<u>47,124</u>
Total Noncurrent Liabilities	<u>114,239</u>
Total Liabilities	<u>348,962</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,106,267
Restricted for Municipal Aid	46,764
Unrestricted	<u>5,105,081</u>
Total Net Assets	<u><u>\$ 9,258,112</u></u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Primary Government Total Governmental Activities
Primary Government Governmental Activities					
General Government	\$ 963,281	\$ 336,724	\$ 3,515	\$ -	\$ (623,042)
Police	1,222,771	-	151,182	-	(1,071,589)
Fire	1,273,351	151,633	18,389	46,405	(1,056,924)
Public Works	321,893	-	-	-	(321,893)
Streets	531,926	-	-	287,028	(244,898)
Recreation	270,938	26,755	55,930	-	(188,253)
Total Primary Government	\$ 4,584,160	\$ 515,112	\$ 229,016	\$ 333,433	(3,506,599)
General Revenues					
Property Taxes					1,295,792
Payroll Taxes					676,865
Insurance Tax					494,699
Utility Tax					201,114
Other Licenses and Permits					211,429
Fines and Forfeitures					16,880
Interest					40,060
Miscellaneous					101,502
Loss on Sale of Capital Assets					(4,053)
Total General Revenues					3,034,288
Change in Net Assets					(472,311)
Prior Period Adjustment					156,262
Net Assets July 1, 2009					9,574,161
Net Assets June 30, 2010					\$ 9,258,112

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	<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>Senior Services Fund</u>	<u>Total Governmental Funds</u>
Assets								
Cash and Cash Equivalents	\$ (178,081)	\$ 134,494	\$ 283,733	\$ 2,417,006	\$ 550,000	\$ 69,633	\$ 3,711	\$ 3,280,496
Receivables								
Property Taxes	146,778	-	-	-	-	-	-	146,778
Franchise Taxes	156,262	-	-	-	-	-	-	156,262
Waste Assessments	11,606	-	-	-	-	-	-	11,606
Accounts	350,046	-	-	1,450,000	-	-	-	1,800,046
Other	40,768	-	-	-	-	-	-	40,768
Accrued Interest Receivable	2,019	-	-	-	-	-	-	2,019
Total Assets	<u>\$ 529,398</u>	<u>\$ 134,494</u>	<u>\$ 283,733</u>	<u>\$ 3,867,006</u>	<u>\$ 550,000</u>	<u>\$ 69,633</u>	<u>\$ 3,711</u>	<u>\$ 5,437,975</u>
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	\$ 22,045	\$ 87,730	\$ 4,719	\$ 22,435	\$ -	\$ -	\$ 165	\$ 137,094
Accrued Liabilities	80,233	-	1,688	-	-	-	-	81,921
Deferred Revenue	158,384	-	-	-	-	-	-	158,384
Total Liabilities	<u>260,662</u>	<u>87,730</u>	<u>6,407</u>	<u>22,435</u>	<u>-</u>	<u>-</u>	<u>165</u>	<u>377,399</u>
Fund Balances								
Unreserved								
General Fund	268,736	-	-	-	-	-	-	268,736
Recreation Fund	-	-	277,326	-	-	-	-	277,326
Capital Improvement Fund	-	-	-	3,844,571	-	-	-	3,844,571
Emergency Fund	-	-	-	-	550,000	-	-	550,000
Community Events Fund	-	-	-	-	-	69,633	-	69,633
Senior Services Fund	-	-	-	-	-	-	3,546	3,546
Reserved								
Municipal Aid Fund	-	46,764	-	-	-	-	-	46,764
Total Fund Balances	<u>268,736</u>	<u>46,764</u>	<u>277,326</u>	<u>3,844,571</u>	<u>550,000</u>	<u>69,633</u>	<u>3,546</u>	<u>5,060,576</u>
Total Liabilities and Fund Balances	<u>\$ 529,398</u>	<u>\$ 134,494</u>	<u>\$ 283,733</u>	<u>\$ 3,867,006</u>	<u>\$ 550,000</u>	<u>\$ 69,633</u>	<u>\$ 3,711</u>	<u>\$ 5,437,975</u>

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2010**

Total Fund Balance - Governmental Funds \$ 5,060,576

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	\$ 11,577,178	
Accumulated Depreciation	<u>7,408,079</u>	
		4,169,099

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		158,384
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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.

