

CITY OF TAYLOR MILL, KENTUCKY

June 30, 2011

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT*



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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, 2011, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2011, 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 November 3, 2011 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 14 through 20 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
November 3, 2011

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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, 2011. 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 2011 are as follows:

- The assets of the City exceeded its liabilities by \$8,473,023 (net assets) at June 30, 2011. Of this amount, \$4,436,398 (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 \$785,089.
- As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$4,583,283, a decrease of \$477,293.
- As of June 30, 2011, unreserved fund balance for the general fund was \$153,344.

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, 2011
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 21 through 30 of this report.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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 2011 compared to 2010:

**Table 1
Net Assets**

	Governmental Activities	
	2011	2010
Assets		
Current and Other Assets	\$ 4,831,849	\$ 5,437,975
Capital Assets, Net	3,980,736	4,169,099
Total Assets	8,812,585	9,607,074
Liabilities		
Current and Other Liabilities	230,190	234,723
Long-Term Liabilities	109,372	114,239
Total Liabilities	339,562	348,962
Net Assets		
Invested in Capital Assets		
Net of Related Debt	3,933,612	4,106,267
Restricted for Municipal Aid	103,013	46,764
Unrestricted	4,436,398	5,105,081
Total Net Assets	\$ 8,473,023	\$ 9,258,112

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 \$8.5 million as of June 30, 2011.

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 (1.2%) 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, 2011
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal years 2011 and 2010.

**Table 2
Change in Net Assets**

	<u>Governmental Activities</u>	
	<u>Years Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
General Revenues		
Property Taxes	\$ 1,273,312	\$ 1,295,792
Payroll Taxes	765,526	676,865
Insurance Tax	542,438	494,699
Utility Tax	201,815	201,114
Other Licenses and Permits	325,075	211,429
Fines and Forfeits	14,273	16,880
Interest	22,472	40,060
Miscellaneous	86,709	101,502
Gain (Loss) on Disposal of Capital Assets	<u>17,027</u>	<u>(4,053)</u>
Total General Revenues	<u>3,248,647</u>	<u>3,034,288</u>
Program Revenues		
Charges for Service	506,724	515,112
Operating Grants and Contributions	88,106	229,016
Capital Grants and Contributions	<u>139,332</u>	<u>333,433</u>
Total Program Revenues	<u>734,162</u>	<u>1,077,561</u>
Total Revenues	<u>3,982,809</u>	<u>4,111,849</u>
Program Expenses		
General Government	971,891	963,281
Police	1,225,094	1,222,771
Fire	1,156,066	1,273,351
Public Works	623,090	321,893
Streets	513,566	531,926
Recreation	<u>278,191</u>	<u>270,938</u>
Total Program Expenses	<u>4,767,898</u>	<u>4,584,160</u>
Change in Net Assets	(785,089)	(472,311)
Prior Period Adjustment	<u>-</u>	<u>156,262</u>
Decrease in Net Assets	<u>\$ (785,089)</u>	<u>\$ (316,049)</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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 \$4.6 million. While revenues decreased 0.5%, expenses also decreased by 4.3%. The decrease in revenues is largely due to tax revenue. The decrease in expenses is due to the decrease 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 \$268,736.

For the General Fund, actual revenues, in the amount of \$3.9 million were very similar to the budgeted revenues.

Expenditures and other financing uses were budgeted at \$4.2 million while actual expenditures and other financing uses were \$4.0 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the City had \$4 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2011 balances compared to fiscal year 2010.

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 635,199	\$ 635,199
Construction in Progress	195,690	51,117
Buildings	680,125	709,438
Infrastructure	1,841,048	2,019,279
Equipment	424,739	491,194
Vehicles	<u>203,935</u>	<u>262,872</u>
	<u>\$ 3,980,736</u>	<u>\$ 4,169,099</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Outstanding Debt

At June 30, 2011, the City had an obligation for unpaid sick time to employees totaling \$77,956.

At June 30, 2011, the City had \$47,124 of outstanding capital lease obligations of which \$15,708 is considered current.

