

CITY OF HILLVIEW, KENTUCKY

JUNE 30, 2007

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HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

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

2455 CRITTENDEN DRIVE

LOUISVILLE, KENTUCKY 40217-1800

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 the major fund information of the City of Hillview, Kentucky (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 opinion.

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 as of June 30, 2007, and the respective changes in financial position and cash flows of its proprietary fund 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 a report dated October 4, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 and Budgetary Comparison Information on pages 19 through 20 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Henson & Associates
HENSON & ASSOCIATES
Certified Public Accountants

Louisville, Kentucky
October 4, 2007

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

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, 2007. 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, 2007 by \$659.2 thousand (net assets). Of this amount, \$16.3 thousand (unrestricted net assets) was in a deficit position.
- The City of Hillview, Kentucky's total net assets increased by \$81.7 thousand for the year ended June 30, 2007. The increase in net assets can be attributed to increased tax receipts.
- As of June 30, 2007 the City of Hillview, Kentucky's governmental funds reported combined ending fund balances of \$349.7 thousand, an increase of \$13.4 thousand in comparison with the prior fiscal year.
- The City's new debt increased by \$23.2 thousand during the current fiscal year. The City purchased one new police car 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
JUNE 30, 2007

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 charges a fee to customers to help it cover the cost of certain services it provides. The City's sewer plant is reported here.

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
JUNE 30, 2007

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 \$659.2 thousand as of June 30, 2007. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net deficit is \$346.7 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 (\$675.5 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, 2007

Table 1
Summary of Net Assets
At June 30, 2007 and 2006
(Amounts Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/07	6/30/06	6/30/07	6/30/06	6/30/07	06/30/06
Current and other assets	432	414	55	88	487	502
Capital assets	<u>1,299</u>	<u>1,300</u>	<u>1,519</u>	<u>1,562</u>	<u>2,818</u>	<u>2,862</u>
Total assets	<u>1,731</u>	<u>1,714</u>	<u>1,574</u>	<u>1,650</u>	<u>3,305</u>	<u>3,364</u>
Long-term liabilities outstanding	643	692	1,885	1,980	2,528	2,672
Other liabilities	<u>82</u>	<u>78</u>	<u>35</u>	<u>37</u>	<u>117</u>	<u>115</u>
Total liabilities	<u>725</u>	<u>770</u>	<u>1,920</u>	<u>2,017</u>	<u>2,645</u>	<u>2,787</u>
Net assets					<u>2,645</u>	<u>2,787</u>
Invested in capital assets, net of related debt	656	608	20	(3)	676	605
Unrestricted	<u>350</u>	<u>336</u>	<u>(366)</u>	<u>(364)</u>	<u>(16)</u>	<u>(28)</u>
Total net assets	<u>1,006</u>	<u>944</u>	<u>(346)</u>	<u>(367)</u>	<u>660</u>	<u>577</u>

Governmental Activities

The City's general revenues increased when compared to the prior year by \$62 thousand. Overall tax revenue increased \$56 thousand. Property tax revenue increased due to increased property valuations and the 4% increase allowed by law. Other miscellaneous revenues increased by \$3.0 thousand.

Table 2
General Revenues
(Amounts Expressed in Thousands)

	<u>2007</u>	<u>2006</u>	Increase (Decrease)
Taxes	1,279,072	1,222,773	56,299
Other	<u>43,296</u>	<u>40,503</u>	<u>2,793</u>
Total general revenues	<u>1,322,368</u>	<u>1,263,276</u>	<u>59,092</u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2007

