

CITY OF CRESTVIEW HILLS, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Prepared by the City Finance Officer

Year Ended June 30, 2012

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October 23rd, 2012

To: The Citizens of the City of Crestview Hills,
the Honorable Mayor and,
Members of the City Council:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in accordance with implementation of Government Standards Board (GASB) Statement 34, and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Crestview Hills for the fiscal year ended June 30, 2012.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Crestview Hills management. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Rankin, Rankin, and Company, Certified Public Accountants, have issued an unqualified (clean) opinion on the City of Crestview Hills financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction therewith.

The City provides a wide range of services including public works, engineering, maintenance of dedicated streets and rights-of-way, recreational activities, and general administrative functions. Contracted services include police and fire protection, basic and advanced emergency medical service, city-wide landscaping maintenance and right-of-way plantings, animal control services, building, zoning, and code enforcement.

The majority of City activities are accounted for through the General Fund, with a separate Capital Projects Fund maintained mostly for grant and large infrastructure projects. Financial statements of governmental organizations differ somewhat from the statements prepared for profit-oriented organizations in that governmental organizations prepare statements on a fund basis. In governmental accounting, the term "fund" is used to identify a separate accounting entity with its own assets, liabilities, revenues, or expenses, as appropriate.

Profile of the Government

The City of Crestview Hills, incorporated in 1951, is located in the Northern Kentucky. Crestview Hills currently occupies a land area of 2.6 square miles and serves a residential population of 3,148 (April 1, 2010 U.S.

Census) with a much larger daytime population. The City levies a property tax on real property and levies an occupational fee on employees and businesses.

The City of Crestview Hills has operated under the Mayor-Council form of government since 1951. Policy-making and legislative authority are vested in the City Council. The Mayor is responsible the executive functions of the City, including administration of the budget, appointing employees, and representing the City as the Chief Elected Official. The City Council is responsible for setting policy, passing ordinances, adopting the budget, approving the Mayor's appointments to committees, and approving the appointment of the City Administrator, City Engineer, City Attorney and City Clerk. The appointed City Administrator is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and assisting the Mayor and Council. The council is elected on a non-partisan basis. Council members serve two-year terms while the mayor serves a four-year term. A new two- year term begins for Councilmembers on January 1st, 2013.

The annual budget serves as the foundation for the City of Crestview Hills financial planning and control. The Mayor is responsible for presentation of the annual budget to the City Council for approval. The City Administrator and Treasurer work closely with the Mayor and Council Committees to assess budgetary needs for the coming year. This information, along with known changes in funding formulas and contracts is programmed into the budget document. The final budget proposal is submitted to the Finance Committee for review before going to City Council for first reading in May. Council is required to hold public hearings on the proposed budget and adopt a final budget by no later than June 30, the close of Crestview Hills fiscal year. Fund, function (i.e. Public safety or general government), and department (i.e. Police, Fire) determine the order of the appropriated budget. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted.

Local Economy

Crestview Hills is located ten miles southwest of Cincinnati. The City is known for its diversity including single family residential and condominiums, an active retail center, a large business and office park, a four year liberal arts college (Thomas More College) and two country clubs. The key economic areas vital to the City's tax base are: the medical sector, professional offices, retail, and residential. Each contributes to the broad based revenue that operates the City.

The development of the Research Park area along Thomas More Parkway during the last two decades has been a boon to the City's economy. The Research Park is within ten miles of the Greater Cincinnati/Northern Kentucky International Airport with easy access to I-75, I-71, and I-275. While downtown Cincinnati is only a few minutes away, this location is suburban and residential in nature. The Research Park houses professional offices, specialty physicians, attorneys, banks, country clubs, a four-year college, a gymnastics training facility, children's care facilities, and corporate offices in an suburban environment with the lowest overall tax rates in the area. The proximity of the St. Elizabeth Hospital Healthcare system in the adjacent City of Edgewood has contributed to the large concentration of healthcare related offices in the City. The City is the home to St. Elizabeth Physicians, a multi-specialty physicians group employing 200 physicians and 1,100 total employees throughout Northern Kentucky. St. Elizabeth Hospital also maintains a large presence in the community, remaining the top payroll taxpayer during FY 2011-2012.

While the Northern Kentucky economy has felt the same economic downturn as the overall national economy, the City's tax base has fared better than many surrounding cities. The diversity of businesses, along with the high concentration of healthcare related jobs has generally shielded the City's revenues from large drops in payroll taxes. Interestingly, the City's retail center also remained strong during the great recession. This year the Town Center welcomed three new businesses. Joseph Beth Bookstore, The Limited, which offers both men's and women's apparel and Altar'd State, a contemporary Christian fashion boutique.

Payroll taxes increased slightly over FY 2010-2011. The City's payroll taxes increased by 4.28% from \$1,542,322 to \$1,608,387. This is consistent with the sluggish growth of the overall national economy and will probably continue through 2013. Net Profits increased by 47.9% from \$182,584 to \$270,185. The City was very fortunate this year to have an increase in net profits, likely due to improving business conditions in the local and national economy.

Domiciled businesses account for the majority of payroll taxes received. The number of domiciled accounts remained the same in FY 2012, with 357 accounts. For the latest fiscal year, the city registered over 1,397 non-domiciled businesses, everything from construction companies to home service businesses.

The outlook for payroll and net profit collections for FY13 is anticipated to remain steady in Crestview Hills as the local and national economies continued to slowly improve. Because most of the land in Crestview Hills has been developed, it is unlikely the City will receive large year over year increases in business taxes in future years, rather slow and steady growth.

Residential real estate has experienced low sales activity over the last four years, mirroring the national economy. Commercial real estate has been slow as well; however, it is anticipated that if the local job market improves, commercial real estate should improve. Within the last six months there has been some strengthening in local real estate market with increasing prices on existing residential properties. The City does not anticipate any significant new real estate development or increases in property tax revenues.

Long-term financial planning

Unreserved, undesignated fund balance in the general fund has exceeded policy guidelines set by Council by recommendation of the Finance Committee for budgetary and planning purposes (i.e., between 15 and 20 percent of total general fund revenues). With a number of potential infrastructure projects on the horizon, the City will remain diligent in identifying and ensuring adequate financial reserves to meet future needs. This is particularly true for future street maintenance activities, as many of the City's streets are approaching a point where rebuilds will need to be included in future CIP Plans. The City will also face steadily increasing costs for Public Safety and other employee expenses in coming years.

After extensive public input and research, the Crestview Hills City Council approved a tax offset for the cost of street maintenance performed by homeowner associations on private residential streets in 2010. This offset amounted to \$.025 per one hundred dollars of assessed valuation. The total cost to the City was approximately \$27,000 out of a total annual property tax collection of nearly \$600,000 for the 2011 tax year. The City Ordinance provides for a review of the offset at least every five years to ensure that it is consistent with HOA maintenance costs. The City does not currently foresee any significant changes to this offset cost over the next several years.

