

CITY OF HILLVIEW, KENTUCKY

JUNE 30, 2011

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	3 - 4
Management Discussion and Analysis (unaudited)	5 - 12
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
Notes to Basic Financial Statements	22 - 31
Required Supplemental Information:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32 - 33
Other Supplemental Information (unaudited)	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	34
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Fund	35

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

2455 CRITTENDEN DRIVE
LOUISVILLE, KY 40217-1813

TELEPHONE: (502) 634-8351
FAX: (502) 634-5594

CPA ASSOCIATES
ROBIN F. OWENS, CPA
CAROL L. PIERCE, CPA
ROBERT M. BARGER, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Hillview, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hillview, 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 Hillview, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the business-type activities, and each major fund of the City of Hillview, Kentucky as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows 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 August 23, 2011 on our consideration of the City of Hillview, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 5 through 12 and 34 through 35 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.



HENSON & ASSOCIATES
Certified Public Accountants

Louisville, Kentucky
August 23, 2011

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

The discussion and analysis of the City of Hillview, Kentucky's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts in this discussion, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Hillview, Kentucky exceeded its liabilities at the close of the fiscal year ending June 30, 2011 by \$985.3 thousand (net assets).
- The City of Hillview, Kentucky's total net assets increased by \$125.2 thousand for the year ended June 30, 2011. The increase in net assets can be attributed to increased revenues.
- As of June 30, 2011 the City of Hillview, Kentucky's governmental funds reported combined ending fund balances of \$446.7 thousand, an increase of \$58.2 thousand in comparison with the prior fiscal year.
- The City's new debt increased by \$1,106.6 thousand during the current fiscal year. The City purchased the government center property, refinanced the waste water treatment plant debt and purchased two new police cars with this new debt.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the City of Hillview, Kentucky's basic financial statements. The City of Hillview, Kentucky's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Hillview, Kentucky's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Hillview, Kentucky'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 of Hillview, Kentucky is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base, to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including the police, public works, parks and recreation, and general administration. Property taxes, occupational taxes, franchise fees and inter-governmental revenues finance most of these activities.
- Business-type Activities - The City's sewer plant is reported here. The sewer plant's operations were taken over by the Bullitt County Sanitation District in the prior fiscal year. The City is responsible for repaying the debt to build the plant and for insuring the plant and equipment.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

- Governmental funds - The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

The City of Hillview, Kentucky maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Special Revenue Fund, both of which are considered to be major funds.

- Proprietary fund - The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund (a component of the proprietary fund) is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

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 immediately following the basic financial statements.

The City as a Whole - Government-wide Financial Analysis

The City's combined net assets were \$985.3 thousand as of June 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net deficit is \$332.7 thousand. This analysis focuses on the net assets (table 1) and changes in general revenues (table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (\$876.8 thousand) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

Table 1
Summary of Net Assets
At June 30, 2011 and 2010
(Amounts Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	06/30/10
Current and other assets	652	666	28	43	680	709
Capital assets	<u>2,541</u>	<u>1,364</u>	<u>1,349</u>	<u>1,392</u>	<u>3,890</u>	<u>2,756</u>
Total assets	<u>3,193</u>	<u>2,030</u>	<u>1,377</u>	<u>1,435</u>	<u>4,570</u>	<u>3,465</u>
Long-term liabilities outstanding	1,719	612	1,710	1,685	3,429	2,297
Other liabilities	<u>156</u>	<u>278</u>	<u>0</u>	<u>30</u>	<u>156</u>	<u>308</u>
Total liabilities	<u>1,875</u>	<u>890</u>	<u>1,710</u>	<u>1,715</u>	<u>3,585</u>	<u>2,605</u>
Net assets						
Invested in capital assets, net of related debt	822	752	54	123	876	875
Unrestricted	<u>496</u>	<u>388</u>	<u>(387)</u>	<u>(403)</u>	<u>109</u>	<u>(15)</u>
Total net assets	<u>1,318</u>	<u>1,140</u>	<u>(333)</u>	<u>(280)</u>	<u>985</u>	<u>860</u>

Governmental Activities

The City's general revenues increased when compared to the prior year by \$66.4 thousand. Overall tax revenue increased \$58.4 thousand. Property tax revenue increased due to increased property valuations and the 4% increase allowed by law. Other miscellaneous revenues increased by \$2.2 thousand.