Economic Factors and Next Year's Budget

The City of Taylor Mill was recently notified that the construction of Phase 1 of State Route 16, also known as Taylor Mill Road will commence prior to the end of 2011. The construction of this phase will also lead to the development 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. While in the future we expect to see growth in the commercial development, in the meantime, we have seen at least a \$2.2 million decrease in total taxable real estate property. This is most likely the combined result of property acquisition by the State for the new highway but also the re-evaluation of property within our community.

In conjunction, with this project the City of Taylor Mill is working on two (2) major capital improvement projects. They are: the installation of underground utilities and the creation of a streetscape along Phase 1 of the KY 16 project, in addition to the installation of landscaped center aisle ways along another section of KY16 near the interstate overpass.

The reconstruction, maintenance, and upkeep of city owned public rights-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. This work is in addition to roadways damaged by heavy rainfall in the spring of 2011.

Additionally, the City is still working with architects from CDS & Associates to design a new municipal center that would replace our existing dilapidated facilities.

Other issues that are expected to continue to impact the budget during future fiscal years are: the need to implement anticipated increases to employer contribution requirements of the City Employee Retirement System (CERS); the continued replacement of capital equipment in the Police and Fire/EMS Departments in accordance with the depreciation schedule, as well as, ongoing and planned maintenance and improvement to Pride Park.

The City of Taylor Mill works diligently to limit the amount of debt it incurs, 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.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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, 2011

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 3,090,661
Accounts Receivable	1,739,656
Accrued Interest Receivable	<u>1,532</u>
Total Current Assets	<u>4,831,849</u>
Noncurrent Assets	
Capital Assets	
Land	635,199
Construction in Progress	195,690
Buildings	1,317,489
Infrastructure	6,134,406
Equipment	2,060,407
Vehicles	1,480,950
Less Accumulated Depreciation	<u>(7,843,405)</u>
Total Capital Assets	<u>3,980,736</u>
Total Assets	<u>8,812,585</u>
Liabilities	
Current Liabilities	
Accounts Payable	168,367
Accrued Liabilities	46,115
Capital Lease Obligations - Current Portion	<u>15,708</u>
Total Current Liabilities	<u>230,190</u>
Noncurrent Liabilities	
Compensated Absences	77,956
Capital Lease Obligations - Long Term Portion	<u>31,416</u>
Total Noncurrent Liabilities	<u>109,372</u>
Total Liabilities	<u>339,562</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,933,612
Restricted for Municipal Aid	103,013
Unrestricted	<u>4,436,398</u>
Total Net Assets	<u><u>\$ 8,473,023</u></u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Programs	Expenses	Charges for Services	Program Revenue Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Primary Government Total Governmental Activities
Primary Government					
Governmental Activities					
General Government	\$ 971,891	\$ 335,439	\$ 3,452	\$ -	\$ (633,000)
Police	1,225,094	-	73,723	-	(1,151,371)
Fire	1,156,066	133,887	10,931	5,210	(1,006,038)
Public Works	623,090	-	-	-	(623,090)
Streets	513,566	-	-	134,122	(379,444)
Recreation	278,191	37,398	-	-	(240,793)
Total Primary Government	\$ 4,767,898	\$ 506,724	\$ 88,106	\$ 139,332	(4,033,736)
General Revenues					
Property Taxes					1,273,312
Payroll Taxes					765,526
Insurance Tax					542,438
Utility Tax					201,815
Other Licenses and Permits					325,075
Fines and Forfeitures					14,273
Interest					22,472
Miscellaneous					86,709
Gain on Sale of Capital Assets					17,027
Total General Revenues					<u>3,248,647</u>
Change in Net Assets					(785,089)
Net Assets July 1, 2010					<u>9,258,112</u>
Net Assets June 30, 2011					<u><u>\$ 8,473,023</u></u>