While the majority of the issues regarding private streets have been addressed, City officials will continue to work with the HOA's and the Northern Kentucky Sanitation District # 1 (SD #1) to forge a solution to stormwater facilities on private streets. During FY 2009-2010, the City handed over ownership of all below ground stormwater facilities to SD #1. Future maintenance of these facilities is now the responsibility of SD #1. However, SD #1 has declined to accept any stormwater facilities located on private streets to-date, leaving homeowners with a possibly significant future cost for repair or replacement. While the Sanitation District has chosen to not accept this stormwater infrastructure, the private street residents continue to pay a monthly stormwater fee just like homeowners on public streets.

Currently, the City is in the midst of numerous construction projects. In September, the reconstruction of College Park Drive began along with road resurfacing on Winding Way, Shinkle Road and Rhine Valley. The City is also in the process of various street curb repairs. This fall the City will begin work on the Horsebranch

Creek bank stabilization project and ADA compliance work on the sidewalks of Thomas More Parkway and Legends Way. These projects are all anticipated to be completed by the middle of November.

Along with the above City projects, Crestview Hills residents have also encountered a major construction project on Turkeyfoot Road. The State Transportation Cabinet began a long waited widening project in August of this year. The plans call for an added northbound lane from College Park Drive to the eastbound ramp to I-275.

In another phase of the project, the State will be adding a second left turn lane from Turkeyfoot Road on the westbound ramp to I-275. The widening should ease congestion and move traffic more effectively through this corridor. Governor Ernie Fletcher presented monies dedicated to this in FY 08 and the current timetable for completion is April of 2013. All construction will be overseen by the Kentucky Transportation Cabinet.

The sidewalk project along US 25 (Dixie Highway) is now complete. The City wrapped up the construction of the long awaited Dixie Highway Sidewalk in the beginning of 2012. This project was part of a Federal grant in 2007 that funded 80% of the cost. The new sidewalk is an asset to the community and now will safely connect Dudley Road to the main entrance to the Town Center. As a part of the project, the City installed conduit for future lighting along this section of Dixie Highway. The City hopes to have the lighting installed next spring.

Continuing increases in both retirement and medical costs will place pressure on future City budgets. Pension costs, especially for hazardous duty employees, are anticipated to nearly double over the next twelve years. While the City does not directly employ police and fire personnel, our contracts with Lakeside Park/Crestview Hills Police Authority and the City of Ft. Mitchell will certainly be affected by these higher pension costs. Public Safety (Police, Fire and EMS) constitute over 40% of the City's annual operating budget. Additionally, medical costs continue to rise and unless there are substantial changes at the federal level in cost containment, the City can expect this area to also be a future cost driver.

On the revenue side, while the City is blessed with a diverse and relatively stable tax base, there may be issues on the horizon that could impact future revenues. The two most notable are some declines in property values since the peak in 2007, and the recent trend we have seen with physician practices merging with St. Elizabeth Healthcare's Physicians' group. With this, a number of businesses have come off the tax roll due to becoming non-profit.

For the tax year 2012, the City Council, increased the property tax rate from .1525 to .1545. This tax rate would produce \$578,885 in property tax revenue. The trend of lower valuations is expected to continue the next couple of years through both taxpayer contested valuations and property selling for less than current assessment amount.

Other information

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of Federal and State financial resources, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control structure is subject to periodic evaluation by the management of the City.

As part of the City's annual audit, reviews are made to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ended June 30, 2012 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General and Capital Projects Funds are included in the annual appropriated budget. The adopted budget for fiscal year 2011 - 2012 was prepared in accordance with accounting principles generally accepted in the United States of America.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Cash resources of the individual funds are combined to form a pool of cash and investments. Cash temporarily idle during the year was invested in certificates of deposit, consistent with the wishes of City Council as recommended by the Finance Committee.

The City's investment policy is designed to maximize the productive use of assets entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are: (1) safety, (2) liquidity and (3) yield. The basic premise underlying the City's investment policy is to ensure that money is always available when needed while at the same time gaining the highest and best return. Accordingly, deposits were either insured by Federal depository insurance (FDIC) and/or collateralized.

The City in FY 2009-2010 switched insurance carriers after many years belonging to the Kentucky League of Cities Risk Management Pool. The City's carrier, EMC Insurance, provides a full range of insured risks, including property and casualty, automobile, elected officials liability, and general liability insurance. The insurance limit of risk is 3 million with another 3 million umbrella, on a per occurrence basis. EMC provides a full range of risk management services, including loss control audits and safety training and accident prevention workshops.

The City also switched Workers Compensation Insurance Coverage in 2010, choosing to utilize the Commonwealth of Kentucky operated Kentucky Employers Mutual Insurance program. This is the largest workers compensation program in the State. The coverage provides statutorily mandated benefits for all City employees.

All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. The City maintains a Risk Management Committee consisting of the Mayor, City Attorney, City Administrator and Treasurer to periodically evaluate risks and ensure proper oversight of possible liability exposures. There are no known existing claims that would exceed the City's applicable coverage.

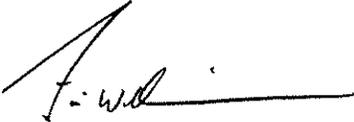
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Crestview Hills for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the eleventh consecutive year that the government has received this prestigious award. To qualify for a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy generally accepted accounting principles, pronouncements of the Governmental Accounting Standards Board, and applicable legal requirements.

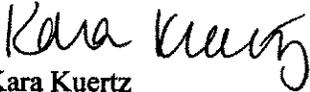
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the finance staff and appreciation is expressed to those who assisted and contributed in its completion. Credit also must be given to the Mayor and City Council for their support in maintaining the highest standards of professionalism in the management of Crestview Hills finances.

