

CITY OF TAYLOR MILL, KENTUCKY

June 30, 2012

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part 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 26, respectively, 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 14, 2012

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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, 2012. 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 2012 are as follows:

- The assets of the City exceeded its liabilities by \$8,502,918 (net assets) at June 30, 2012. Of this amount, \$3,839,171 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$10,669.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$4,074,174, a decrease of \$528,335.
- As of June 30, 2012, unreserved fund balance for the general fund was \$347,720.

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, 2012
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 to the financial statements 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 23 of this report.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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 2012 compared to 2011 (2011 does not include the effects of the prior period adjustment).

**Table 1
Net Assets**

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 4,238,506	\$ 4,831,849
Capital Assets, Net	<u>4,519,742</u>	<u>3,980,736</u>
Total Assets	<u>8,758,248</u>	<u>8,812,585</u>
Liabilities		
Current and Other Liabilities	150,787	230,190
Long-Term Liabilities	<u>104,543</u>	<u>109,372</u>
Total Liabilities	<u>255,330</u>	<u>339,562</u>
Net Assets		
Invested in Capital Assets		
Net of Related Debt	4,488,326	3,933,612
Restricted for Municipal Aid	175,421	103,013
Unrestricted	<u>3,839,171</u>	<u>4,436,398</u>
Total Net Assets	<u>\$ 8,502,918</u>	<u>\$ 8,473,023</u>

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 approximately \$8.5 million as of June 30, 2012.

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 (2.1%) 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, 2012
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal years 2012 and 2011 (2011 does not include the effects of the prior period adjustment).

**Table 2
Change in Net Assets**

	Governmental Activities Years Ended June 30,	
	<u>2012</u>	<u>2011</u>
Revenues		
General Revenues		
Property Taxes	\$ 1,527,904	\$ 1,273,312
Payroll Taxes	901,643	765,526
Insurance Taxes	574,589	542,438
Utility Tax	194,200	201,815
Other Licenses and Permits	265,105	325,075
Fines and Forfeitures	11,999	14,273
Interest	15,291	22,472
Miscellaneous	150,042	86,709
Gain on Disposal of Capital Assets	<u>12,545</u>	<u>17,027</u>
Total General Revenues	<u>3,653,318</u>	<u>3,248,647</u>
Program Revenues		
Charges for Service	494,998	506,724
Operating Grants and Contributions	133,428	88,106
Capital Grants and Contributions	<u>345,025</u>	<u>139,332</u>
Total Program Revenues	<u>973,451</u>	<u>734,162</u>
Total Revenues	<u>4,626,769</u>	<u>3,982,809</u>
Program Expenses		
General Government	1,028,164	971,891
Police	1,382,690	1,225,094
Fire	1,205,595	1,156,066
Public Works	333,209	623,090
Streets	407,241	513,566
Recreation	<u>259,201</u>	<u>278,191</u>
Total Program Expenses	<u>4,616,100</u>	<u>4,767,898</u>
Change in Net Assets	10,669	(785,089)
Prior Period Adjustment	<u>19,226</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 29,895</u>	<u>\$ (785,089)</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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 approximately \$4.6 million and expenditures of approximately \$5.2 million. While revenues increased 12.8%, expenses also increased by 12.5%. The increase in revenues is largely due to tax revenue. The increase in expenses is due to the increase in expenses associated with capital improvement and general funds.

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 of the fiscal year was \$1,086,433.

For the general fund, actual revenues, in the amount of approximately \$4.4 million were slightly higher than budgeted revenues of approximately \$4.2 million.

Expenditures and other financing uses were budgeted at approximately \$4.4 million while actual expenditures and other financing uses were approximately \$4.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the City had approximately \$4.5 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2012 balances compared to fiscal year 2011.

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

	Governmental Activities	
	2012	2011
Land	\$ 872,751	\$ 635,199
Construction in Progress	195,690	195,690
Buildings and Improvements	650,813	680,125
Infrastructure	2,129,976	1,841,048
Equipment	504,680	424,739
Vehicles	165,832	203,935
	<u>\$ 4,519,742</u>	<u>\$ 3,980,736</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Outstanding Debt

At June 30, 2012, the City had an obligation for unpaid sick time to employees totaling \$88,835.