Capital Lease Obligations		(62,832)
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Compensated Absences		<u>(67,115)</u>
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Net Assets of Governmental Activities in the Statement of Net Assets		\$ <u><u>9,258,112</u></u>
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See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<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>Senior Services Fund</u>	<u>Total Governmental Funds</u>
Revenues								
Taxes	\$ 1,967,621	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,967,621
Licenses and Permits	907,242	-	-	-	-	-	-	907,242
Intergovernmental	236,742	287,028	55,930	-	-	-	-	579,700
Charges for Services	488,357	-	27,439	-	-	-	-	515,796
Fines & Forfeitures	16,880	-	-	-	-	-	-	16,880
Interest	39,768	292	-	-	-	-	-	40,060
Miscellaneous	57,692	-	225	-	-	26,844	18,136	102,897
Total Revenues	<u>3,714,302</u>	<u>287,320</u>	<u>83,594</u>	<u>-</u>	<u>-</u>	<u>26,844</u>	<u>18,136</u>	<u>4,130,196</u>
Expenditures								
Current								
General Government	918,362	-	-	33,660	-	-	-	952,022
Police	1,217,670	-	-	-	-	-	-	1,217,670
Fire	1,136,014	-	-	-	-	-	-	1,136,014
Public Works	290,255	-	-	4,380	-	-	-	294,635
Streets	-	43,334	-	-	-	-	-	43,334
Recreation	-	-	175,229	-	-	54,405	15,970	245,604
Capital Outlay	26,367	383,792	438	492,068	-	-	-	902,665
Total Expenditures	<u>3,588,668</u>	<u>427,126</u>	<u>175,667</u>	<u>530,108</u>	<u>-</u>	<u>54,405</u>	<u>15,970</u>	<u>4,791,944</u>
Excess (Deficit) of Revenues Over Expenditures	<u>125,634</u>	<u>(139,806)</u>	<u>(92,073)</u>	<u>(530,108)</u>	<u>-</u>	<u>(27,561)</u>	<u>2,166</u>	<u>(661,748)</u>
Other Financing Sources (Uses)								
Transfers In	-	-	100,000	278,409	10,000	95,000	-	483,409
Transfers Out	(483,409)	-	-	-	-	-	-	(483,409)
Total Other Financing (Uses) Sources	<u>(483,409)</u>	<u>-</u>	<u>100,000</u>	<u>278,409</u>	<u>10,000</u>	<u>95,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(357,775)	(139,806)	7,927	(251,699)	10,000	67,439	2,166	(661,748)
Prior Period Adjustment	156,262	-	-	-	-	-	-	156,262
Fund Balance July 1, 2009	<u>470,249</u>	<u>186,570</u>	<u>269,399</u>	<u>4,096,270</u>	<u>540,000</u>	<u>2,194</u>	<u>1,380</u>	<u>5,566,062</u>
Fund Balance June 30, 2010	<u>\$ 268,736</u>	<u>\$ 46,764</u>	<u>\$ 277,326</u>	<u>\$ 3,844,571</u>	<u>\$ 550,000</u>	<u>\$ 69,633</u>	<u>\$ 3,546</u>	<u>\$ 5,060,576</u>

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

Change in Fund Balances - Total Governmental Funds \$ (661,748)

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	\$ (641,318)	
Capital Outlays	<u>838,317</u>	196,999

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		15,708
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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		(23,383)
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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.		5,036
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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.		<u>(4,923)</u>
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Change in Net Assets - Governmental Activities		<u><u>\$ (472,311)</u></u>
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See accompanying notes.

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

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Commission of the City of Taylor Mill, Kentucky (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, Community Event, and Senior Services 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, Kentucky.

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, Kentucky 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.

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. The City has the following major special revenue funds:

- | | |
|-----------------------------|-------------------------|
| - Municipal Road Aid Fund | - Emergency Fund |
| - Recreation Fund | - Community Events Fund |
| - Capital Improvements Fund | - Senior Services Fund |

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

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.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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 during the year ended June 30, 2010. All appropriations lapse at fiscal year end.