Respectfully submitted,

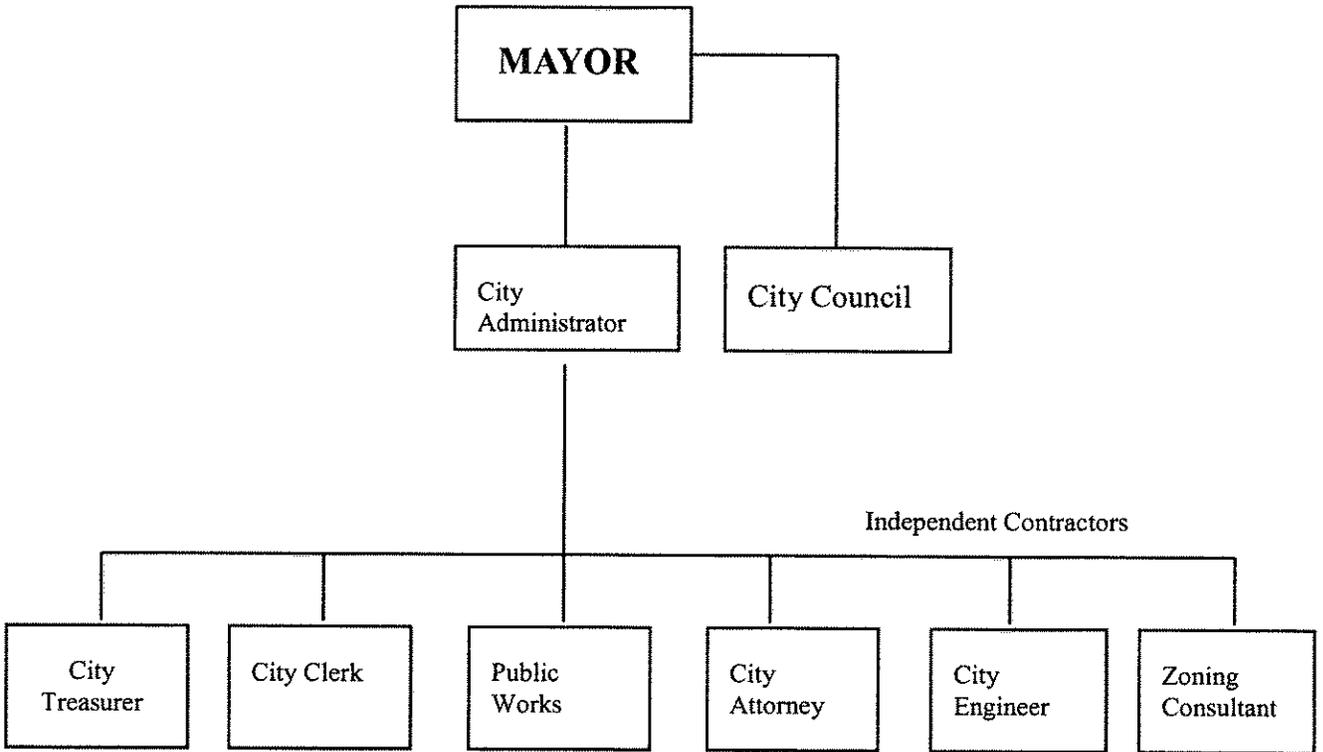


Tim Williams
City Administrator



Kara Kuertz
Finance Officer/Treasurer

City of Crestview Hills Organizational Chart



City of CRESTVIEW HILLS

LIST OF PRINCIPAL OFFICIALS

Mayor - Council Form of Government

CITY COUNCIL

PAUL W. MEIER
Mayor

FRANK B. SOMMERKAMP, Jr.
Mayor Pro Temp

DAVID KRAMER
Council Member

KEN PALMER
Council Member

RALPH LAIRD
Council Member

THOMAS MOSER
Council Member

COLLEEN COLLINS-BRIGHT
Council Member

CITY ADMINISTRATION

Tim Williams
City Administrator

Kara Kuertz/Treasurer
Judy Rae Cox, City Clerk
Mary Ann Stewart, City Attorney
NKAPC, Building Inspector
NKAPC, Zoning Consultant
Jeff Smith, Public Works Director
Jim Berling, City Engineer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Crestview Hills
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emmer

Executive Director

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council
City of Crestview Hills, Kentucky

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Crestview Hills, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Crestview Hills, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 the 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, each major fund, and the aggregate remaining fund information of the City of Crestview Hills, Kentucky as of June 30, 2012, 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 October 22, 2012, on our consideration of the City of Crestview Hills, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 15 through 22 and 37 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

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crestview Hills, Kentucky's financial statements as a whole. The introductory section, combining and individual nonmajor budgetary fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
October 22, 2012**

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CITY OF CRESTVIEW HILLS

A Kentucky Chamber of Commerce Hall of Fame City

PAUL W. MEIER, MAYOR

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Crestview Hills, Kentucky, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Crestview Hills, Kentucky for the year ended June 30, 2012. We encourage readers to consider the information in conjunction with the letter of transmittal, which can be found on pages 1-6 in this report.

FINANCIAL HIGHLIGHTS

- Revenues increased \$339,217 over the prior year primarily due to the increase of payroll taxes and the receipt of a grant in the current year.
- The total cost of all City expenses increased \$541,787 from the prior year, due to the City's sidewalk project, street sign program and the increase in Public Safety costs.
- The General Fund reported a net increase in FY12 fund balance of \$775, compared to FY11 net increase of fund balance of \$203,345.

Overview of the Financial Statements. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements encompass three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases and decreases in net assets are one indicator of whether the City's financial position is improving or deteriorating. Other non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure will also assist in assessing the overall financial health of the City.

The statement of activities presents how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods (e.g. uncollected revenue and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, license fees, and intergovernmental activities which are considered governmental activities from those functions that are intended to cover all or a significant portion of their costs through user fees and charges for business-type activities. The governmental activities include most of the City's basic services. These include, but are not limited to police, fire, ambulance, street maintenance, planning and zoning, recreation, and general administration. The government-wide financial statements can be found on pages 23 and 24 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. Some funds are required to be established by State law. However, the City Council can establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds. All funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City of Crestview Hills uses only governmental funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments' near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Crestview Hills maintains two individual governmental funds. Information is presented separately in the governmental balance sheet and in the statement of revenues, expenditures and change in fund balances for the funds, both of which are considered to be major funds.

The basic governmental financial statements can be found on pages 25-27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-36 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The City adopts an annual appropriated budget for its general fund and capital projects. The budgetary comparison schedules can be found on pages 37-38 of this report and a related general fund budget analysis can be found on page 21 within the Management Discussion and Analysis report.

Government-wide Financial Analysis. Net assets may serve over time as a useful indicator of a government's financial position. Crestview Hills' total assets exceeded liabilities by \$5,555,673 at the close of the 2012 fiscal year. The largest portion of the net assets reflects current and other assets (e.g., cash and cash equivalents). Investment in capital assets is the second largest portion of the net assets (e.g. land, building, machinery, equipment and infrastructure). Capital assets are used to provide services to citizens, and consequently, are not available for future spending. Although the City of Crestview Hills' 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. The government-wide financial statements can be found on pages 23 and 24 of this report.

At the end of the current fiscal year, Crestview Hills is able to report positive balances in net assets. The same held true for prior fiscal years. Total assets decreased by \$186,836 due to depreciation of capital assets.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Current and other assets	\$ 4,289,433	\$ 4,307,773	\$ 4,394,084
Capital assets	<u>3,573,119</u>	<u>3,439,098</u>	<u>3,165,953</u>
Total assets	\$ <u>7,862,552</u>	\$ <u>7,746,871</u>	\$ <u>7,560,037</u>
Long term liabilities	2,164,204	2,056,109	1,942,911
Other liabilities	<u>227,552</u>	<u>53,470</u>	<u>61,453</u>
Total liabilities	\$ <u>2,391,855</u>	\$ <u>2,109,579</u>	\$ <u>2,004,364</u>
Net Assets			
Invested in capital assets, net of related debt	1,418,119	1,394,119	1,238,466
Unrestricted	<u>4,052,567</u>	<u>4,243,194</u>	<u>4,317,207</u>
Total net assets	\$ <u>5,470,686</u>	\$ <u>5,637,292</u>	\$ <u>5,555,673</u>

Governmental Activities. Governmental activities decreased the City's net assets by \$81,619 accounting for 100 percent of the total increase.