Governmental and Business-type activities increased the City's net assets by \$81.6 thousand. The key elements of this increase are as follows:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues						
Charges for services	68,168	36,822	19,358	20,860	87,526	57,682
Operating grants and contributions	372,013	370,768			372,013	370,768
General revenues						
Taxes	1,279,072	1,222,773			1,279,072	1,222,773
Other	<u>43,296</u>	<u>40,503</u>	<u>136,750</u>	<u>135,257</u>	<u>180,046</u>	<u>175,760</u>
Total Revenues	<u>1,762,549</u>	<u>1,670,866</u>	<u>156,108</u>	<u>156,117</u>	<u>1,918,657</u>	<u>1,826,983</u>
Expenses						
General government	280,146	307,977			280,146	307,977
Public safety	938,736	855,865			938,736	855,865
Public works	396,396	369,337			396,396	369,337
Health and safety	16,022	37,414			16,022	37,414
Community center and recreation	28,663	22,784			28,663	22,784
Sewer plant			<u>177,050</u>	<u>182,670</u>	<u>177,050</u>	<u>182,670</u>
Total expenses	<u>1,659,963</u>	<u>1,593,377</u>	<u>177,050</u>	<u>182,670</u>	<u>1,837,013</u>	<u>1,776,047</u>
Increase (Decrease) in Net Assets	102,586	77,489	(20,942)	(26,553)	81,644	50,936
Transfers In (Out)	(41,085)	(43,629)	41,085	43,629		
Net Assets, July 1,	<u>944,274</u>	<u>910,414</u>	<u>(366,743)</u>	<u>(383,819)</u>	<u>577,531</u>	<u>526,595</u>
Net Assets, June 30	<u>1,005,775</u>	<u>944,274</u>	<u>(346,600)</u>	<u>(366,743)</u>	<u>659,175</u>	<u>577,531</u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2007

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$938.7 thousand. Other significant governmental expenses for the City include public works at \$396.0 thousand and administration at \$280.0 thousand.

Business-type Activities

Revenues of the City's business-like activities were \$156.0 thousand for the fiscal year ending June 30, 2007. Expenses for the City's business-type activities were \$177 thousand for the year, resulting in a net loss of \$21.0 thousand. The net loss is the result of several factors, including the following:

- The sewer plant became operational in the spring of 2003. There are only four customers hooked up as of June 30, 2007, which accounts for the small amount of operating revenue collected. The expenses of operating the plant far out weighed operating revenue. The City has an agreement with the developer of the Pro Logis facility to fund the repayment of the debt incurred to build the plant until revenues, property and occupational taxes generated, are sufficient to fund the debt. Interest on the debt of \$71,750 is the largest outlay. Included in the total operating expenses is \$42,500 in depreciation, which is not a cash expenditure. The City had to transfer funds in the amount of \$41,085 from the general fund to cover operating losses. The developer advanced \$136,750 under its agreement to fund the repayment of the debt which amount starting last fiscal year does not have to be repaid and has been included in nonoperating revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2007, the City had \$2,818,603 invested in a broad range of capital assets, including equipment, buildings, land and sewer plant. This amount represents a net decrease (including additions and deductions) of \$43,461 over the prior fiscal year mainly due to depreciation expense exceeding assets acquired.

Debt

At year end, the City had \$1.500 thousand in General Obligation Bonds outstanding as compared to \$1.565 thousand at the end of the prior fiscal year, a decrease of \$65 thousand.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2007

Table 4
Outstanding Debt
(Amounts Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the City)	0	0	1,500,000	1,565,000	1,500,000	1,565,000
Capital leases	<u>643,153</u>	<u>692,260</u>	<u>0</u>	<u>0</u>	<u>643,153</u>	<u>692,260</u>
Totals	<u>643,153</u>	<u>692,260</u>	<u>1,500,000</u>	<u>1,565,000</u>	<u>2,143,153</u>	<u>2,257,260</u>

During the current fiscal year the City leased/purchased one new police car.

The City's Funds

At the close of the City's fiscal year on June 30, 2007, the governmental funds of the City reported a combined fund balance of \$350 thousand. Revenues for the year exceeded expenses by \$13,355. The City has to monitor expenditures closely in order to prevent a deficit.