Table 2
General Revenues
(Amounts Expressed in Dollars)

	2011	2010	Increase (Decrease)
Taxes	1,760,630	1,702,220	58,410
Other	<u>17,112</u>	<u>14,943</u>	<u>2,169</u>
Total general revenues	<u>1,777,742</u>	<u>1,717,163</u>	<u>60,579</u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

Governmental and Business-type activities increased the City's net assets by \$125.2 thousand. The key elements of this increase are as follows:

Table 3
Changes in Net Assets
(Amounts Expressed in Dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program revenues						
Charges for services	87,501	49,062	191	31,144	87,692	80,206
Operating grants and contributions	397,372	1,074,609			397,372	1,074,609
General revenues						
Taxes	1,760,630	1,702,220			1,760,630	1,702,220
Other	<u>17,112</u>	<u>14,942</u>			<u>17,112</u>	<u>14,942</u>
Total Revenues	<u>2,262,615</u>	<u>2,840,833</u>	<u>191</u>	<u>31,144</u>	<u>2,262,806</u>	<u>2,871,977</u>
Expenses						
General government	387,741	358,071			387,741	358,071
Public safety	1,016,592	1,077,943			1,016,592	1,077,943
Public works	428,557	1,205,055			428,557	1,205,055
Health and safety	7,579	2,914			7,579	2,914
Community center and recreation	101,745	79,530			101,745	79,530
Sewer plant			<u>195,380</u>	<u>164,330</u>	<u>195,380</u>	<u>164,330</u>
Total expenses	<u>1,942,214</u>	<u>2,723,513</u>	<u>195,380</u>	<u>164,330</u>	<u>2,137,594</u>	<u>2,887,843</u>
Increase (Decrease) in Net Assets	320,401	117,320	(195,189)	(133,186)	125,212	(15,866)
Transfers In (Out)	(142,563)	(148,402)	142,563	148,402		
Net Assets, July 1,	<u>1,140,140</u>	<u>1,171,222</u>	<u>(280,060)</u>	<u>(295,276)</u>	<u>860,080</u>	<u>875,946</u>
Net Assets, June 30	<u>1,317,978</u>	<u>1,140,140</u>	<u>(332,686)</u>	<u>(280,060)</u>	<u>985,292</u>	<u>860,080</u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$1,016.6 thousand. Other significant governmental expenses for the City include public works at \$428.6 thousand and administration at \$387.7 thousand.

Business-type Activities

Revenues of the City's business-like activities were \$.2 thousand for the fiscal year ending June 30, 2011. Expenses for the City's business-type activities were \$195.4 thousand for the year, resulting in a net loss of \$195.2 thousand. The net loss is the result of several factors, including the following:

- Interest on the debt of \$51,193 is the largest outlay. Included in the total operating expenses is \$42,500 in depreciation and the write off of the remaining unamortized bond costs of the original debt of \$68,507, which are not cash expenditures. The City had to transfer funds in the amount of \$142,563 from the general fund to cover operating losses. The operations of the sewer plant were taken over by the Bullitt County Sanitation District in April of 2010 which will result in lower overall expenses in future fiscal years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2011, the City had \$3,890,800 invested in a broad range of capital assets, including equipment, buildings, land and sewer plant. This amount represents a net increase (including additions and deductions) of \$1,134,728 over the prior fiscal year mainly due to the acquisition and renovation of the government center.

Debt

At year end, the City had \$2.890 thousand in General Obligation Bonds outstanding as compared to \$1.295 thousand at the end of the prior fiscal year, an increase of \$1.595 thousand.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

Table 4
Outstanding Debt
(Amounts Expressed in Dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds (backed by the City)	1,595,000	0	1,295,000	1,295,000	2,890,000	1,295,000
Capital leases	<u>124,152</u>	<u>612,563</u>	<u>0</u>	<u>0</u>	<u>124,152</u>	<u>612,563</u>
Totals	<u>1,719,152</u>	<u>612,563</u>	<u>1,295,000</u>	<u>1,295,000</u>	<u>3,014,152</u>	<u>1,907,563</u>

During the current fiscal year the City leased/purchased two new police cars and acquired the property for the new government center.

The City's Funds

At the close of the City's fiscal year on June 30, 2011, the governmental funds of the City reported a combined fund balance of \$446.7 thousand. Revenues for the year exceeded expenses by \$58,180. The City has to monitor expenditures closely in order to prevent a deficit.

General Fund Budgetary Highlights

During fiscal year 2010-2011, there was a budget amendment for the Governmental Funds.

For fiscal year 2010-2011, actual expenditures on a budgetary basis were \$4.030 thousand compared to the budget amount of \$3.955 thousand. The \$75.0 thousand negative variance was due to transfers being greater than budget.