<u>City of Crestview Hills Changes in Net Assets</u>			
<u>Governmental Activities</u>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:			
<u>Program Revenues:</u>			
Charges for services	\$ 20,975	\$ 21,036	\$ 17,787
Capital grants and contributions	55,555	75,555	331,421
<u>General Revenues:</u>			
Property taxes	599,773	581,200	577,737
Other taxes	1,768,991	1,798,809	1,961,338
Other revenues	130,354	42,302	56,632
Total revenues	<u>\$ 2,575,648</u>	<u>\$ 2,575,648</u>	<u>\$ 2,944,915</u>
Expenses:			
General government	596,205	576,874	580,733
Public Safety	1,010,548	1,051,286	1,180,680
Public works/streets	608,025	573,568	1,116,282
Community development	49,949	66,985	70,566
Interest on Long Term Debt	87,524	83,783	78,273
Total expenses	<u>2,352,251</u>	<u>2,352,495</u>	<u>3,026,534</u>
Increase or decrease in net assets before transfers	223,397	166,606	(81,619)
Transfers	-	-	-
Increase/decrease in net assets	223,397	166,606	(81,619)
Net assets prior year	5,247,289	5,470,686	5,637,292
Net assets current year	<u>\$ 5,470,686</u>	<u>\$ 5,637,292</u>	<u>\$ 5,555,673</u>

Governmental Activities: Revenues

Property tax rates increased from .1525 in tax year 2011 to .1545 for tax year 2012. The 2% increase in the property tax rate is due to ongoing increases in operating costs. The City has seen costs increase in recent years for both Public Safety and Public Works, plus slower increases in business and payroll taxes.

Other taxes include payroll tax, occupational license and net profits. The total collection of licenses and permits accounts for 67% of the total revenue in FY12.

Governmental Activities: Expenses

Public Works and Streets include capital projects on infrastructure, which extend or renew the life of the street, joint projects with other governmental entities, and any repairs of the City Building.

The size of The City of Crestview Hills generally prohibits a one to one relationship between departmental expenses and revenues. Most revenue received comes from business taxes, licenses, and general property taxes and is used to fund the expenses of general government (those expenses related to administrative staffing, public distribution of information, compliance with state and federal regulations, public relations, public safety (police, fire, animal control, and emergency medical), streets or public works (staffing, City maintenance and repair, street maintenance and

repair, equipment, snow removal, engineering fees, public utilities, and building supplies), capital projects (performed on infrastructure or the City Building that extends the useful life thereof, and is generally depreciable in nature), and debt service (principal and interest on the general obligation revenue bonds issued for the construction of the City Building in October, 2005). The following charts best illustrate the trends in income and expenses over a period of five years.

Sources of Revenue

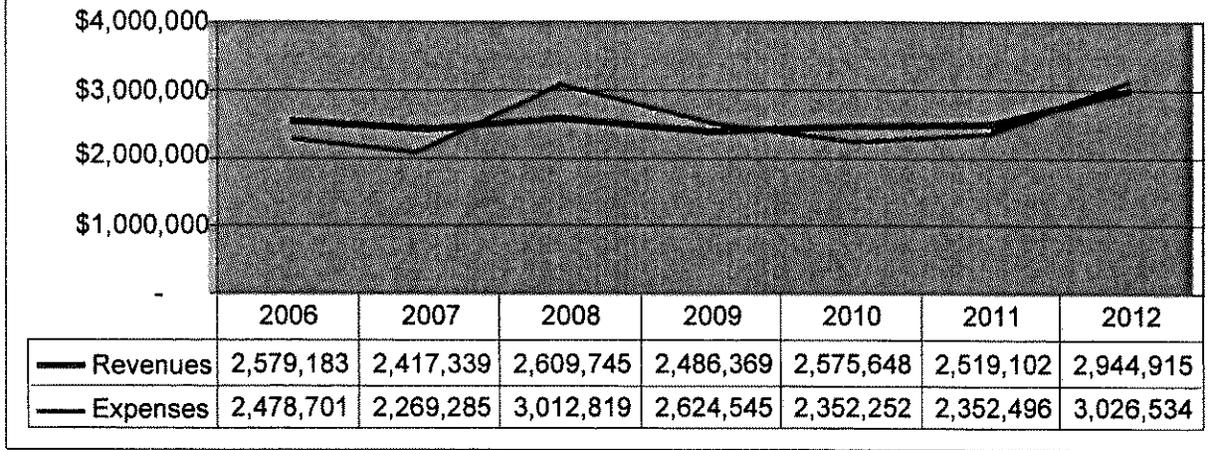
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Charges for Services	\$ 15,119	\$ 17,724	\$ 19,377	\$ 24,167	\$ 16,976
Road Aid	92,741	52,492	55,555	75,755	331,421
Business Taxes	1,657,719	1,730,165	1,768,991	1,798,809	1,961,338
Property Taxes	527,141	573,494	599,773	581,200	577,737
Licenses & Fines	95,919	11,856	1,598	(3,131) ¹	811
Interest Income	153,535	99,311	64,146	29,847	22,660
Other	67,571	1,327	66,208	12,455	33,972
	<u>\$ 2,609,745</u>	<u>\$ 2,486,369</u>	<u>\$ 2,575,648</u>	<u>\$ 2,519,102</u>	<u>\$ 2,944,915</u>

¹ Represents refunds in excess of revenues

Sources of Expenses

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
General Govt.	\$ 611,723	\$ 593,327	\$ 596,205	\$ 576,874	\$ 580,733
Community Dev.	42,609	68,223	49,949	66,985	70,566
Public Safety	985,510	852,783	1,010,548	1,051,286	1,180,680
Public Works	1,242,877	922,688	608,025	573,568	1,116,282
Debt Service	130,100	87,524	87,524	83,783	78,273
	<u>\$ 3,012,819</u>	<u>\$ 2,524,545</u>	<u>\$ 2,352,251</u>	<u>\$ 2,352,496</u>	<u>\$ 3,026,534</u>