General Fund Budgetary Highlights

During fiscal year 2006-2007, there was a budget amendment for the Governmental Funds.

For fiscal year 2006-2007, actual expenditures on a budgetary basis were \$1.643 thousand compared to the budget amount of \$1.706 thousand. The \$63 thousand positive variance was due to overall expenses being less than budget.

For fiscal year 2006-2007, actual revenues on a budgetary basis were \$1.800 thousand as compared to the budget amount of \$1.803 thousand.

The City of Hillview, Kentucky has an actual, on a budgetary basis, General Fund balance of \$157 thousand as of the fiscal year end, compared to the budgeted fund balance of \$97 thousand. The variance in fund balance is primarily due to revenues in excess of budget and expenditures less than budget not considering transfers in/out.

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, 2007

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, 298 Prairie Drive, Hillview, KY 40229.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	401,630.27		401,630.27
Accounts receivable		3,435.87	3,435.87
Taxes receivable	4,969.60		4,969.60
Intangible assets, net of amortization		49,360.57	49,360.57
Due from other governments	19,942.54		19,942.54
Prepaid expenses	4,781.20	1,550.00	6,331.20
Capital assets, net of accumulated depreciation:			
Buildings	119,091.74		119,091.74
Equipment	188,047.61		188,047.61
Sewer Plant		1,519,375.00	1,519,375.00
Capital asset, non depreciable			
Land	<u>992,089.04</u>		<u>992,089.04</u>
Total Assets	<u>1,730,552.00</u>	<u>1,573,721.44</u>	<u>3,304,273.44</u>
<u>LIABILITIES</u>			
Contract deposit	10,000.00		10,000.00
Accounts payable	27,539.50	594.83	28,134.33
Accrued expenses	35,426.89	34,575.00	70,001.89
Deferred revenue	8,658.00		8,658.00
Bonds payable - current		65,000.00	65,000.00
- long term		1,405,008.91	1,405,008.91
Leases payable - current	55,427.24		55,427.24
- long term	587,725.84		587,725.84
Pro Logis advance		<u>415,142.91</u>	<u>415,142.91</u>
Total Liabilities	724,777.47	1,920,321.65	2,645,099.12
<u>NET ASSETS</u>			
Invested in capital assets	656,075.31	19,375.00	675,450.31
Unrestricted	<u>349,699.22</u>	<u>(365,975.21)</u>	<u>(16,275.99)</u>
Total Net Assets	<u>1,005,774.53</u>	<u>(346,600.21)</u>	<u>659,174.32</u>
Total Liabilities and Net Assets	<u>1,730,552.00</u>	<u>1,573,721.44</u>	<u>3,304,273.44</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Program Revenues</u>		<u>Net Revenue (Expenses) and Changes in Net Assets</u>	
	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>FUNCTIONS/ACTIVITIES</u>				<u>Total</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Police department	938,736.39	74,005.96	(862,757.43)	(862,757.43)
Public works	396,396.22	183,228.95	(213,167.27)	(213,167.27)
Health and safety	16,021.92	474.00	(15,547.92)	(15,547.92)
Administration	280,146.35	105,670.65	(122,283.04)	(122,283.04)
Community center and recreation	<u>28,662.15</u>	<u>9,107.44</u>	<u>(6,026.25)</u>	<u>(6,026.25)</u>
Total Governmental Activities	1,659,963.03	372,013.00	(1,219,781.91)	(1,219,781.91)
<u>BUSINESS-TYPE ACTIVITIES</u>				
Sewer Plant	<u>177,049.38</u>		<u>(157,691.22)</u>	<u>(157,691.22)</u>
Total Activities	1,837,012.41	372,013.00	(1,219,781.91)	(1,377,473.13)
<u>GENERAL REVENUES</u>				
Taxes				
Real Property				450,219.40
Occupational				662,703.79
Tangible Personal Property				32,101.50