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	<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	\$ (203,367)	\$ 104,833	\$ 367,582	\$ 2,221,019	\$ 555,000	\$ 39,994	\$ 5,600	\$ 3,090,661
Receivables								
Property Taxes	25,316	-	-	-	-	-	-	25,316
Franchise Taxes	14,103	-	-	-	-	-	-	14,103
Waste Assessments	8,768	-	-	-	-	-	-	8,768
Accounts	381,214	-	-	1,275,000	-	-	-	1,656,214
Other	35,255	-	-	-	-	-	-	35,255
Accrued Interest Receivable	1,532	-	-	-	-	-	-	1,532
Total Assets	<u>\$ 262,821</u>	<u>\$ 104,833</u>	<u>\$ 367,582</u>	<u>\$ 3,496,019</u>	<u>\$ 555,000</u>	<u>\$ 39,994</u>	<u>\$ 5,600</u>	<u>\$ 4,831,849</u>
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	\$ 29,492	\$ 1,820	\$ 34,612	\$ 102,182	\$ -	\$ 261	\$ -	\$ 168,367
Accrued Liabilities	45,901	-	214	-	-	-	-	46,115
Deferred Revenue	34,084	-	-	-	-	-	-	34,084
Total Liabilities	<u>109,477</u>	<u>1,820</u>	<u>34,826</u>	<u>102,182</u>	<u>-</u>	<u>261</u>	<u>-</u>	<u>248,566</u>
Fund Balances								
Restricted								
Municipal Aid Fund	-	103,013	-	-	-	-	-	103,013
Committed								
Emergency Fund	-	-	-	-	555,000	-	-	555,000
Capital Improvement Fund	-	-	-	3,393,837	-	-	-	3,393,837
Assigned								
Recreation Fund	-	-	332,756	-	-	-	-	332,756
Community Events Fund	-	-	-	-	-	39,733	-	39,733
Senior Services Fund	-	-	-	-	-	-	5,600	5,600
Unassigned								
General Fund	153,344	-	-	-	-	-	-	153,344
Total Fund Balances	<u>153,344</u>	<u>103,013</u>	<u>332,756</u>	<u>3,393,837</u>	<u>555,000</u>	<u>39,733</u>	<u>5,600</u>	<u>4,583,283</u>
Total Liabilities and Fund Balances	<u>\$ 262,821</u>	<u>\$ 104,833</u>	<u>\$ 367,582</u>	<u>\$ 3,496,019</u>	<u>\$ 555,000</u>	<u>\$ 39,994</u>	<u>\$ 5,600</u>	<u>\$ 4,831,849</u>

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2011**

Total Fund Balance - Governmental Funds \$ 4,583,283

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	\$ 11,824,141	
Accumulated Depreciation	<u>7,843,405</u>	
		3,980,736

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.	34,084
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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	(47,124)
Compensated Absences	<u>(77,956)</u>

Net Assets of Governmental Activities in the Statement of Net Assets	\$ <u><u>8,473,023</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, 2011

	<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	\$ 2,160,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,160,300
Licenses and Permits	1,069,328	-	-	-	-	-	-	1,069,328
Intergovernmental	97,752	134,122	-	-	-	-	-	231,874
Charges for Services	472,164	-	37,747	-	-	-	-	509,911
Fines & Forfeitures	14,273	-	-	-	-	-	-	14,273
Interest	22,423	49	-	-	-	-	-	22,472
Miscellaneous	52,492	-	338	-	-	32,863	15,402	101,095
Total Revenues	<u>3,888,732</u>	<u>134,171</u>	<u>38,085</u>	<u>-</u>	<u>-</u>	<u>32,863</u>	<u>15,402</u>	<u>4,109,253</u>
Expenditures								
Current								
General Government	937,087	-	-	20,604	-	-	-	957,691
Police	1,152,276	-	-	-	-	-	-	1,152,276
Fire	1,034,833	-	-	-	-	-	-	1,034,833
Public Works	319,201	-	-	320,217	-	-	-	639,418
Streets	-	74,435	-	-	-	-	-	74,435
Recreation	-	-	172,237	-	-	62,593	13,348	248,178
Capital Outlay	21,741	103,487	10,418	343,899	-	170	-	479,715
Total Expenditures	<u>3,465,138</u>	<u>177,922</u>	<u>182,655</u>	<u>684,720</u>	<u>-</u>	<u>62,763</u>	<u>13,348</u>	<u>4,586,546</u>
Excess (Deficit) of Revenues Over Expenditures	<u>423,594</u>	<u>(43,751)</u>	<u>(144,570)</u>	<u>(684,720)</u>	<u>-</u>	<u>(29,900)</u>	<u>2,054</u>	<u>(477,293)</u>
Other Financing Sources (Uses)								
Transfers In	-	100,000	200,000	233,986	5,000	-	-	538,986
Transfers Out	(538,986)	-	-	-	-	-	-	(538,986)
Total Other Financing (Uses) Sources	<u>(538,986)</u>	<u>100,000</u>	<u>200,000</u>	<u>233,986</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(115,392)</u>	<u>56,249</u>	<u>55,430</u>	<u>(450,734)</u>	<u>5,000</u>	<u>(29,900)</u>	<u>2,054</u>	<u>(477,293)</u>
Fund Balance July 1, 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>
Fund Balance June 30, 2011	<u>\$ 153,344</u>	<u>\$ 103,013</u>	<u>\$ 332,756</u>	<u>\$ 3,393,837</u>	<u>\$ 555,000</u>	<u>\$ 39,733</u>	<u>\$ 5,600</u>	<u>\$ 4,583,283</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, 2011