Governmental Activities: Total Revenue & Expenditures

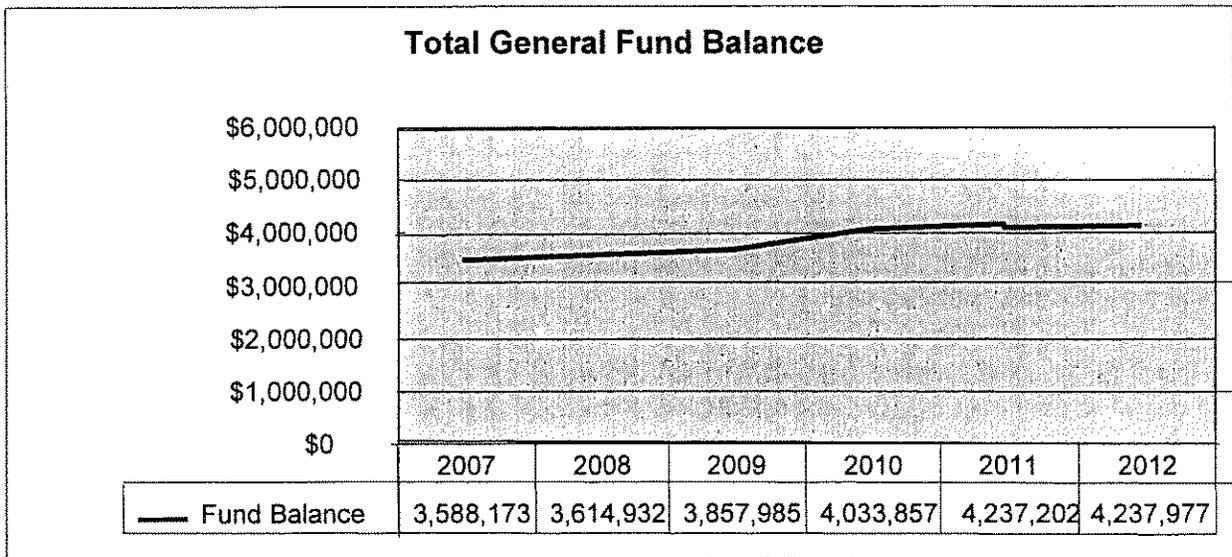


FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

At year-end the City's governmental funds reported combined fund balances of \$4.31 million, which is a decrease of \$81,619 from last year. During the year, a net \$488,264 was transferred from the general fund to the capital projects fund. It is anticipated that the capital project expenditures will increase in the future, as the City begins to replace older streets and take care of other aging infrastructure. The City has several projects planned for FY 2013 such as: reconstruction of College Park Road, resurfacing of Winding Way, Shinkle Road and Rhine Valley. The City is also in the process of various street curb repairs. This fall the City will begin work on the Horsebranch Creek bank stabilization project and ADA compliance work on the sidewalks of Thomas More Parkway and Legends Way

General Fund Transfers Out:

- \$488,264 to the Capital Projects Fund



GENERAL FUND BUDGETARY HIGHLIGHTS

Expenditures were less than budgeted amounts by \$785,291 due to actual public works costs that were less than the amounts budgeted. This is the third consecutive year that the City's expenditures have been less than revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2012, the City had \$3.2 million invested in net capital assets. Information on capital asset policy can be found in the Notes to Financial Statements – NOTE A – Summary of Significant Accounting Policies, *Capital Assets* on pages 30 and 31. Information on capital assets and depreciation are located on page 33, NOTE D – Capital Assets and Depreciation.

DEBT

At June 30, 2012, the City had \$1,930,000 in outstanding general obligation bonds on the City Building compared to \$2,045,000 in the prior year, a decrease of \$115,000. The average annual debt service is \$194,000.

The Crestview Hills Finance Committee will assess the interest rate on the bonds in year 2015. At that time The Finance Committee will also determine the financial outlook of the City. The Committee will decide whether or not to pay off the bonds of the City Building or to keep the reserves for future use. Paying off the bonds would significantly reduce debt obligations on future councils; however it depends on the City's financial health and prevailing interest rates at that time. Additional information on the bonds and maturity schedules can be found in the Notes to Financial Statements – NOTE E – Long Term Debt on page 34.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economy of the City relies to a great extent on professional office and retail. The City's activities are primarily funded through business taxes collected from medical offices, general

office, retail and education. The largest source of revenue by far is the payroll tax of 1% on all wages up to \$ 110,100 (for 2012) earned within City limits.

We are seeing physician offices located in Crestview Hills partnering with the nearby hospital St. Elizabeth Healthcare. St. Elizabeth Hospital and its subsidiary Physicians Group is tax exempt which has decreased the amount of net annual profit taxes received. The consolidations have also reduced back office employment of those medical practices in the City as those functions have been relocated to another city

The City's growth as mirrored that of the local and national economy. Growth in revenues has been slow, but steady. Since the City's Office Park is nearly built out, expansion of payroll tax revenue is anticipated to be slow over the next few years unless one of the remaining lots is developed, adding new jobs. The existing office spaces are over 90% leased at this time. FY 2011-2012 saw some healthy increases in Net Profit taxes. This is the result of the strengthening economy. The City has also begun an audit process of business tax returns to ensure proper compliance. The City also maintains an active business retention program to ensure our existing businesses can grow in the community. The long term financial prospects for the City are positive, but future Councils must ensure that resources are adequate to meet the growing cost of Public Safety and Infrastructure maintenance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for all those with an interest in the City's finances. If you have questions about this report or requests for additional financial information, contact the City's Financial Office/Treasurer, Kara Kuertz, at the City of Crestview Hills, 50 Town Center Blvd., Crestview Hills, Kentucky 41017.

CITY OF CRESTVIEW HILLS, KENTUCKY**Statement of Net Assets**

June 30, 2012

	Primary Governmental Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,839,873
Receivables	
Taxes	365
Accounts	401,191
Other governments	89,874
Prepays	17,750
Deferred charges	45,031
Capital assets not being depreciated	260,000
Capital assets, net of accumulated depreciation	<u>2,905,953</u>
Total assets	<u>7,560,037</u>
LIABILITIES	
Accrued liabilities	28,022
Accrued interest payable	29,331
Deferred revenue	4,100
Noncurrent liabilities:	
Due within one year	122,000
Due in more than one year	<u>1,820,911</u>
Total liabilities	<u>2,004,364</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,238,466
Unrestricted	<u>4,317,207</u>
Total net assets	<u>\$ 5,555,673</u>

See accompanying notes to the basic financial statements.

CITY OF CRESTVIEW HILLS, KENTUCKY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (expenses)
		Charges for Services	Capital Grants and Contributions	Revenues and Changes in Net Assets
				Governmental Activities
Primary government:				
Governmental activities:				
General government	\$ 580,733	\$ 811	\$ -	\$ (579,922)
Public safety	1,180,680	4,069	-	(1,176,611)
Public works	1,116,282	-	331,421	(784,861)
Community development	70,566	12,907	-	(57,659)
Interest and other debt costs	78,273	-	-	(78,273)
Total governmental activities	<u>3,026,534</u>	<u>17,787</u>	<u>331,421</u>	<u>(2,677,326)</u>
Total primary government	<u>\$ 3,026,534</u>	<u>\$ 17,787</u>	<u>\$ 331,421</u>	<u>\$ (2,677,326)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 577,737
Taxes levied for bank deposits				40,580
Payroll license tax				1,608,387
Net profit license tax				270,185
Other license taxes				42,186
Interest				22,660
Miscellaneous				33,972
Total general revenues				<u>2,595,707</u>
Change in net assets				(81,619)
Net assets-beginning				<u>5,637,292</u>
Net assets-ending				<u>\$ 5,555,673</u>

See accompanying notes to the basic financial statements.