Motor Vehicle				72,635.71
Franchise				61,411.54
Interest				11,769.97
Other				31,525.66
Prologis shortfall payments				136,750.00
Transfers In (Out)				<u>41,084.71</u>
Total General Revenues				<u>1,459,117.57</u>
<u>CHANGE IN NET ASSETS</u>				
NET ASSETS AT BEGINNING OF YEAR				81,644.44
NET ASSETS AT END OF YEAR				<u>577,529.88</u>
				<u>659,174.32</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
Cash	262,199.59	139,430.68	401,630.27
Receivables (net, where applicable of allowances for uncollectibles)			
Property taxes	4,969.60		4,969.60
Intergovernmental	5,904.40	14,038.14	19,942.54
Due from general fund		39,289.29	39,289.29
Prepaid expenses	<u>4,781.20</u>		<u>4,781.20</u>
 TOTAL ASSETS	 <u>277,854.79</u>	 <u>192,758.11</u>	 <u>470,612.90</u>
 <u>LIABILITIES</u>			
Contract deposit	10,000.00		10,000.00
Accounts payable	27,539.50		27,539.50
Accrued expenses	35,426.89		35,426.89
Deferred revenues	8,658.00		8,658.00
Due to municipal aid fund	<u>39,289.29</u>		<u>39,289.29</u>
 TOTAL LIABILITIES	 120,913.68		 120,913.68
 <u>FUND BALANCE</u>			
Unreserved fund balance	<u>156,941.11</u>	<u>192,758.11</u>	<u>349,699.22</u>
Total Fund Balance	<u>156,941.11</u>	<u>192,758.11</u>	<u>349,699.22</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>277,854.79</u>	 <u>192,758.11</u>	 <u>470,612.90</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	554,956.61		554,956.61
Intergovernmental			
Insurance tax	105,670.65		105,670.65
Citation fees	15,377.60		15,377.60
Grants	69,877.06		69,877.06
Municipal aid		171,980.25	171,980.25
L.G.E.A.		9,107.44	9,107.44
Licenses and permits	52,192.66		52,192.66
Franchise taxes	61,411.54		61,411.54
Interest	7,127.46	4,642.51	11,769.97
Occupational tax	662,703.79		662,703.79
Miscellaneous	47,984.94		47,984.94
Total Revenues	<u>1,577,302.31</u>	<u>185,730.20</u>	<u>1,763,032.51</u>
<u>EXPENDITURES</u>			
Current			
Police department	902,626.39		902,626.39
Public works	281,924.46	96,595.76	378,520.22
Health and safety	15,639.92		15,639.92
Administration	230,314.14		230,314.14
Community center and recreation	25,442.15		25,442.15
Capital outlay			
Recreation department	5,175.00	10,000.00	15,175.00
Public works	21,842.40		21,842.40
Administration	14,045.32		14,045.32
Debt repayment			
Police department	32,768.27		32,768.27
Administration	72,219.21		72,219.21
Total Expenditures	<u>1,601,997.26</u>	<u>106,595.76</u>	<u>1,708,593.02</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>		79,134.44	79,134.44
<u>EXCESS OF EXPENDITURES OVER REVENUES</u>	(24,694.95)		(24,694.95)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(41,084.71)		(41,084.71)
<u>FUND BALANCE AT BEGINNING OF YEAR</u>	<u>222,720.77</u>	<u>113,623.67</u>	<u>336,344.44</u>
<u>FUND BALANCE AT END OF YEAR</u>	<u>156,941.11</u>	<u>192,758.11</u>	<u>349,699.22</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund Balances of Governmental Funds 349,699.22

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.

1,299,228.39

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

(643,153.08)

Net Assets of Governmental Activities

1,005,774.53

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, 2007

Net Change in Fund Balances - Total Governmental Funds 13,354.78

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	74,240.24
Depreciation expense	(75,201.00)

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.