For fiscal year 2010-2011, actual revenues on a budgetary basis were \$3.932 thousand as compared to the budget amount of \$3.848 thousand.

The City of Hillview, Kentucky has an actual, on a budgetary basis, General Fund balance of \$172.2 thousand as of the fiscal year end, compared to the budgeted fund balance of \$272.8 thousand. The variance in fund balance is primarily due to an error in the beginning fund balance.

Economic Factors and Next Year's Budget and Rates

The largest single factor is the ability of the City to generate sufficient revenues to fund the basic cost of the services the City provides. The increased cost of salaries and the cost of providing police protection are significant.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, at the City of Hillview, Kentucky, 283 Crestwood Lane, Hillview, KY 40229.

CITY OF HILLVIEW, KENTUCKY
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	507,417.92		507,417.92
Taxes receivable	15,146.58		15,146.58
Due from other governments	63,522.42		63,522.42
Other receivable	16,836.70		16,836.70
Intangible assets, net of amortization	49,018.73	27,953.33	76,972.06
Capital assets, net of accumulated depreciation:			
Buildings	1,163,698.91		1,163,698.91
Equipment	285,637.32		285,637.32
Sewer Plant		1,349,375.00	1,349,375.00
Capital asset, non depreciable			
Land	<u>1,092,089.04</u>		<u>1,092,089.04</u>
Total Assets	<u>3,193,367.62</u>	<u>1,377,328.33</u>	<u>4,570,695.95</u>
<u>LIABILITIES</u>			
Accounts payable	130,234.06		130,234.06
Accrued expenses	12,137.88		12,137.88
Deferred revenue	13,865.00		13,865.00
Bonds payable - current	110,000.00	100,000.00	210,000.00
- long term	1,485,000.00	1,194,871.78	2,679,871.78
Notes payable - current	65,638.48		65,638.48
- long term	58,513.31		58,513.31
Pro Logis advance		<u>415,142.91</u>	<u>415,142.91</u>
Total Liabilities	1,875,388.73	1,710,014.69	3,585,403.42
<u>NET ASSETS</u>			
Invested in capital assets	822,273.48	54,503.22	876,776.70
Unrestricted	<u>495,705.41</u>	<u>(387,189.58)</u>	<u>108,515.83</u>
Total Net Assets	<u>1,317,978.89</u>	<u>(332,686.36)</u>	<u>985,292.53</u>
Total Liabilities and Net Assets	<u>3,193,367.62</u>	<u>1,377,328.33</u>	<u>4,570,695.95</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011

FUNCTIONS/ACTIVITIES	Program Revenues			Net Revenue (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
<u>GOVERNMENTAL ACTIVITIES</u>						
Police department	1,016,591.51	5,297.80	75,310.44	(935,983.27)		(935,983.27)
Public works	428,556.63		156,253.29	(272,303.34)		(272,303.34)
Health and safety	7,578.69	132.50		(7,446.19)		(7,446.19)
Administration	387,741.39	35,562.81	165,308.19	(186,870.39)		(186,870.39)
Community center and recreation	101,745.49	46,507.87	500.00	(54,737.62)		(54,737.62)
Total Governmental Activities	1,942,213.71	87,500.98	397,371.92	(1,457,340.81)		(1,457,340.81)
<u>BUSINESS-TYPE ACTIVITIES</u>						
Sewer Plant	195,379.79	190.95			(195,188.84)	(195,188.84)
Total Activities	2,137,593.50	87,691.93	397,371.92	(1,457,340.81)	(195,188.84)	(1,652,529.65)
<u>GENERAL REVENUES</u>						
Taxes						
Real Property				576,436.90		576,436.90
Occupational				1,050,247.40		1,050,247.40
Tangible Personal Property				16,816.40		16,816.40
Motor Vehicle				66,195.55		66,195.55
Franchise				50,933.38		50,933.38
Interest				4,426.61		4,426.61
Other				12,685.33		12,685.33
Transfers In (Out)				(142,563.45)	142,563.45	
Total General Revenues				1,635,178.12	142,563.45	1,777,741.57
<u>CHANGE IN NET ASSETS</u>						
NET ASSETS AT BEGINNING OF YEAR				177,837.31	(52,625.39)	125,211.92
NET ASSETS AT END OF YEAR				1,140,141.58	(280,060.97)	860,080.61
				1,317,978.89	(332,686.36)	985,292.53