At June 30, 2012, the City had \$31,416 of outstanding capital lease obligations of which \$15,708 is considered current.

Economic Factors and Next Year's Budget

The City of Taylor Mill has seen Phase 1 Reconstruction of the KY 16 project commence, and anticipate Phase 2 of the KY 16 Reconstruction project to begin in fiscal year 2013-2014. The City continues to market 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.

The City will continue to be involved in a portion of the KY 16 Reconstruction project as we continue to work closely with the state to have a turn lane at the intersection of Honey Drive and Old Taylor Mill Road installed, along with underground utilities in the area, and conduit for pedestrian street lighting along a portion of the corridor within our business district. In addition to traditional streetscape fixtures (trash cans, benches, signage, lighting, etc.) the City will be installing a decorative mast arm traffic signal with decorative pedestrian crosswalk equipment. The City also completed the installation of decorative landscaped center lanes along a portion of the existing KY 16, and did some work near the interstate ramps to improve the areas aesthetically. This project will help establish continuity between the new KY 16 and the remaining KY 16 that is not affected by the reconstruction efforts.

The City remains committed to designing and building a new municipal center that would replace the City's existing dilapidated facilities. However, this project has been put on hold indefinitely until the City realizes some commercial growth within the Districts of Taylor Mill zones. The City will continue to grow the funds set aside and earmarked for this endeavor until such a time as the project moves forward.

Other issues that 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 improvements to Pride Park.

The City also is working with Human Nature, Inc. to create a master plan for Pride Park and Park Place that will continue to allow residents to enjoy our 80 acre park facility. Park Place continues to be a vibrant part of Pride Park and yield significant rental opportunities that can be increased with the addition of a Gazebo for the purpose of hosting outdoor weddings. The facility needs to be improved in terms of parking conditions in order to be in compliance with all ADA requirements and the City Commission wishes to make this issue a priority in future budget years.

The City 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 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, 2012
UNAUDITED
(Continued)**

Contacting the City's Financial Management

This financial report is designed to provide the citizens, taxpayers, investors, and creditors of the City 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, 2012