CITY OF CRESTVIEW HILLS, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,839,873	\$	\$ 3,839,873
Receivables			
Taxes	365		365
Accounts	401,191		401,191
Accrued interest	-		-
Other governments	89,874		89,874
Prepays	17,750		17,750
Total assets	<u>\$ 4,349,053</u>	<u>\$ -</u>	<u>\$ 4,349,053</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued liabilities	\$ 28,022	\$ -	\$ 28,022
Deferred revenue	83,054	-	83,054
Total liabilities	<u>111,076</u>	<u>-</u>	<u>111,076</u>
Fund balances:			
Nonspendable-prepays	17,750		17,750
Assigned-capital projects	-		-
Unassigned	4,220,227		4,220,227
Total fund balances	<u>4,237,977</u>	<u>-</u>	<u>4,237,977</u>
Total liabilities and fund balances	<u>\$ 4,349,053</u>	<u>\$ -</u>	<u>\$ 4,349,053</u>
Total governmental fund balance			\$ 4,237,977
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			3,165,953
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			78,954
Costs of debt issuance and discounts are currently expensed for governmental funds and are carried as deferred charges in the statement of net assets.			45,031
Accrued interest on long-term debt.			(29,331)
Long-term liabilities, including bonds payable, are not due and payable in current period and therefore are not reported in the funds.			(1,942,911)
Net assets of governmental activities			<u>\$ 5,555,673</u>
See accompanying notes to the basic financial statements.			

CITY OF CRESTVIEW HILLS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2012

	General	Capital Projects	Total Governmental Funds
REVENUES			
Taxes	\$ 578,885	\$ -	\$ 578,885
Licenses and permits	1,961,338	-	1,961,338
Intergovernmental	252,831	-	252,831
Charges for services	15,111	-	15,111
Fines and forfeitures	2,677	-	2,677
Interest	22,660	-	22,660
Miscellaneous	33,972	-	33,972
Total revenues	<u>2,867,474</u>	<u>-</u>	<u>2,867,474</u>
EXPENDITURES			
Current:			
General government	473,767	-	473,767
Public safety	1,180,680	-	1,180,680
Public works	460,037	488,264	948,301
Community development	70,566	-	70,566
Debt service:			
Principal	115,000	-	115,000
Interest	78,385	-	78,385
Total expenditures	<u>2,378,435</u>	<u>488,264</u>	<u>2,866,699</u>
Excess (deficiency) of revenues over expenditures	<u>489,039</u>	<u>(488,264)</u>	<u>775</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	488,264	488,264
Transfers out	<u>(488,264)</u>	<u>-</u>	<u>(488,264)</u>
Total other financing sources and uses	<u>(488,264)</u>	<u>488,264</u>	<u>-</u>
Net change in fund balances	775	-	775
Fund balances - beginning	<u>4,237,202</u>	<u>-</u>	<u>4,237,202</u>
Fund balances - ending	<u>\$ 4,237,977</u>	<u>\$ -</u>	<u>\$ 4,237,977</u>

See accompanying notes to the basic financial statements.

CITY OF CRESTVIEW HILLS, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2012

Net change in fund balances-total governmental funds	\$	775
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p>		
Capital asset purchases capitalized		48,976
Depreciation expense		(322,121)
Government funds report the effect of bond issuance cost and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(3,217)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		77,441
Accrued interest on long-term debt is reported in the government-wide financial statements and not reported in governmental funds.		3,329
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds - compensated absences.		(1,802)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		115,000
		<hr/>
Change in net assets of governmental activities.	\$	<u>(81,619)</u>

See accompanying notes to the basic financial statements.

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Crestview Hills, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Date of Management's Review

Subsequent events were evaluated through October 22, 2012, which is the date the financial statements were available to be issued.

Financial Reporting Entity

The City of Crestview Hills is a municipality governed by a mayor and six-member council. As required by generally accepted accounting principles, these financial statements present the government.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The City of Crestview Hills has no business-type activities or blended or discretely presented component units.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicant who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, related of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CRESTVIEW HILLS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The capital project fund is used to account for financial resources to be used for the acquisition and construction of major capital projects.

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

Cash and cash equivalents including amounts in demand deposits as well as short-term investments (certificates of deposit) with an initial maturity date within one year of the date acquired by the City.

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities;
2. Obligations and contracts for future delivery or purchases of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligation permitted by Section 41.240(4) of the Kentucky Revised Statutes.
5. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of these highest categories by a nationally recognized rating agency.

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

6. Bankers' acceptances for banks rated in one of the highest categories by a nationally recognized rating agency.
7. Commercial paper rated in the highest category by a nationally recognized rating agency.
8. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
9. Securities issued by a state or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.
10. Shares of mutual funds, each of which shall have the following characteristics:
 - a) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 - b) The management company of the investment company shall have been in operation for at least five (5) years; and
 - c) All of the securities in the mutual fund shall be eligible investments under this section.

Property Taxes and Tax Calendar

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1. Property tax rates for the year ended June 30, 2012 were \$.1520 per \$100 valuation for real property. The assessed value of property on which the levy for 2011 was based was \$395,873,740.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items under the purchases method.

Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at

CITY OF CRESTVIEW HILLS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

their estimated fair market value on the date received. The City capitalizes all assets exceeding \$1,000.

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

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

Buildings	30 years
Building Improvements	15-30 years
Public Domain Infrastructure	7-25 years
Vehicles	5 years
Office Equipment	5 years

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity

In the fund financial statements, government funds report components of fund balance for amounts that are nonspendable, assigned or unassigned. Nonspendable fund balances are resources that cannot be spent because of their form and because resources must be maintained intact. Assigned fund balance are those that are constrained by the government's intent to be used for specific purposes. Unassigned fund balance is the residual classification for the general fund. The assigned amounts can only be used when expenditures for the amounts set aside for that specific purpose are incurred.

Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/ expenses in the fund

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

that is reimbursed. The principal purpose of the City's interfund transfers is to account for capital purchases to be recorded in the Capital Projects Fund.

Required Supplementary Information Budgetary Policies

All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedules present actual expenditures in accordance with the accounting principles generally accepted in the U.S. on a basis consistent with the legally adopted budgets.

Restricted Revenues

When there are restricted and unrestricted revenues in a program, the City's policy is that the restricted revenues are expended first.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance, by May 15, the Mayor submits to the Council, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain citizen comment.
- C. By July 1, the budget is legally enacted through passage of an ordinance.
- D. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the department level. Any revisions to the budget that would alter total revenues of any fund and expenditures of any department must be approved by the Council; however, with proper approval by the City Administrator, budgetary transfers between departments can be made. All appropriations lapse at fiscal year end.