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash	236,204.91	271,213.01	507,417.92
Receivables (net, where applicable of allowances for uncollectibles)			
Property taxes	15,146.58		15,146.58
Intergovernmental	50,502.59	13,019.83	63,522.42
Due from municipal aid fund	48,181.59		48,181.59
Other receivable	<u>16,836.70</u>		<u>16,836.70</u>
 TOTAL ASSETS	 <u>366,872.37</u>	 <u>284,232.84</u>	 <u>651,105.21</u>
<u>LIABILITIES</u>			
Accounts payable	130,234.06		130,234.06
Accrued expenses	12,137.88		12,137.88
Deferred revenues	13,865.00		13,865.00
Due to general fund		<u>48,181.59</u>	<u>48,181.59</u>
 TOTAL LIABILITIES	 156,236.94	 48,181.59	 204,418.53
<u>FUND BALANCE</u>			
Unassigned	210,635.43		210,635.43
Restricted			
Road work		<u>236,051.25</u>	<u>236,051.25</u>
Total Fund Balance	<u>210,635.43</u>	<u>236,051.25</u>	<u>446,686.68</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>366,872.37</u>	 <u>284,232.84</u>	 <u>651,105.21</u>

CITY OF HILLVIEW, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances of Governmental Funds 446,686.68

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

Capital assets, net of depreciation, are not current
financial resources and are not included in the
governmental funds. 2,590,444.00

Long-term loans payable are not a current financial
obligation. Therefore, they are not included in
the governmental funds. (1,719,151.79)

Net Assets of Governmental Activities 1,317,978.89

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	659,448.85		659,448.85
Intergovernmental			
Insurance tax	114,579.84		114,579.84
Citation fees	14,880.74		14,880.74
Grants	109,284.38		109,284.38
Municipal aid		152,565.61	152,565.61
L.G.E.A.		5,560.35	5,560.35
Licenses and permits	26,410.96		26,410.96
Franchise taxes	51,433.38		51,433.38
Interest	2,887.07	1,539.54	4,426.61
Occupational tax	1,050,247.40		1,050,247.40
Recreation	47,283.87		47,283.87
Miscellaneous	26,493.47		26,493.47
Total Revenues	<u>2,102,949.96</u>	<u>159,665.50</u>	<u>2,262,615.46</u>
<u>EXPENDITURES</u>			
Current			
Police department	976,062.51		976,062.51
Public works	359,972.58	41,494.05	401,466.63
Health and safety	7,578.69		7,578.69
Administration	353,288.37		353,288.37
Community center and recreation	99,908.49		99,908.49
Capital outlay			
Administration	1,267,876.59		1,267,876.59
Police department	43,980.40		43,980.40
Public works	18,300.00		18,300.00
Debt repayment			
Police department	35,053.92		35,053.92
Administration	687,337.50		687,337.50
Total Expenditures	<u>3,849,359.05</u>	<u>41,494.05</u>	<u>3,890,853.10</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES (DEFICIT)</u>	(1,746,409.09)	118,171.45	(1,628,237.64)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(142,563.45)		(142,563.45)
Transfers In	1,828,980.40		1,828,980.40
<u>FUND BALANCE AT BEGINNING OF YEAR</u>	<u>270,627.57</u>	<u>117,879.80</u>	<u>388,507.37</u>
<u>FUND BALANCE AT END OF YEAR</u>	<u>210,635.43</u>	<u>236,051.25</u>	<u>446,686.68</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
JUNE 30, 2011

Net Change in Fund Balances - Total Governmental Funds 58,179.31

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	1,330,156.99
Depreciation expense	(103,910.01)

Long-term loans are reported as other financing sources when made and as expenditures when repaid in the governmental funds. This amount represents the change in the long-term loans payable. (1,106,588.98)

Net Change in Net Assets of Governmental Activities 177,837.31

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

Business-type Activities
Enterprise Fund

Sewer

ASSETS

Current Assets	.00
Total Current Assets	<u>.00</u>
Non-Current Assets	
Intangible assets, net of amortization	
Bond issue costs	27,953.33
Total Intangible Assets	<u>27,953.33</u>
Capital Assets	
Sewer system	1,700,000.00
Accumulated depreciation	<u>(350,625.00)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>1,349,375.00</u>
Total Non-Current Assets	<u>1,377,328.33</u>
Total Assets	<u>1,377,328.33</u>

LIABILITIES

Current Liabilities Payable from Unrestricted Assets	
Accrued interest	.00
Bonds payable - current	<u>100,000.00</u>
Total Current Liabilities Payable from Unrestricted Assets	100,000.00
Non-Current Liabilities	
Pro Logis advance	415,142.91
Bonds, payable from unrestricted assets, net of discount	<u>1,194,871.78</u>
Total Non-Current Liabilities	<u>1,610,014.69</u>
Total Liabilities	1,710,014.69