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 740,723
Short Term Investments	1,754,606
Accounts Receivable - Current Portion	817,298
Accrued Interest Receivable	<u>879</u>
Total Current Assets	<u>3,313,506</u>
Noncurrent Assets	
Accounts Receivable - Long-Term Portion	<u>925,000</u>
Capital Assets	
Land	872,751
Construction in Progress	195,690
Buildings and Improvements	1,317,489
Infrastructure	6,670,008
Equipment	2,259,529
Vehicles	1,504,413
Less Accumulated Depreciation	<u>(8,300,138)</u>
Total Capital Assets	<u>4,519,742</u>
Total Noncurrent Assets	<u>5,444,742</u>
Total Assets	<u>8,758,248</u>
Liabilities	
Current Liabilities	
Accounts Payable	97,602
Accrued Liabilities	37,477
Capital Lease Obligation - Current Portion	<u>15,708</u>
Total Current Liabilities	<u>150,787</u>
Noncurrent Liabilities	
Compensated Absences	88,835
Capital Lease Obligation - Long-Term Portion	<u>15,708</u>
Total Noncurrent Liabilities	<u>104,543</u>
Total Liabilities	<u>255,330</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,488,326
Restricted for Municipal Aid	175,421
Unrestricted	<u>3,839,171</u>
Total Net Assets	<u><u>\$ 8,502,918</u></u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Program Revenue		Capital Grants and Contributions	Net (Expense) Revenue and Primary Government Total Governmental Activities
			Operating	Grants and		
			Contributions	Contributions		
Primary Government						
Governmental Activities						
General Government	\$ 1,028,164	\$ 337,049	\$ 3,340	\$ -	-	(687,775)
Police	1,382,690	-	116,413	-	-	(1,266,277)
Fire	1,205,595	119,839	13,675	132,770	-	(939,311)
Public Works	333,209	-	-	-	-	(333,209)
Streets	407,241	-	-	212,255	-	(194,986)
Recreation	259,201	38,110	-	-	-	(221,091)
Total Primary Government	<u>\$ 4,616,100</u>	<u>\$ 494,998</u>	<u>\$ 133,428</u>	<u>\$ 345,025</u>	<u>\$ -</u>	<u>(3,642,649)</u>
General Revenues						
Property Taxes						1,527,904
Payroll Taxes						901,643
Insurance Tax						574,589
Utility Tax						194,200
Other Licenses and Permits						265,105
Fines and Forfeitures						11,999
Interest						15,291
Miscellaneous						150,042
Gain on Sale of Capital Assets						12,545
Total General Revenues						<u>3,653,318</u>
Change in Net Assets						10,669
Prior Period Adjustment						19,226
Net Assets as of July 1, 2011						<u>8,473,023</u>
Net Assets as of June 30, 2012						<u>\$ 8,502,918</u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund								
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	Municipal Aid Fund	Capital Improvement Fund	Total Governmental Funds
Assets									
Cash and Cash Equivalents	\$ (1,942,205)	\$ 302,184	\$ 555,000	\$ 20,954	\$ 9,027	\$ (1,055,040)	\$ 150,107	\$ 1,645,656	\$ 740,723
Short Term Investments	1,754,606	-	-	-	-	1,754,606	-	-	1,754,606
Receivables									
Property Taxes	21,108	-	-	-	-	21,108	-	-	21,108
Franchise Taxes	6,092	-	-	-	-	6,092	-	-	6,092
Waste Assessments	8,145	-	-	-	-	8,145	-	-	8,145
Accounts	394,711	-	-	-	-	394,711	-	1,100,000	1,494,711
Other	186,928	-	-	-	-	186,928	25,314	-	212,242
Accrued Interest Receivable	879	-	-	-	-	879	-	-	879
Total Assets	\$ 430,264	\$ 302,184	\$ 555,000	\$ 20,954	\$ 9,027	\$ 1,317,429	\$ 175,421	\$ 2,745,656	\$ 4,238,506
Liabilities and Fund Balances									
Liabilities									
Accounts Payable	\$ 16,435	\$ 76,029	\$ -	\$ 1,463	\$ 445	\$ 94,372	\$ -	\$ 3,230	\$ 97,602
Accrued Liabilities	36,856	621	-	-	-	37,477	-	-	37,477
Deferred Revenue	29,253	-	-	-	-	29,253	-	-	29,253
Total Liabilities	82,544	76,650	-	1,463	445	161,102	-	3,230	164,332
Fund Balances									
Restricted									
Municipal Aid	-	-	-	-	-	-	175,421	-	175,421
Committed									
Emergency	-	-	555,000	-	-	555,000	-	-	555,000
Capital Improvement	-	-	-	-	-	-	-	2,742,426	2,742,426
Assigned									
Recreation	-	225,534	-	-	-	225,534	-	-	225,534
Community Events	-	-	-	19,491	-	19,491	-	-	19,491
Senior Services	-	-	-	-	8,582	8,582	-	-	8,582
Unassigned									
General	347,720	-	-	-	-	347,720	-	-	347,720
Total Fund Balances	347,720	225,534	555,000	19,491	8,582	1,156,327	175,421	2,742,426	4,074,174
Total Liabilities and Fund Balances	\$ 430,264	\$ 302,184	\$ 555,000	\$ 20,954	\$ 9,027	\$ 1,317,429	\$ 175,421	\$ 2,745,656	\$ 4,238,506

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balance - Governmental Funds \$ 4,074,174

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 the governmental funds.