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE C-DEPOSITS

As of June 30, 2012, the City held no investments:

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2012, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

NOTE D-CAPITAL ASSETS AND DEPRECIATION

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

	Balance June 30, 2011	Additions	Retirements/ Deletions	Balance June 30, 2012
Governmental activities:				
Not being depreciated:				
Land	\$ 260,000	\$ -	\$ -	\$ 260,000
Construction in progress	-	-	-	-
Subtotal	<u>260,000</u>	<u>-</u>	<u>-</u>	<u>260,000</u>
Other capital assets:				
Buildings	2,590,889	-	-	2,590,889
Improvements/infrastructure	9,111,541	89,054	(44,441)	9,156,154
Equipment	178,549	4,363	-	182,912
Vehicles	61,913	-	(16,223)	45,690
Subtotal	<u>11,942,892</u>	<u>93,417</u>	<u>(60,664)</u>	<u>11,975,645</u>
Accumulated depreciation:				
Buildings	(439,043)	(88,425)	-	(527,468)
Improvements/infrastructure	(8,188,902)	(212,594)	-	(8,401,496)
Equipment	(108,868)	(14,470)	-	(123,338)
Vehicles	(26,981)	(6,632)	16,223	(17,390)
Subtotal	<u>(8,763,794)</u>	<u>(322,121)</u>	<u>16,223</u>	<u>(9,069,692)</u>
Net other assets	<u>3,179,098</u>	<u>(228,704)</u>	<u>(44,441)</u>	<u>2,905,953</u>
Net capital assets	<u>\$ 3,439,098</u>	<u>\$ (228,704)</u>	<u>\$ (44,441)</u>	<u>\$ 3,165,953</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 109,527
Highways and streets	212,594
Total governmental activities depreciation expense	<u>\$ 322,121</u>

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE E-LONG-TERM DEBT

Bonds Payable

The City issued in October, 2005, \$2,565,000 City of Crestview Hills, Kentucky General Obligation Public Project Bonds, Series 2005.

The bonds are payable over twenty years at interest varying from 3.40% to 4.15%.

The following is a schedule of future debt service requirements to maturity at June 30, 2012.

Year Ended June 30,	Principal	Interest
2013	120,000	74,475
2014	125,000	70,395
2015	125,000	66,145
2016	130,000	59,457
2017	135,000	57,020
2018-2022	760,000	203,723
2023-2025	535,000	45,027
	<u>\$ 1,930,000</u>	<u>\$ 576,242</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	June 30, 2011	Additions	Retirements	June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 11,109	\$ 3,712	\$ 1,910	\$ 12,911	\$ 2,000
Bonds payable	2,045,000	-	115,000	1,930,000	120,000
Totals	<u>\$ 2,056,109</u>	<u>\$ 3,712</u>	<u>\$ 116,910</u>	<u>\$ 1,942,911</u>	<u>\$ 122,000</u>

NOTE F-CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE G-EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

CITY OF CRESTVIEW HILLS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-hazardous Contributions - For the year ended June 30, 2012 plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2012 was 18.96% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The City joined the plan on July 1, 2000. The required contribution and the actual percentage contributed for the City for the current year and the previous year is as follows:

<u>Year</u>		<u>Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$	44,670	100%
2011	\$	37,195	100%
2010	\$	36,267	100%

Medical Insurance Plan

The CERS provides post-retirement healthcare benefits to eligible members and dependents, under cost sharing multiple employer defined benefit plans. Medical benefits are offered to members who have retired for service or disability. The post-retirement healthcare is financed through member and employer contributions.

NOTE H-CONTINGENT LIABILITIES

The City is not currently a defendant in lawsuits.

CITY OF CRESTVIEW HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE I-RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through EMC Mutual Insurance. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2012, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE J-JOINTLY GOVERNED ORGANIZATION

The City, in conjunction with one other local governmental entity that provided police protection services, created the Lakeside Park-Crestview Hills Police Authority. The Police Authority, a separate legal entity, provides police services to the two governmental entities. The Authority's board is comprised of five members. Except for the annual contribution, no participant has any obligation, entitlement or residual interest. The City's annual contribution for the year ended June 30, 2012 was \$ 949,985. The City has committed to extending the agreement for the year ended June 30, 2013. Either party may cancel its participation upon a ninety (90) day written notice.

NOTE K-COMMITMENTS

On April 1, 2009, the City entered into an agreement with the City of Ft. Mitchell for Ft. Mitchell to provide fire and basic life support services for Crestview Hills. The agreement terminates on March 31, 2013, with two additional two year terms by mutual agreement. The first year contract amount was \$155,000 with a four percent increase in each additional year.

Effective July 1, 2012, the City entered into a three year agreement with Best Way Disposal, Inc. for solid waste collection and recycling services. The contract is for \$120,156 for the first year with approximately a four percent increase in each of the additional years.

CITY OF CRESTVIEW HILLS, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended June 30, 2012

	Required Supplementary Information			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 4,026,976	\$ 4,026,976	\$ 4,237,202	\$ 210,226
Resources (inflows):				
Taxes	569,500	569,500	578,885	9,385
Licenses and permits	1,719,350	1,719,350	1,961,338	241,988
Intergovernmental	380,050	380,050	252,831	(127,219)
Charges for services	15,725	15,725	15,111	(614)
Fines and forfeitures	3,900	3,900	2,677	(1,223)
Interest	28,500	28,500	22,660	(5,840)
Miscellaneous	7,500	7,500	33,972	26,472
Amounts available for appropriation	<u>6,751,501</u>	<u>6,751,501</u>	<u>7,104,676</u>	<u>353,175</u>
Charges to appropriations (outflows)				
General government	549,828	535,064	473,767	61,297
Public safety	1,189,630	1,189,631	1,180,680	8,951
Public works	1,059,743	1,081,010	460,037	620,973
Community development	99,400	92,900	70,566	22,334
Debt Service				
Principal	115,000	115,000	115,000	-
Interest	78,385	78,385	78,385	-
Transfers out	560,850	560,000	488,264	71,736
Total charges to appropriations	<u>3,652,836</u>	<u>3,651,990</u>	<u>2,866,699</u>	<u>785,291</u>
Budgetary fund balance, June 30	\$ <u>3,098,665</u>	\$ <u>3,099,511</u>	\$ <u>4,237,977</u>	\$ <u>1,138,466</u>

The basis of budgeting is the same as Generally Accepted Accounting Principles.

CITY OF CRESTVIEW HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental				-
Transfers in	560,000	560,000	488,264	(71,736)
Amounts available for appropriation	<u>560,000</u>	<u>560,000</u>	<u>488,264</u>	<u>(71,736)</u>
Charges to appropriations (outflows):				
Public works-Capital projects	560,000	560,000	488,264	71,736
Total charges to appropriations	<u>560,000</u>	<u>560,000</u>	<u>488,264</u>	<u>71,736</u>
Budgetary fund balances, June 30	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

The capital project fund is used to account for the acquisition and construction of major capital facilities and for street projects.