NET DEFICIT

Invested in capital assets, net of related debt Unrestricted	54,503.22
Total Net Deficit	<u>(387,189.58)</u>
Total Liabilities and Net Deficit	<u>1,377,328.33</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities Enterprise Fund</u>
	<u>Sewer</u>
<u>OPERATING REVENUES</u>	
Sewer service	190.95
Total Operating Revenues	<u>190.95</u>
<u>OPERATING EXPENSES</u>	
Insurance	3,382.96
Depreciation	<u>42,500.00</u>
Total Operating Expenses	<u>45,882.96</u>
<u>OPERATING LOSS</u>	(45,692.01)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Amortization	(1,996.67)
Interest expense	(51,193.22)
Early pay off premium	(27,800.00)
Unamortized bond costs of original debt	<u>(68,506.94)</u>
Total Nonoperating Expenses	<u>(149,496.83)</u>
Loss before operating transfers	(195,188.84)
<u>TRANSFERS IN</u>	<u>142,563.45</u>
<u>CHANGE IN NET ASSETS</u>	(52,625.39)
<u>TOTAL NET ASSETS, JULY 1</u>	<u>(280,060.97)</u>
<u>TOTAL NET ASSETS, JUNE 30</u>	<u>(332,686.36)</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Activities Enterprise Fund
	<u>Sewer</u>
Cash Flows from Operating Activities:	
Cash received from customers	190.95
Cash payments to suppliers	<u>(3,382.96)</u>
Net Cash Used by Operating Activities	(3,192.01)
Cash Flows from Noncapital Financial Activities:	
Operating transfers in	<u>142,563.45</u>
Net Cash Provided by Noncapital Financing Activities	142,563.45
Cash Flows from Capital and Related Financing Activities:	
Net proceeds of bond refinancing	1,321,090.08
Repayment of long-term debt	(1,380,000.00)
Interest payment long-term debt	<u>(80,461.52)</u>
Net Cash Used by Capital and Related Financing Activities	(139,371.44)
Net Increase (Decrease) in Cash	.00
Cash, July 1	<u>.00</u>
Cash, June 30	<u>.00</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(45,692.01)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	<u>42,500.00</u>
Total Adjustments	<u>42,500.00</u>
Net Cash Used by Operating Activities	<u>(3,192.01)</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hillview conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 34 and these statements are presented according to those requirements. The following is a summary of the significant policies.

Basic Financial Statements

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City as a whole, no component unit entities exist. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

with a specific function or identifiable activity. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for the financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are earmarked for maintenance, rehabilitation, or improvements of public streets and public safety.

The City reports the following major enterprise fund:

The Sewer Fund accounts for the operation of the City's waste water treatment facility, which renders services on a user charge basis to businesses located in Hillview. During the prior fiscal year the Bullitt County Sewer District took over operations of the facility. The City is still responsible for the payments of principal and interest of the bonds and for the insurance on the plant and equipment.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. The modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, intergovernmental revenues (including motor vehicle license fees), and municipal road aid funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- B. Expenditures are recorded when the related fund liability is incurred. Interest on general long-term debt is recorded as a fund liability when due.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financial source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund's financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary fund's financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

Budgets

The City has ordained for itself a number of prescribed practices regarding the development of a budget, and for amending the budget once it is accepted by the governing body of the City. An annual budget is required by Kentucky Revised Statutes that, once accepted by the City's governing body, becomes the legal boundary of that government's appropriations and expenditures for that year. The City's annual budget conforms to generally accepted accounting principles. The budget was amended by an ordinance during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	10 to 40 years
Sewer plant	40 years
Machinery and equipment	5 to 7 years

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Balance July 1, 2010	Acquisitions	Deletions	Balance June 30, 2011	Accumulated Depreciation
<u>Governmental Activities</u>					
Buildings	382,781.12	1,046,551.79		1,429,332.91	265,634.00
Machinery and equipment	1,118,933.86	132,437.46		1,251,371.32	965,734.00
Land	992,089.04	100,000.00		1,092,089.04	.00
<u>Business Type Activities</u>					
Sewer plant	1,700,000.00			1,700,000.00	350,625.00
	<u>4,193,804.02</u>	<u>1,278,989.25</u>	<u>.00</u>	<u>5,472,793.27</u>	<u>1,581,993.00</u>

Depreciation expense for the year was charged to functions/programs of the primary government as follows:

Administration	\$ 32,305.00
Public Safety	40,529.00
Public Works	27,090.00
Community Center/Recreation	1,837.00
Health and Safety	.00
Waste Water Treatment Facility	42,500.00
	<u>144,261.00</u>

Total accumulated depreciation for all prior periods was \$1,437,732.00.