Cost of Capital Assets	\$ 12,819,880	
Accumulated Depreciation	<u>8,300,138</u>	
		4,519,742

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds. 29,253

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Capital Lease Obligation (31,416)

Compensated Absences (88,835)

Net Assets of Governmental Activities in the Statement of Net Assets **\$ 8,502,918**

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General Fund							Total Governmental Funds	
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	Municipal Aid Fund		Capital Improvement Fund
Revenues									
Taxes	\$ 2,433,755	\$ -	\$ -	\$ -	\$ -	\$ 2,433,755	\$ -	\$ -	2,433,755
Licenses and Permits	1,033,894	-	-	-	-	1,033,894	-	-	1,033,894
Intergovernmental	273,816	-	-	-	-	273,816	212,255	-	486,071
Charges for Services	457,511	38,413	-	-	-	495,924	-	-	495,924
Fines & Forfeitures	11,999	-	-	-	-	11,999	-	-	11,999
Interest	15,161	-	-	-	-	15,161	130	-	15,291
Miscellaneous	42,035	922	-	50,196	10,913	104,066	-	52,754	156,820
Total Revenues	4,268,171	39,335	-	50,196	10,913	4,368,615	212,385	52,754	4,633,754
Expenditures									
Current									
General Government	1,007,059	-	-	-	-	1,007,059	-	16,848	1,023,907
Police	1,324,200	-	-	-	-	1,324,200	-	-	1,324,200
Fire	1,250,641	-	-	-	-	1,250,641	-	-	1,250,641
Public Works	315,283	-	-	-	-	315,283	-	696,125	1,011,408
Streets	-	-	-	-	-	-	104,586	-	104,586
Recreation	-	143,119	-	70,438	7,931	221,488	-	-	221,488
Capital Outlay	14,952	3,438	-	-	-	18,390	54,617	152,852	225,859
Total Expenditures	3,912,135	146,557	-	70,438	7,931	4,137,061	159,203	865,825	5,162,089
Excess (Deficit) of Revenues Over Expenditures	356,036	(107,222)	-	(20,242)	2,982	231,554	53,182	(813,071)	(528,335)
Other Financing (Uses) Sources									
Transfers In	-	-	-	-	-	-	-	161,660	161,660
Transfers Out	(161,660)	-	-	-	-	(161,660)	-	-	(161,660)
Total Other Financing (Uses) Sources	(161,660)	-	-	-	-	(161,660)	-	161,660	-
Net Change in Fund Balances	194,376	(107,222)	-	(20,242)	2,982	69,894	53,182	(651,411)	(528,335)
Prior Period Adjustment	-	-	-	-	-	-	19,226	-	19,226
Fund Balance as of July 1, 2011	153,344	332,756	555,000	39,733	5,600	1,086,433	103,013	3,393,837	4,583,283
Fund Balance as of June 30, 2012	\$ 347,720	\$ 225,534	\$ 555,000	\$ 19,491	\$ 8,582	\$ 1,156,327	\$ 175,421	\$ 2,742,426	\$ 4,074,174

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, 2012**

Change in Fund Balances - Total Governmental Funds \$ (528,335)

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 outlay exceeds depreciation in the period.

Depreciation Expense	\$ (573,999)	
Capital Outlays	<u>1,114,576</u>	540,577

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 the 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.		(1,571)
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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.		(4,831)
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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>(10,879)</u>
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Change in Net Assets - Governmental Activities		<u><u>\$ 10,669</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 (General, Recreation, Emergency, Community Event and Senior Services), Municipal Aid, and Capital Improvement 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 and is comprised of the General, Recreation, Emergency, Community Events and Senior Services components.
- (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 Municipal Road Aid Fund is a major special revenue fund of the City.
- (C) The Capital Project Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for capital projects. The Capital Improvement Fund is a major capital project fund of the City.

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
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 accounting principles generally accepted in the United States of America 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 "receivables/payables".

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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 AND INVESTMENTS

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

The City is authorized to invest in:

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

NOTE 4 - DEPOSITS AND INVESTMENTS (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, 2012, the City’s deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City’s behalf and the FDIC insurance.

Investments

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2012.

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

At June 30, 2012, the City’s investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificate of Deposit	\$ 1,226,970	March 15, 2013
Certificate of Deposit	<u>527,636</u>	August 6, 2013
	<u>\$ 1,754,606</u>	

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, 2012 is \$1,100,000. This receivable is reflected in the capital improvement fund. The following schedule shows the remaining payments for the purchase.