Change in Fund Balances - Total Governmental Funds \$ (477,293)

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 depreciation exceeds capital outlay in the period.

Depreciation Expense	\$ (579,704)	
Capital Outlays	<u>393,480</u>	(186,224)

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		(2,139)
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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.		(124,300)
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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>(10,841)</u>
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Change in Net Assets - Governmental Activities		<u><u>\$ (785,089)</u></u>
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See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property	\$ 1,332,000	\$ 1,369,000	\$ 1,388,678	\$ 19,678
Bank Deposit	10,750	11,100	11,119	19
Payroll	670,000	710,000	760,503	50,503
Licenses and Permits	1,033,200	1,031,750	1,069,328	37,578
Intergovernmental	96,975	131,125	97,752	(33,373)
Charges for Services	483,500	611,125	472,164	(138,961)
Fines and Forfeitures	11,500	13,225	14,273	1,048
Interest	43,000	21,200	22,423	1,223
Miscellaneous	55,750	55,050	52,492	(2,558)
Total Revenues	<u>3,736,675</u>	<u>3,953,575</u>	<u>3,888,732</u>	<u>(64,843)</u>
Expenditures				
Current:				
General Government	1,036,029	999,334	937,087	62,247
Police	1,165,518	1,196,033	1,152,276	43,757
Fire	1,147,464	1,148,514	1,034,833	113,681
Public Works	322,905	339,444	319,201	20,243
Capital Outlay	-	-	21,741	(21,741)
Total Expenditures	<u>3,671,916</u>	<u>3,683,325</u>	<u>3,465,138</u>	<u>218,187</u>
Excess of Revenues Over Expenditures	64,759	270,250	423,594	153,344
Other Financing Uses				
Operating Transfers Out	169,759	538,986	538,986	-
Net Change in Fund Balances	(105,000)	(268,736)	(115,392)	153,344
Fund Balance July 1, 2010	<u>268,736</u>	<u>268,736</u>	<u>268,736</u>	<u>-</u>
Fund Balance June 30, 2011	<u>\$ 163,736</u>	<u>\$ -</u>	<u>\$ 153,344</u>	<u>\$ 153,344</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, 2011

	<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	\$ 132,700	\$ 134,100	\$ 134,122	\$ 22
Interest	250	25	49	24
Total Revenues	<u>132,950</u>	<u>134,125</u>	<u>134,171</u>	<u>46</u>
Expenditures				
Current				
Streets	57,500	75,500	74,435	1,065
Capital Outlay	<u>190,000</u>	<u>190,000</u>	<u>103,487</u>	<u>86,513</u>
Total Expenditures	<u>247,500</u>	<u>265,500</u>	<u>177,922</u>	<u>87,578</u>
(Deficit) Excess of Revenues Over Expenditures	(114,550)	(131,375)	(43,751)	87,624
Other Financing Sources				
Operating Transfers In	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Net Change in Fund Balance	<u>(114,550)</u>	<u>(31,375)</u>	<u>56,249</u>	<u>87,624</u>
Fund Balance July 1, 2010	<u>46,764</u>	<u>46,764</u>	<u>46,764</u>	<u>-</u>
Fund Balance June 30, 2011	<u><u>\$ (67,786)</u></u>	<u><u>\$ 15,389</u></u>	<u><u>\$ 103,013</u></u>	<u><u>\$ 87,624</u></u>