Property Tax

Property is assessed as of January 1. Taxes were levied on October 1, 2010 and are payable by December 31. City real property tax revenues are recognized when levied. Any real property tax unpaid at June 30 or 60 days thereafter is deemed uncollectible for financial reporting purposes. The City has liens on these properties to secure payment of these taxes. The assessed value of City real property was \$457,700,111 and the tax rate was 11.45 cents per hundred dollars of assessed value. Any unpaid 2010 real property taxes were sold to a collection agency at the May 26, 2011 council meeting and payment was received on July 11, 2011.

NOTE 2 - SCHEDULE OF CASH

Fund	Financial Institution	Balance	Insured	Uncollateralized
General	PBI Bank	31,226.89	FDIC	
General	PBI Bank	3,549.80	FDIC	
General	Park Federal Credit Union	48,730.99	FDIC	
General	Park Federal Credit Union	9,455.53	FDIC	
General	Park Federal Credit Union	45,943.05	FDIC	
General	Park Federal Credit Union	73,928.51	FDIC	
General	PNC Bank	22,570.14	FDIC	
		<u>235,404.91</u>		
Special Revenue				
LGEA	PBI Bank	27,828.66	FDIC	
Municipal Aid	PBI Bank	157,961.04	FDIC	
Municipal Aid	PNC Bank	59,450.57	FDIC	
Municipal Aid	Park Federal Credit Union	25,972.74	FDIC	
		<u>271,213.01</u>		
Petty Cash		800.00		
		<u>507,417.92</u>		

The City has not adopted a formal deposit and investment policy.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The City has funds on deposit at various times during the year with one financial institution in excess of the FDIC insurance coverage.

NOTE 4 - RISK MANAGEMENT/CONTINGENCIES

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies except that the City does not insure all of its vehicles for collision/comprehensive coverage. There have been no significant reductions in insurance coverage from 2010 to 2011. Settlements, less deductibles, have not exceeded insurance coverage during the past three years. The City's attorney has advised that the City will not incur any loss in excess of insurance deductibles as a result of any lawsuits currently pending. Any other lawsuits currently pending that are not covered by insurance will not, in the opinion of the City's attorney, result in any substantial loss to the City.

NOTE 5 - RETIREMENT PLAN

The City of Hillview, Kentucky is a participating employer of 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 participating county, city, 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 (COLA) adjustments are provided at the discretion of state legislature.

Contributions - For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% for hazardous job classifications. 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each non-hazardous employee's wages and 33.25% of each hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

CITY OF HILLVIEW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - RETIREMENT PLAN (CONTINUED)

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 239,236	100%
2010	\$ 226,857	100%
2009	\$ 157,358	100%

NOTE 6 - CAPITALIZED LEASE AGREEMENT

The City entered into a lease agreement on December 1, 1998 with the Kentucky League of Cities Funding Trust Program which lease was the result of the City purchasing 40 acres of ground and then conveying title to the property in exchange for a 25 year lease. This lease does not constitute general obligation debt to the City and is annually renewable. The City annually renews the lease by appropriating sufficient funds in its budget to meet the next twelve months obligations. If the funds are not appropriated the lease terminates without further cost or obligation of the City.

The original amount of the lease was \$900,000.00 with an interest rate of 2.17%. The balance at June 30, 2011 was \$.00 and the balance at June 30, 2010 was \$495,000.00. The lease was paid off when the City issued Revenue Bonds as a result of the acquisition of the government center property.

Interest expense for the current fiscal year was \$.00.

NOTE 7 - LONG TERM DEBT

Waste Water Treatment Facility

On January 22, 2001 the City passed an ordinance authorizing the issuance of general obligation bonds in the amount of \$1,795,000. The proceeds of the bonds are to be used to construct a waste water treatment facility. General obligation bonds are backed by the full faith, credit and taxing power of the City. The City expects that the revenue generated by the facility will be sufficient to retire the debt. The debt has varying maturity dates from 1/15/03 to 1/15/22 with interest rates ranging from 4% to 4.75%. The developer of the property that will be served by the facility, Pro Logis Development Services, Inc., has agreed to guarantee payments on the General Obligation Bonds until new revenues generated from taxes collected as a result of the development are sufficient to service the debt. The City is obligated to repay

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 7 - LONG TERM DEBT (CONTINUED)

the developer for any payments made during the period within the first four years following the Bond closing. The developer has paid, and the City is obligated to repay, \$415,142.91 as of June 30, 2005. All future payments after June 30, 2005 will not have to be repaid by the City to the developer. As of January 1, 2008 the City will have to make the full payment on the bonds since tax revenues generated from the development are sufficient to service the debt.