<u>Years Ending June 30,</u>	
2013	\$ 175,000
2014	175,000
2015	175,000
2016	175,000
2017	175,000
2018 - 2019	<u>225,000</u>
Total	<u>\$ 1,100,000</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 635,199	\$ 237,552	\$ -	\$ 872,751
Construction in Progress	195,690	-	-	195,690
Total Capital Assets Not Being Depreciated	830,889	237,552	-	1,068,441
Depreciable Capital Assets				
Buildings and Improvements	1,317,489	-	-	1,317,489
Infrastructure	6,134,406	622,976	87,374	6,670,008
Equipment	2,060,407	209,822	10,700	2,259,529
Vehicles	1,480,950	44,226	20,763	1,504,413
Total Depreciable Capital Assets	10,993,252	877,024	118,837	11,751,439
Total Capital Assets at Historical Cost	11,824,141	1,114,576	118,837	12,819,880
Less: Accumulated Depreciation				
Buildings and Improvements	637,364	29,312	-	666,676
Infrastructure	4,293,358	334,048	87,374	4,540,032
Equipment	1,635,668	128,310	9,129	1,754,849
Vehicles	1,277,015	82,329	20,763	1,338,581
Total Accumulated Depreciation	7,843,405	573,999	117,266	8,300,138
Depreciable Capital Assets, Net	3,149,847	303,025	1,571	3,451,301
Governmental Activities Capital Assets - Net	\$ 3,980,736	\$ 540,577	\$ 1,571	\$ 4,519,742

Depreciation was charged to functions as follows:

General Government	\$ 7,447
Police	72,527
Fire	84,193
Public Works	28,468
Streets	334,048
Recreation	47,316
Total	\$ 573,999

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, 2012.

	June 30, 2011	Additions	Retired	June 30, 2012
Compensated Absences	\$ <u>77,956</u>	\$ <u>10,879</u>	\$ <u>-</u>	\$ <u>88,835</u>

Capital Lease Obligation

The following is a summary of the City's capital lease obligation for the year ended June 30, 2012.

	2012
Debt Outstanding, Beginning of Year	\$ 47,124
Additions of New Debt	-
Repayments	<u>(15,708)</u>
Debt Outstanding, End of Year	\$ <u>31,416</u>
Expected to be Paid Within One Year	\$ <u>15,708</u>

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

Years Ending June 30,		
2013	\$	15,708
2014		<u>15,708</u>
Total Net Future Minimum Lease Payments		31,416
Less: Current Portion		<u>15,708</u>
Long-Term Capital Lease Obligations	\$	<u>15,708</u>

Net book value of leased equipment included within capital assets, was as follows:

Cost	\$ 157,080
Less Accumulated Depreciation	<u>125,664</u>
Net Book Value	\$ <u>31,416</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, 2012, 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, 2012, participating employers contributed 18.96% 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, 2012, 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, 2012, participating employers contributed 35.76% 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>
2012	\$ 543,782	100%
2011	445,965	100%
2010	457,504	100%

Deferred Compensation Plan

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, 2012 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 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the City discovered that it had not previously recognized a receivable for the municipal road aid on either the statement of net assets or the governmental funds balance sheet. The City has reviewed their files and has obtained the necessary information to record the receivable as of June 30, 2012.

For the year ended June 30, 2011, the change in total assets and net assets as a result of this correction is an increase of \$19,226. Net assets were restated at \$4,602,509 at July 1, 2011. The change in municipal aid fund total assets and fund balance as a result of this correction is an increase of \$19,226. The municipal aid fund fund balance was restated at \$122,239.