See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget (Unfavorable) Favorable</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 43,350	\$ 44,000	\$ 37,747	\$ (6,253)
Miscellaneous	100	250	338	88
Total Revenues	<u>43,450</u>	<u>44,250</u>	<u>38,085</u>	<u>(6,165)</u>
Expenditures				
Current				
Recreation	253,000	222,250	172,237	50,013
Capital Outlay	10,750	11,500	10,418	1,082
Total Expenditures	<u>263,750</u>	<u>233,750</u>	<u>182,655</u>	<u>51,095</u>
Deficit of Revenues Over Expenditures	(220,300)	(189,500)	(144,570)	44,930
Other Financing Sources				
Operating Transfers In	100,000	200,000	200,000	-
Net Change in Fund Balance	<u>(120,300)</u>	<u>10,500</u>	<u>55,430</u>	<u>44,930</u>
Fund Balance July 1, 2010	<u>277,326</u>	<u>277,326</u>	<u>277,326</u>	<u>-</u>
Fund Balance June 30, 2011	<u><u>\$ 57,026</u></u>	<u><u>\$ 287,826</u></u>	<u><u>\$ 332,756</u></u>	<u><u>\$ 44,930</u></u>

See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
	<u>Original</u>	<u>Final</u>		<u>Favorable</u>
Revenues				
Miscellaneous	\$ 175,000	\$ 175,000	\$ -	\$ (175,000)
Expenditures				
Current				
General	28,208	26,708	20,604	6,104
Public Works	7,500	5,000	320,217	(315,217)
Capital Outlay	<u>4,065,875</u>	<u>2,487,000</u>	<u>343,899</u>	<u>2,143,101</u>
Total Expenditures	<u>4,101,583</u>	<u>2,518,708</u>	<u>684,720</u>	<u>1,833,988</u>
(Deficit) Excess of Revenues Over Expenditures	(3,926,583)	(2,343,708)	(684,720)	1,658,988
Other Financing Sources				
Transfers In	<u>64,759</u>	<u>233,986</u>	<u>233,986</u>	<u>-</u>
Net Change in Fund Balance	(3,861,824)	(2,109,722)	(450,734)	1,658,988
Fund Balance July 1, 2010	<u>3,844,571</u>	<u>3,844,571</u>	<u>3,844,571</u>	<u>-</u>
Fund Balance June 30, 2011	<u>\$ (82,012)</u>	<u>\$ 1,734,849</u>	<u>\$ 3,393,837</u>	<u>\$ 1,658,988</u>

See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources				
Transfers In	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Fund Balance July 1, 2010	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>-</u>
Fund Balance June 30, 2011	<u>\$ 555,000</u>	<u>\$ 555,000</u>	<u>\$ 555,000</u>	<u>\$ -</u>

See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 32,675	\$ 27,900	\$ 32,863	\$ 4,963
Expenditures				
Current				
Recreation	66,800	71,010	62,593	8,417
Capital Outlay	1,000	500	170	330
Total Expenditures	67,800	71,510	62,763	8,747
Deficit of Revenues Over Expenditures	(35,125)	(43,610)	(29,900)	13,710
Other Financing Sources				
Transfers In	-	-	-	-
Net Change in Fund Balance	(35,125)	(43,610)	(29,900)	13,710
Fund Balance July 1, 2010	69,633	69,633	69,633	-
Fund Balance June 30, 2011	<u>\$ 34,508</u>	<u>\$ 26,023</u>	<u>\$ 39,733</u>	<u>\$ 13,710</u>