The City Council on June 28, 2010 passed Ordinance No. 2010-08 which provides for the refinancing of these bonds at a lower interest rate. The new payment period will be twelve years with an interest rate that varies from 1% to 3% over the term of the loan. The bonds were issued on August 31, 2010 and the original bonds were paid off and the total of the new bond issue is \$1,390,00.00. The balance due on the bond issue at June 30, 2011 was \$1,305,000.00.

The following is a schedule of principal and interest requirements for the term of the bonds:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest to Maturity</u>
6/30/12	100,000.00	28,325.00
6/30/13	100,000.00	27,325.50
6/30/14	100,000.00	26,325.00
6/30/15	105,000.00	24,825.00
6/30/16	105,000.00	23,250.00
Thereafter	<u>795,000.00</u>	<u>92,050.00</u>
	<u>1,305,000.00</u>	<u>222,100.00</u>

Public Safety Vehicles

1. The City borrowed money to acquire two new police cruisers during the year ended June 30, 2010. This loan was for \$40,690.00 and is repayable in monthly installments including interest of \$758.16. The loan balance on June 30, 2011 was \$31,344.75. Interest paid during the current fiscal year was \$2,202.08.

Maturities for the remaining terms are as follows:

6/30/12	7,878.98
6/30/13	8,242.58
6/30/14	8,619.62
6/30/15	6,603.57

2. The City borrowed money to acquire two new police cruisers during the year ended June 30, 2011. This loan was for \$43,980.40 at 3.90% interest and is repayable in monthly installments of \$808.09 and is due July 14, 2016. The balance of this loan was \$43,172.31 on June 30, 2011.

NOTE 7 - LONG TERM DEBT (CONTINUED)

Principal maturities over the next five years are :

6/30/12	8,124.77
6/30/13	8,447.36
6/30/14	8,782.76
6/30/15	9,131.47
6/30/16	8,685.95

Public Safety Building Addition

The City borrowed money during a previous year to increase the size of the police department building. The City borrowed \$51,102.43 at an interest rate of 6.5% repayable in 35 monthly payments of principal and interest of \$326.13 and one final installment on January 12, 2012 of the remaining balance. The balance of this loan at June 30, 2011 was \$49,634.73. Interest paid during the current fiscal year was \$3,245.05.

Principal maturities over the term of this loan are as follows:

6/30/12	49,634.73
---------	-----------

Government Center Acquisition/Renovation and Ferguson Lane Property Refinance

The City closed on Kentucky Bond Corporation Financing Program Revenue Bonds 2010 Series A on August 25, 2010. The principal amount of the bonds were \$1,785,000.00. The bond proceeds, after deducting issuance costs of \$56,474.54, were \$1,733,832.26. The proceeds were used to pay off the lease obligation of \$495,000.00 mentioned in Note 6 of these financial statements, purchase the land and building to be used for the government center for \$1,000,000.00 and the remaining amount of \$238,832.26 will be used to renovate the government center building. Interest rates vary from 1% to 4% over the term of the loan.

The bonds are general obligation bonds and are backed by the full faith credit and taxing power of the City. The balance due on the bonds at June 30, 2011 was \$1,595,000.00. Interest paid during the current fiscal year was \$40,061.57.

The following is a schedule of principal and interest requirements for the term of the bonds:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest to Maturity</u>
6/30/12	110,000.00	47,093.76
6/30/13	110,000.00	44,893.74
6/30/14	115,000.00	42,693.78
6/30/15	120,000.00	40,393.80
6/30/16	120,000.00	37,843.80
Thereafter	1,020,000.00	271,234.25

NOTE 8 - FUND DISCLOSURES

Interfund Transfers

The general fund pays for all operating expenses of the special revenue fund and is periodically (at least once a year) reimbursed based on either labor hours expended or nature of expense incurred. The general fund was due \$9,695.94 for the period ended June 30, 2010 and \$38,485.65 for the period ended June 30, 2011.