NOTE 4 – DEPOSITS

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, 2010, 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.

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, 2010 is \$1,450,000. This receivable is reflected in the Capital Improvement Fund. The following schedule shows the remaining payments for the purchase.

Years Ending June 30,	
2011	\$ 175,000
2012	175,000
2013	175,000
2014	175,000
2015	175,000
2016 – 2019	<u>575,000</u>
Total	<u>\$ 1,450,000</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 417,699	\$ 217,500	\$ -	\$ 635,199
Construction in Progress	<u>-</u>	<u>51,117</u>	<u>-</u>	<u>51,117</u>
 Total Capital Assets Not Being Depreciated	 <u>417,699</u>	 <u>268,617</u>	 <u>-</u>	 <u>686,316</u>
 Depreciable Capital Assets				
Buildings	1,317,489	-	-	1,317,489
Infrastructure	5,777,068	277,933	43,496	6,011,505
Equipment	1,832,351	198,087	32,144	1,998,294
Vehicles	<u>1,525,845</u>	<u>93,680</u>	<u>55,951</u>	<u>1,563,574</u>
 Total Depreciable Capital Assets	 <u>10,452,753</u>	 <u>569,700</u>	 <u>131,591</u>	 <u>10,890,862</u>
 Total Capital Assets at Historical Cost	 <u>10,870,452</u>	 <u>838,317</u>	 <u>131,591</u>	 <u>11,577,178</u>
 Less: Accumulated Depreciation				
Buildings	578,739	29,312	-	608,051
Infrastructure	3,734,852	299,425	42,051	3,992,226
Equipment	1,363,153	154,153	10,206	1,507,100
Vehicles	<u>1,198,225</u>	<u>158,428</u>	<u>55,951</u>	<u>1,300,702</u>
 Total Accumulated Depreciation	 <u>6,874,969</u>	 <u>641,318</u>	 <u>108,208</u>	 <u>7,408,079</u>
 Depreciable Capital Assets, Net	 <u>3,577,784</u>	 <u>(71,618)</u>	 <u>23,383</u>	 <u>3,482,783</u>
 Governmental Activities				
Capital Assets - Net	<u>\$ 3,995,483</u>	<u>\$ 196,999</u>	<u>\$ 23,383</u>	<u>\$ 4,169,099</u>

Depreciation was charged to functions as follows:

General Government	\$ 10,627
Police	93,173
Fire	161,703
Public Works	28,402
Streets	299,425
Recreation	<u>47,988</u>
 Total	 <u>\$ 641,318</u>

NOTE 7 – LONG TERM DEBT**Compensated Absences**

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2010.

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Retired</u>	<u>June 30, 2010</u>
Compensated Absences	\$ <u>62,192</u>	\$ <u>4,923</u>	\$ <u>-</u>	\$ <u>67,115</u>

Capital Lease Obligations

The following is a summary of the City's capital lease obligations for the years ended June 30,

	<u>2010</u>
Debt Outstanding, Beginning of Year	\$ 78,540
Additions of New Debt	-
Repayments	<u>(15,708)</u>
Debt Outstanding, End of Year	\$ <u>62,832</u>
Expected to be Paid Within One Year	\$ <u>15,708</u>

The City leases certain equipment under non-cancelable capital lease obligations at zero percent interest. The following are the net minimum future lease payments for the lease obligation:

	<u>Years Ending June 30,</u>
	2011
	2012
	2013
	2014
	<u>15,708</u>
Total Net Future Minimum Lease Payments	62,832
Less: Current Portion	<u>15,708</u>
Long-Term Capital Lease Obligations	\$ <u>47,124</u>

Net book value of leased equipment included within Capital Assets, was as follows:

Cost	\$ 157,080
Accumulated Depreciation	<u>109,956</u>
Net Book Value	\$ <u>47,124</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, 2010, 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, 2010, participating employers contributed 16.16% 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, 2010, 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, 2010, participating employers contributed 32.97% of each employee’s creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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>
2010	\$ 457,504	100%
2009	373,640	100%
2008	404,276	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, 2010 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 from time to time 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, 2010, the City discovered that the City had not been sending and franchise tax bills to the necessary customers and therefore was not collecting on any of the revenue. The City reviewed all of their files dating back to the year ended June 30, 2002 and has obtained all information necessary to bill for the franchise tax.