NOTE 12 - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2012, the date of the most recent statement of net assets, have been evaluated for possible adjustments to the financial statements or disclosure is November 14, 2012 which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY 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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property	\$ 1,358,475	\$ 1,495,750	\$ 1,528,865	\$ 33,115
Bank Deposit	11,000	11,250	11,350	100
Payroll	725,000	882,000	893,540	11,540
Licenses and Permits	994,450	1,011,800	1,033,894	22,094
Intergovernmental	117,000	183,000	273,816	90,816
Charges for Services	504,250	492,500	495,924	3,424
Fines and Forfeitures	10,250	11,430	11,999	569
Interest	16,000	14,850	15,161	311
Miscellaneous	89,400	105,040	104,066	(974)
Total Revenues	<u>3,825,825</u>	<u>4,207,620</u>	<u>4,368,615</u>	<u>160,995</u>
Expenditures				
Current				
General Government	968,097	1,086,292	1,007,059	79,233
Police	1,250,675	1,367,625	1,324,200	43,425
Fire	1,118,232	1,290,432	1,250,641	39,791
Public Works	335,949	350,149	315,283	34,866
Recreation	329,325	291,230	221,488	69,742
Capital Outlay	6,500	6,500	18,390	(11,890)
Total Expenditures	<u>4,008,778</u>	<u>4,392,228</u>	<u>4,137,061</u>	<u>255,167</u>
(Deficit) Excess of Revenues Over Expenditures	(182,953)	(184,608)	231,554	416,162
Other Financing Uses				
Operating Transfers Out	-	-	161,660	(161,660)
Net Change in Fund Balances	(182,953)	(184,608)	69,894	254,502
Fund Balance July 1, 2011	<u>1,086,433</u>	<u>1,086,433</u>	<u>1,086,433</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ 903,480</u>	<u>\$ 901,825</u>	<u>\$ 1,156,327</u>	<u>\$ 254,502</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Intergovernmental	\$ 139,600	\$ 205,725	\$ 212,255	\$ 6,530
Interest	25	115	130	15
Total Revenues	<u>139,625</u>	<u>205,840</u>	<u>212,385</u>	<u>6,545</u>
Expenditures				
Current				
Streets	64,500	37,500	104,586	(67,086)
Capital Outlay	<u>85,000</u>	<u>150,000</u>	<u>54,617</u>	<u>95,383</u>
Total Expenditures	<u>149,500</u>	<u>187,500</u>	<u>159,203</u>	<u>28,297</u>
(Deficit) Excess of Revenues Over Expenditures	(9,875)	18,340	53,182	34,842
Prior Period Adjustment	-	-	19,226	19,226
Fund Balance July 1, 2011	<u>103,013</u>	<u>103,013</u>	<u>103,013</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ 93,138</u>	<u>\$ 121,353</u>	<u>\$ 175,421</u>	<u>\$ 54,068</u>

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, 2012

	<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	\$ 52,754	\$ (122,246)
Expenditures				
Current				
General	31,708	31,708	16,848	14,860
Public Works	5,000	2,500	696,125	(693,625)
Capital Outlay	<u>2,750,750</u>	<u>2,797,500</u>	<u>152,852</u>	<u>2,644,648</u>
Total Expenditures	<u>2,787,458</u>	<u>2,831,708</u>	<u>865,825</u>	<u>1,965,883</u>
(Deficit) Excess of Revenues Over Expenditures	(2,612,458)	(2,656,708)	(813,071)	1,843,637
Other Financing Sources				
Transfers In	<u>65,721</u>	<u>161,660</u>	<u>161,660</u>	<u>-</u>
Net Change in Fund Balance	(2,546,737)	(2,495,048)	(651,411)	1,843,637
Fund Balance July 1, 2011	<u>3,393,837</u>	<u>3,393,837</u>	<u>3,393,837</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ 781,379</u>	<u>\$ 898,789</u>	<u>\$ 2,742,426</u>	<u>\$ 1,843,637</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 the City of Taylor Mill, Kentucky as of and for the year ended June 30, 2012, which collectively comprise the City of Taylor Mill, Kentucky's basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Taylor Mill, Kentucky is responsible for establishing and maintaining effective 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 opinions 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material weaknesses.

Finding 2012-1

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 2012-2

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 accounting principles generally accepted in the United States of America. 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.

Several adjusting journal entries were required to be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. A proper internal control system is necessary to ensure all journal entries are posted at the appropriate time. We noted the City does not have the necessary controls in place to ensure all accounts are adjusted to the proper balance on a timely basis.

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.

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

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
November 14, 2012