NOTE 9 - SUBSEQUENT EVENTS

As of June 30, 2011 and through the date of this report no subsequent events have occurred that are required to be disclosed in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

2455 CRITTENDEN DRIVE
LOUISVILLE, KY 40217-1813

TELEPHONE: (502) 634-8351
FAX: (502) 634-5594

CPA ASSOCIATES
ROBIN F. OWENS, CPA
CAROL L. PIERCE, CPA
ROBERT M. BARGER, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Hillview, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, as of and for the year ended June 30, 2011, which collectively comprise City of Hillview, Kentucky's basic financial statements and have issued our report thereon dated August 23, 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 City of Hillview, 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 City of Hillview, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hillview, 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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 discussed below to be a material weakness.

Finding 2011-1: The City has a material weakness in its internal control over financial reporting in that it does not employ someone with knowledge of financial statement preparation, including footnote disclosures.

Response: the City accepts the risk as described above.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether City of Hillview, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described as follows:

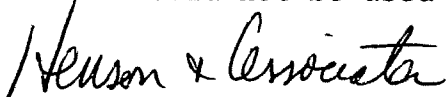
Finding 2011-1: The City revised its occupational tax ordinance in a previous fiscal year to provide that the tax is now collectible on business net profits. The City has not fully enacted this part of the ordinance.

Response: The City does not intend to enforce all provisions of the ordinance at this time.

We noted certain other matters that we reported to management of City of Hillview, Kentucky in a separate letter dated August 23, 2011.

City of Hillview, Kentucky's response to the findings identified in our audit is described above. We did not audit City of Hillview, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and the State of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.



Henson & Associates
Certified Public Accountants
August 23, 2011

OTHER SUPPLEMENTAL INFORMATION
(UNAUDITED)

CITY OF HILLVIEW, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Original</u>	<u>Budgeted Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	11,929.00	380,000.00	270,627.00	(109,373.00)
Resources (Inflows):				
Property taxes	664,500.00	655,587.00	659,449.00	3,862.00
Licenses and permits	30,875.00	28,910.00	26,411.00	(2,499.00)
Intergovernmental	197,260.00	242,149.00	238,745.00	(3,404.00)
Occupational taxes	1,250,000.00	1,050,000.00	1,050,247.00	247.00
Franchise taxes	43,500.00	50,934.00	51,433.00	499.00
Transfers in	1,750,000.00	1,750,000.00	1,828,980.00	78,980.00
Other	<u>47,720.00</u>	<u>70,708.00</u>	<u>76,664.00</u>	<u>5,956.00</u>
Amounts Available for Appropriation	3,995,784.00	4,228,288.00	4,202,556.00	(25,732.00)
Charges to Appropriations (Outflows):				
General government	464,972.00	393,607.00	353,288.00	40,319.00
Public safety	1,148,804.00	1,149,844.00	1,055,097.00	94,747.00
Public works	447,655.00	489,900.00	378,273.00	111,627.00
Health and safety	14,362.00	8,139.00	7,579.00	560.00
Recreation services	89,491.00	120,604.00	99,908.00	20,696.00
Transfers out	<u>1,830,500.00</u>	<u>1,793,400.00</u>	<u>2,097,776.00</u>	<u>(304,376.00)</u>
Total Charges to Appropriations	<u>3,995,784.00</u>	<u>3,955,494.00</u>	<u>3,991,921.00</u>	<u>(36,427.00)</u>
Budgetary Fund Balance, June 30	<u>.00</u>	<u>272,794.00</u>	<u>210,635.00</u>	<u>(62,159.00)</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Original</u>	<u>Budgeted Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	24,677.00	90,000.00	117,880.00	27,880.00
Resources (Inflows):				
Intergovernmental	117,500.00	154,836.00	158,126.00	3,290.00
Interest	<u>4,200.00</u>	<u>931.00</u>	<u>1,540.00</u>	<u>609.00</u>
Amounts Available for Appropriation	<u>146,377.00</u>	<u>245,767.00</u>	<u>277,546.00</u>	<u>31,779.00</u>
Charges to Appropriations (Outflows):				
Current:				
Public safety	19,460.00	19,460.00	.00	19,460.00
Public works	<u>126,917.00</u>	<u>126,917.00</u>	<u>41,494.00</u>	<u>85,423.00</u>
Total Charges to Appropriations	<u>146,377.00</u>	<u>146,377.00</u>	<u>41,494.00</u>	<u>104,883.00</u>
Budgetary Fund Balance, June 30	<u>.00</u>	<u>99,390.00</u>	<u>236,052.00</u>	<u>136,662.00</u>

See notes to financial statements.