For the year ended June 30, 2009 and for previous years, the change in net assets increased and franchise tax revenue increased \$156,262 due to the discovery of not billing for the tax. Total assets increased and net assets increased by \$156,262 at June 30, 2009 and for previous years. Net assets as a result of the correction are restated at \$9,730,423 at July 1, 2009.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events through September 28, 2010, the date on which the financial statements were available for issue. The City did not have any events subsequent to December 31, 2010 through September 28, 2010 to disclose.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property	\$ 1,143,500	\$ 1,282,960	\$ 1,285,166	\$ 2,206
Bank Deposit	10,500	11,170	11,175	5
Payroll	800,000	668,675	671,280	2,605
Licenses and Permits	1,232,400	883,740	907,242	23,502
Intergovernmental	79,275	179,282	236,742	57,460
Charges for Services	414,000	486,000	488,357	2,357
Fines and Forfeitures	11,500	14,735	16,880	2,145
Interest	52,000	41,150	39,768	(1,382)
Miscellaneous	31,425	79,710	57,692	(22,018)
Total Revenues	<u>3,774,600</u>	<u>3,647,422</u>	<u>3,714,302</u>	<u>66,880</u>
Expenditures				
Current:				
General Government	1,029,557	947,052	918,362	28,690
Police	1,130,851	1,222,418	1,217,670	4,748
Fire	1,065,705	1,172,819	1,136,014	36,805
Public Works	315,233	304,373	290,255	14,118
Capital Outlay	-	-	26,367	(26,367)
Total Expenditures	<u>3,541,346</u>	<u>3,646,662</u>	<u>3,588,668</u>	<u>57,994</u>
Excess of Revenues Over Expenditures	233,254	760	125,634	124,874
Other Financing Uses				
Operating Transfers Out	-	-	483,409	(483,409)
Net Change in Fund Balances	233,254	760	(357,775)	(358,535)
Prior Period Adjustment	-	-	156,262	156,262
Fund Balance July 1, 2009	<u>470,249</u>	<u>470,249</u>	<u>470,249</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ 703,503</u>	<u>\$ 471,009</u>	<u>\$ 268,736</u>	<u>\$ (202,273)</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL AID FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>(Unfavorable)</u>
				<u>Favorable</u>
Revenues				
Intergovernmental	\$ 125,000	\$ 304,025	\$ 287,028	\$ (16,997)
Interest	1,500	250	292	42
Total Revenues	<u>126,500</u>	<u>304,275</u>	<u>287,320</u>	<u>(16,955)</u>
Expenditures				
Current				
Streets	63,000	43,950	43,334	616
Capital Outlay	<u>218,000</u>	<u>440,000</u>	<u>383,792</u>	<u>56,208</u>
Total Expenditures	<u>281,000</u>	<u>483,950</u>	<u>427,126</u>	<u>56,824</u>
(Deficit) Excess of Revenues Over Expenditures	(154,500)	(179,675)	(139,806)	39,869
Fund Balance July 1, 2009	<u>186,570</u>	<u>186,570</u>	<u>186,570</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ 32,070</u>	<u>\$ 6,895</u>	<u>\$ 46,764</u>	<u>\$ 39,869</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
RECREATION FUND
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget (Unfavorable) Favorable
	Original	Final		
Revenues				
Intergovernmental	\$ 55,930	\$ 55,930	\$ 55,930	\$ -
Charges for Services	38,275	38,275	27,439	(10,836)
Miscellaneous	170	170	225	55
Total Revenues	94,375	94,375	83,594	(10,781)
Expenditures				
Current				
Recreation	205,252	228,984	175,229	53,755
Capital Outlay	-	-	438	(438)
Total Expenditures	205,252	228,984	175,667	53,317
Deficit of Revenues Over Expenditures	(110,877)	(134,609)	(92,073)	42,536
Other Financing Sources				
Operating Transfers In	100,000	100,000	100,000	-
Net Change in Fund Balance	(10,877)	(34,609)	7,927	42,536
Fund Balance July 1, 2009	269,399	269,399	269,399	-
Fund Balance June 30, 2010	\$ 158,522	\$ 234,790	\$ 277,326	\$ 42,536