See accompanying notes.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 14,550	\$ 14,379	\$ 15,402	\$ 1,023
Expenditures				
Current				
Recreation	<u>13,450</u>	<u>14,230</u>	<u>13,348</u>	<u>882</u>
Excess of Revenues Over Expenditures	1,100	149	2,054	1,905
Other Financing Sources				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	1,100	149	2,054	1,905
Fund Balance July 1, 2010	<u>3,546</u>	<u>3,546</u>	<u>3,546</u>	<u>-</u>
Fund Balance June 30, 2011	<u>\$ 4,646</u>	<u>\$ 3,695</u>	<u>\$ 5,600</u>	<u>\$ 1,905</u>

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:

Description	Governmental Activities Estimated Lives
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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Governmental Fund Balances**

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Commission.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

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.

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

NOTE 4 – DEPOSITS (Continued)**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, 2011, 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, 2011 is \$1,275,000. This receivable is reflected in the Capital Improvement Fund. The following schedule shows the remaining payments for the purchase.

Years Ending <u>June 30,</u>	
2012	\$ 175,000
2013	175,000
2014	175,000
2015	175,000
2016	175,000
2017 – 2019	<u>400,000</u>
Total	<u>\$ 1,275,000</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 635,199	\$ -	\$ -	\$ 635,199
Construction in Progress	51,117	144,573	-	195,690
Total Capital Assets Not Being Depreciated	686,316	144,573	-	830,889
Depreciable Capital Assets				
Buildings	1,317,489	-	-	1,317,489
Infrastructure	6,011,505	122,901	-	6,134,406
Equipment	1,998,294	67,876	5,763	2,060,407
Vehicles	1,563,574	58,130	140,754	1,480,950
Total Depreciable Capital Assets	10,890,862	248,907	146,517	10,993,252
Total Capital Assets at Historical Cost	11,577,178	393,480	146,517	11,824,141
Less: Accumulated Depreciation				
Buildings	608,051	29,313	-	637,364
Infrastructure	3,992,226	301,132	-	4,293,358
Equipment	1,507,100	133,459	4,891	1,635,668
Vehicles	1,300,702	115,800	139,487	1,277,015
Total Accumulated Depreciation	7,408,079	579,704	144,378	7,843,405
Depreciable Capital Assets, Net	3,482,783	(330,797)	2,139	3,149,847
Governmental Activities Capital Assets - Net	\$ 4,169,099	\$ (186,224)	\$ 2,139	\$ 3,980,736

Depreciation was charged to functions as follows:

General Government	\$ 9,806
Police	76,183
Fire	112,898
Public Works	31,226
Streets	301,132
Recreation	48,459
Total	\$ 579,704

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, 2011.

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Retired</u>	<u>June 30, 2011</u>
Compensated Absences	\$ <u>67,115</u>	\$ <u>10,841</u>	\$ <u>-</u>	\$ <u>77,956</u>

Capital Lease Obligations

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

	<u>2011</u>
Debt Outstanding, Beginning of Year	\$ 62,832
Additions of New Debt	-
Repayments	<u>(15,708)</u>
Debt Outstanding, End of Year	\$ <u>47,124</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>
	2012
	2013
	2014
	<u>15,708</u>
Total Net Future Minimum Lease Payments	47,124
Less: Current Portion	<u>15,708</u>
Long-Term Capital Lease Obligations	\$ <u>31,416</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, 2011, 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, 2011, participating employers contributed 16.93% 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, 2011, 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, 2011, participating employers contributed 33.25% 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>
2011	\$ 445,965	100%
2010	457,504	100%
2009	373,640	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, 2011 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 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent statement of net assets, have been evaluated for possible adjustments to the financial statements or disclosure is November 3, 2011 which is the date on which the financial statements were available to be issued.

**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, 2011, which collectively comprise the City of Taylor Mill, Kentucky's basic financial statements and have issued our report thereon dated November 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of 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 deficiencies.

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 2011-1

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 2011-2

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, management of the City has taken responsibility for the financial statements.

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*.

Honorable Mayor
Members of City Commission
City of Taylor Mill, Kentucky
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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
November 3, 2011