49,106.93

Net Change in Net Assets of Governmental Activities

61,500.95

See notes to financial statements.

SUPPLEMENTARY INFORMATION

CITY OF HILLVIEW, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	Original	<u>Budgeted Amounts</u>		Actual	Variance with
		Final	Final	Amounts	Final Budget
					Positive
					(Negative)
Budgetary Fund Balance, July 1	171,849.00	25,000.00		222,721.00	197,721.00
Resources (Inflows):					
Property taxes	528,700.00	544,874.00		554,957.00	10,083.00
Licenses and permits	17,200.00	34,834.00		52,193.00	17,359.00
Intergovernmental	1,345,000.00	257,034.00		190,925.00	(66,109.00)
Occupational taxes	675,000.00	664,409.00		662,704.00	(1,705.00)
Franchise taxes	60,000.00	58,026.00		61,412.00	3,386.00
Transfers in	163,874.00	166,540.00		.00	(166,540.00)
Other	11,662.00	52,618.00		55,111.00	2,493.00
Amounts Available for Appropriation	<u>2,973,285.00</u>	<u>1,803,335.00</u>		<u>1,800,023.00</u>	<u>(3,312.00)</u>
Charges to Appropriations (Outflows):					
General government	357,650.00	479,500.00		316,579.00	162,921.00
Public safety	898,750.00	898,750.00		935,395.00	(36,645.00)
Public works	1,270,490.00	213,500.00		303,767.00	(90,267.00)
Health and safety	44,850.00	16,590.00		15,640.00	950.00
Recreation services	15,525.00	29,995.00		30,617.00	(622.00)
Transfers out	79,357.00	68,183.00		41,085.00	27,098.00
Total Charges to Appropriations	<u>2,666,622.00</u>	<u>1,706,518.00</u>		<u>1,643,083.00</u>	<u>63,435.00</u>
Budgetary Fund Balance, June 30	<u>306,663.00</u>	<u>96,817.00</u>		<u>156,940.00</u>	<u>60,123.00</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, 2007

	<u>Original</u>	<u>Budgeted Amounts</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with</u>
					<u>Final Budget</u>
					<u>Positive</u>
					<u>(Negative)</u>
Budgetary Fund Balance, July 1	130,158.00	110,022.00	110,022.00	113,623.00	3,601.00
Resources (Inflows):					
Intergovernmental	108,000.00	109,107.00	109,107.00	181,088.00	71,981.00
Interest	550.00	3,403.00	3,403.00	4,643.00	1,240.00
Amounts Available for Appropriation	<u>238,708.00</u>	<u>222,532.00</u>	<u>222,532.00</u>	<u>299,354.00</u>	<u>76,822.00</u>
Charges to Appropriations (Outflows):					
Current:					
Recreation	8,050.00	10,000.00	10,000.00	10,000.00	.00
Public works	100,500.00	100,500.00	100,500.00	96,596.00	3,904.00
Total Charges to Appropriations	<u>108,550.00</u>	<u>110,500.00</u>	<u>110,500.00</u>	<u>106,596.00</u>	<u>3,904.00</u>
Budgetary Fund Balance, June 30	<u>130,158.00</u>	<u>112,032.00</u>	<u>112,032.00</u>	<u>192,758.00</u>	<u>80,726.00</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