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAPITAL IMPROVEMENT FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>(Unfavorable)</u>
				<u>Favorable</u>
Revenues				
Miscellaneous	\$ 175,000	\$ 175,000	\$ -	\$ (175,000)
Expenditures				
Current				
General	32,208	38,958	33,660	5,298
Public Works	5,000	7,500	4,380	3,120
Capital Outlay	4,269,736	4,257,500	492,068	3,765,432
Total Expenditures	4,306,944	4,303,958	530,108	3,773,850
(Deficit) Excess of Revenues Over Expenditures	(4,131,944)	(4,128,958)	(530,108)	3,598,850
Other Financing Sources				
Transfers In	198,254	266,009	278,409	12,400
Net Change in Fund Balance	(3,933,690)	(3,862,949)	(251,699)	3,611,250
Fund Balance July 1, 2009	4,096,270	4,096,270	4,096,270	-
Fund Balance June 30, 2010	<u>\$ (35,674)</u>	<u>\$ 233,321</u>	<u>\$ 3,844,571</u>	<u>\$ 3,611,250</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
EMERGENCY FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources				
Transfers In	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
 Fund Balance July 1, 2009	 <u>540,000</u>	 <u>540,000</u>	 <u>540,000</u>	 <u>-</u>
 Fund Balance June 30, 2010	 <u><u>\$ 550,000</u></u>	 <u><u>\$ 550,000</u></u>	 <u><u>\$ 550,000</u></u>	 <u><u>\$ -</u></u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
COMMUNITY EVENTS FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 25,125	\$ 24,790	\$ 26,844	\$ 2,054
Expenditures				
Current				
Recreation	<u>57,475</u>	<u>57,485</u>	<u>54,405</u>	<u>3,080</u>
Deficit of Revenues Over Expenditures	(32,350)	(32,695)	(27,561)	5,134
Other Financing Sources				
Transfers In	<u>35,000</u>	<u>95,000</u>	<u>95,000</u>	<u>-</u>
Net Change in Fund Balance	2,650	62,305	67,439	5,134
Fund Balance July 1, 2009	<u>2,194</u>	<u>2,194</u>	<u>2,194</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ 4,844</u>	<u>\$ 64,499</u>	<u>\$ 69,633</u>	<u>\$ 5,134</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
SENIOR SERVICES FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 7,300	\$ 17,285	\$ 18,136	\$ 851
Expenditures				
Current				
Recreation	<u>6,100</u>	<u>17,925</u>	<u>15,970</u>	<u>1,955</u>
Excess (Deficit) of Revenues Over Expenditures	1,200	(640)	2,166	2,806
Other Financing Sources				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	1,200	(640)	2,166	2,806
Fund Balance July 1, 2009	<u>1,380</u>	<u>1,380</u>	<u>1,380</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ 2,580</u>	<u>\$ 740</u>	<u>\$ 3,546</u>	<u>\$ 2,806</u>

**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, Kentucky

We have audited the financial statements of the governmental activities and each major fund of City of Taylor Mill, Kentucky as of and for the year ended June 30, 2010, which collectively comprise the City of Taylor Mill, Kentucky's basic financial statements and have issued our report thereon dated September 28, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Taylor Mill, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taylor Mill, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Taylor Mill, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant.

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 misstatements on a timely basis. A material weakness is a deficiency or combination of control deficiencies, in internal control 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. We consider the following deficiency to be a material weakness.

Finding 2009-1

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.

Management's Response

The City agrees with the above finding and will implement precautionary procedures whenever possible to increase segregation of duties.

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. We consider the deficiency below to be a significant deficiency.

Finding 2009-2

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.

Management's Response

The City agrees with the above finding and has designated a competent employee to oversee those services. In addition, we have taken responsibility for the financial statements.

Honorable Mayor
Members of City Commission
City of Taylor Mill, Kentucky
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taylor Mill, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the 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.

Fort Mitchell, Kentucky
September 28, 2010