Business-type Activities
Enterprise Fund

Sewer

<u>ASSETS</u>	
Current Assets	
Accounts receivable	
Prepaid expenses	3,435.87
Total Current Assets	<u>1,550.00</u>
	4,985.87
Non-Current Assets	
Intangible assets, net of amortization	
Bond issue costs	
Total Intangible Assets	<u>49,360.57</u>
	49,360.57
Capital Assets	
Sewer system	1,700,000.00
Accumulated depreciation	<u>(180,625.00)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>1,519,375.00</u>
Total Non-Current Assets	<u>1,568,735.57</u>
Total Assets	<u><u>1,573,721.44</u></u>
<u>LIABILITIES</u>	
Current Liabilities Payable from Unrestricted Assets	
Accounts payable	594.83
Accrued interest	34,575.00
Bonds payable - current	<u>65,000.00</u>
Total Current Liabilities Payable from Unrestricted Assets	100,169.83
Non-Current Liabilities	
Pro Logis advance	415,142.91
Bonds, payable from unrestricted assets, net of discount	<u>1,405,008.91</u>
Total Non-Current Liabilities	<u>1,820,151.82</u>
Total Liabilities	1,920,321.65
<u>NET DEFICIT</u>	
Invested in capital assets, net of related debt Unrestricted	19,375.00
Total Net Deficit	<u>(365,975.21)</u>
	<u>(346,600.21)</u>
Total Liabilities and Net Deficit	<u><u>1,573,721.44</u></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, 2007

	Business-type Activities Enterprise Fund
	<u>Sewer</u>
<u>OPERATING REVENUES</u>	
Sewer service	19,358.16
Total Operating Revenues	<u>19,358.16</u>
<u>OPERATING EXPENSES</u>	
Insurance	3,813.81
Operator Fee	17,275.00
Compliance analysis	13,147.25
Maintenance and repairs	6,710.10
Utilities	19,714.64
Depreciation	42,500.00
Total Operating Expenses	<u>103,160.80</u>
<u>OPERATING LOSS</u>	(83,802.64)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Prologis shortfall payments	136,750.00
Amortization	(2,138.96)
Interest expense	<u>(71,749.62)</u>
Total Nonoperating Revenues	<u>62,861.42</u>
Loss before operating transfers	(20,941.22)
<u>TRANSFERS IN</u>	<u>41,084.71</u>
<u>CHANGE IN NET ASSETS</u>	20,143.49
<u>TOTAL NET ASSETS, JULY 1</u>	<u>(366,743.70)</u>
<u>TOTAL NET ASSETS, JUNE 30</u>	<u>(346,600.21)</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Business-type Activities</u> <u>Enterprise Fund</u>
	<u>Sewer</u>
Cash Flows from Operating Activities:	
Cash received from customers	19,576.08
Cash payments to suppliers	<u>(60,660.79)</u>
Net Cash Used by Operating Activities	(41,084.71)
Cash Flows from Noncapital Financial Activities:	
Operating transfers in	41,084.71
Net Cash Provided by Noncapital Financing Activities	41,084.71
Cash Flows from Capital and Related Financing Activities:	
Pro Logis advance	136,750.00
Repayment of long-term debt	(65,000.00)
Interest payment long-term debt	<u>(71,750.00)</u>
Net Cash used by Capital and Related Financing Activities	.00
Net Increase (Decrease) in Cash	.00
Cash, July 1	.00
Cash, June 30	<u>.00</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(83,802.64)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	42,500.00
Decrease accounts receivable	217.92
Increase accounts payable	<u>.01</u>
Total Adjustments	<u>42,717.93</u>
Net Cash Used by Operating Activities	<u>(41,084.71)</u>

See notes to financial statements.

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 with a specific function or identifiable activity. Program revenues include: 1) charges to customers or users who purchase, use or directly.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Balance July 1, 2006	Acquisitions	Balance June 30, 2007	Accumulated Depreciation
<u>Governmental Activities</u>				
Buildings	308,925.74	16,775.00	325,700.74	206,609.00
Machinery and equipment	811,258.37	57,465.24	868,723.61	680,676.00
Land	992,089.04		992,089.04	.00
 <u>Business Type Activities</u>				
Sewer plant	<u>1,700,000.00</u>		<u>1,700,000.00</u>	<u>180,625.00</u>
	<u>3,812,273.15</u>	<u>74,240.24</u>	<u>3,886,513.39</u>	<u>1,067,910.00</u>

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

Administration	\$ 17,613.00
Public Safety	36,110.00
Public Works	17,876.00
Community Center/Recreation	3,220.00
Health and Safety	382.00
Waste Water Treatment Facility	<u>42,500.00</u>
	<u>117,701.00</u>

Total accumulated depreciation for all prior periods was \$950,209.00.

Property Tax

Property is assessed as of January 1. Taxes were levied on October 1, 2006 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 \$358,377,758 and the tax rate was 12.8 cents per hundred dollars of assessed value.

NOTE 2 - SCHEDULE OF CASH

<u>Fund</u>	<u>Financial Institution</u>	<u>Balance</u>	<u>Insured</u>	<u>Uncollateralized</u>
General	PBI Bank	77,461.54	FDIC	
General	PBI Bank	7,855.51	FDIC	
General	National City Bank	40,429.59	FDIC	
General	First Federal	14.45	FDIC	
General	Park Federal Credit Union	<u>136,138.50</u>	FDIC	
		261,899.59		
Special Revenue				
LGEA	PBI Bank	1,698.01	FDIC	
Municipal Aid	PBI Bank	<u>137,732.67</u>	FDIC	37,732.67
		139,430.68		
Petty Cash		<u>300.00</u>		
		<u>401,630.27</u>		

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 2006 to 2007. 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 - PENSION PLAN

During the fiscal year, the City participated in the County Employees Retirement System (CERS). The plan requires contributions by the employee and the employer. The following table summarizes those contributions:

	Employee	Employer
Nonhazardous duty	5%	13.14%
Hazardous duty	8%	28.21%

The cost of this plan to the City during the fiscal year was \$143,523.52.

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 July 1, 2006 was \$660,000.00 and the balance at June 30, 2007 was \$620,000.00. The lease will be paid off on 12/15/2018. Annual principal payments over the next five years are as follows:

6/30/08	40,000.00
6/30/09	40,000.00
6/30/10	45,000.00
6/30/11	50,000.00
6/30/12	50,000.00

Interest expense for the current fiscal year was \$32,219.21.

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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 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 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>
6/30/08-12	360,000.00	125,188.00
6/30/13-17	450,000.00	275,935.00
6/30/18-22	560,000.00	481,888.00
6/30/23	<u>130,000.00</u>	<u>129,675.00</u>
	<u>1,500,000.00</u>	<u>1,012,686.00</u>

1. The City borrowed money to acquire one new police cruiser during the year ended June 30, 2007. This loan was for \$23,177.52 and is repayable in three annual installments. The loan balance on June 30, 2007 was \$15,451.68.
2. The City borrowed money to acquire one new police cruiser during the year ended June 30, 2006. This loan was for \$23,104.21 and is repayable in three annual installments including interest of \$7,701.41. The loan balance on June 30, 2006 was \$15,402.80 and the balance on June 30, 2007 was \$7,701.40.

Lease maturities for all leases over the remaining terms are as follows

6/30/08	15,427.24
6/30/09	7,725.84

CITY OF HILLVIEW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8 - FUND DISCLOSURES

Expenditures in Excess of Budget

The public safety, public works and recreation categories of the general fund had expenditures in excess of budget. The general fund had adequate resources to cover the excess expenditures.

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 over reimbursed for the period ended June 30, 2007. This over reimbursement will be deducted from future interfund transfers.

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

ARTHUR J. HENSON, CPA

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

2455 CRITTENDEN DRIVE
LOUISVILLE, KENTUCKY 40217-1800

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

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

Honorable Mayor and City Council
City of Hillview, Kentucky

We have audited the government-wide financial statements of the City of Hillview, Kentucky as of and for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hillview's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillview's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a material weakness. We also noted immaterial weaknesses that were reported to management in a separate management letter.

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.

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

Henson & Associates

HENSON & ASSOCIATES
Certified Public Accountants
October 4, 2007