STATISTICAL SECTION

(UNAUDITED)

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

CITY OF CRESTVIEW HILLS, KENTUCKY

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
PRIMARY GOVERNMENTAL GOVERNMENTAL ACTIVITIES										
Invested in capital assets,	\$ 3,500,603	\$ 3,096,562	\$ 2,860,901	\$ 1,799,928	\$ 2,092,641	\$ 1,743,862	\$ 1,359,250	\$ 1,418,119	\$ 1,394,098	\$ 1,238,466
net of related debt	1,980,444	-	-	677,798	-	-	-	-	-	-
Restricted	751,445	3,045,804	3,093,658	3,568,315	3,742,916	3,642,026	3,888,039	4,052,567	4,243,194	4,317,207
Total governmental activities net assets	\$ 6,232,492	\$ 6,142,366	\$ 5,954,559	\$ 6,046,041	\$ 5,835,557	\$ 5,385,888	\$ 5,247,289	\$ 5,470,686	\$ 5,637,292	\$ 5,555,673

CITY OF CRESTVIEW HILLS, KENTUCKY

Changes in Net Assets Last Ten Fiscal Years (accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 5,198	\$ 8,217	\$ 17	\$ 630	\$ 3,109	\$ 11,860	\$ 1,598	\$ (3,131)	\$ 811	
Public safety	-	-	-	-	2,200	2,200	3,995	4,385	4,069	
Community development	14,679	16,567	12,945	16,001	13,075	12,885	15,520	19,782	12,907	
Capital grants and contributions	44,248	43,501	47,872	388,423	93,625	92,741	52,492	55,555	75,755	331,421
Total governmental activities	64,125	68,285	60,829	404,441	107,330	110,935	82,072	76,530	96,791	349,208
Total primary government program revenues	\$ 64,125	\$ 68,285	\$ 60,829	\$ 404,441	\$ 107,330	\$ 110,935	\$ 82,072	\$ 76,530	\$ 96,791	\$ 349,208
Expenses										
Governmental activities:										
General government	\$ 353,070	\$ 413,170	\$ 395,847	\$ 407,071	\$ 605,919	\$ 611,723	\$ 593,327	\$ 596,205	\$ 576,874	\$ 580,733
Public safety	631,733	671,650	739,136	736,596	987,138	985,510	952,783	1,010,548	1,051,286	1,180,680
Public works	740,497	794,899	869,657	1,271,896	844,038	1,242,877	922,688	608,025	573,568	1,116,282
Community development	47,308	32,481	74,831	29,353	36,125	42,609	68,223	49,949	66,985	70,566
Interest on long-term debt	-	-	-	42,785	96,065	130,100	87,947	87,524	83,783	78,273
Total governmental activities	1,772,608	1,912,200	2,079,471	2,487,701	2,569,285	3,012,819	2,624,968	2,352,251	2,352,496	3,026,534
Total primary government expense	\$ 1,772,608	\$ 1,912,200	\$ 2,079,471	\$ 2,487,701	\$ 2,569,285	\$ 3,012,819	\$ 2,624,968	\$ 2,352,251	\$ 2,352,496	\$ 3,026,534
Net (expense)/revenue	\$ (1,708,483)	\$ (1,843,915)	\$ (2,018,642)	\$ (2,083,260)	\$ (2,461,955)	\$ (2,901,884)	\$ (2,542,896)	\$ (2,275,721)	\$ (2,255,705)	\$ (2,677,326)
Governmental activities	\$ (1,708,483)	\$ (1,843,915)	\$ (2,018,642)	\$ (2,083,260)	\$ (2,461,955)	\$ (2,901,884)	\$ (2,542,896)	\$ (2,275,721)	\$ (2,255,705)	\$ (2,677,326)
Total primary government net expense	\$ (1,708,483)	\$ (1,843,915)	\$ (2,018,642)	\$ (2,083,260)	\$ (2,461,955)	\$ (2,901,884)	\$ (2,542,896)	\$ (2,275,721)	\$ (2,255,705)	\$ (2,677,326)
General Revenues and Other										
Governmental activities:										
Taxes:										
Property taxes, levied for										
general purposes	\$ 437,229	\$ 437,147	\$ 468,223	\$ 501,212	\$ 528,588	\$ 527,141	\$ 573,494	\$ 599,773	\$ 581,200	\$ 577,737
Bank deposit taxes	13,183	15,369	16,001	18,873	21,775	24,998	27,015	33,003	36,931	40,580
Public service taxes	1,185,112	1,181,279	1,256,327	1,481,646	1,539,106	1,678,335	1,703,150	1,735,988	1,761,878	1,920,758
Interest	54,873	54,482	82,807	166,756	154,108	153,535	99,311	64,146	29,847	22,660
Miscellaneous	4,665	65,512	7,477	6,255	66,432	9,668	1,327	66,208	12,455	33,972
Total governmental activities	1,695,062	1,753,789	1,830,835	2,174,742	2,310,009	2,393,677	2,404,297	2,499,118	2,422,311	2,595,707
Total primary government	\$ 1,695,062	\$ 1,753,789	\$ 1,830,835	\$ 2,174,742	\$ 2,310,009	\$ 2,393,677	\$ 2,404,297	\$ 2,499,118	\$ 2,422,311	\$ 2,595,707
Change in net assets	\$ (13,421)	\$ (90,126)	\$ (187,807)	\$ 91,482	\$ (151,946)	\$ (508,207)	\$ (138,599)	\$ 223,397	\$ 166,606	\$ (81,619)
Governmental activities	\$ (13,421)	\$ (90,126)	\$ (187,807)	\$ 91,482	\$ (151,946)	\$ (508,207)	\$ (138,599)	\$ 223,397	\$ 166,606	\$ (81,619)
Total primary government	\$ (13,421)	\$ (90,126)	\$ (187,807)	\$ 91,482	\$ (151,946)	\$ (508,207)	\$ (138,599)	\$ 223,397	\$ 166,606	\$ (81,619)

CITY OF CRESTVIEW HILLS, KENTUCKY
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Payroll License Tax	Net Profits License Tax	Other	Bank Deposits Tax	Total
2003	\$ 433,513	\$ 937,078	\$ 214,104	\$ 33,930	\$ 13,183	\$ 1,631,808
2004	\$ 438,881	\$ 1,013,102	\$ 137,251	\$ 35,142	\$ 15,369	\$ 1,639,745
2005	\$ 451,140	\$ 1,044,820	\$ 179,369	\$ 32,138	\$ 16,001	\$ 1,723,468
2006	\$ 481,741	\$ 1,263,986	\$ 185,497	\$ 32,163	\$ 18,873	\$ 1,982,260
2007	\$ 515,938	\$ 1,347,770	\$ 160,017	\$ 29,665	\$ 21,775	\$ 2,075,165
2008	\$ 550,722	\$ 1,428,168	\$ 221,286	\$ 28,884	\$ 24,998	\$ 2,254,058
2009	\$ 566,925	\$ 1,423,096	\$ 246,184	\$ 16,935	\$ 27,015	\$ 2,280,155
2010	\$ 599,773	\$ 1,469,296	\$ 224,179	\$ 42,513	\$ 33,003	\$ 2,368,764
2011	\$ 581,200	\$ 1,542,322	\$ 182,584	\$ 36,972	\$ 36,931	\$ 2,380,009
2012	\$ 577,737	\$ 1,608,387	\$ 270,185	\$ 42,186	\$ 40,580	\$ 2,539,075

The Public Service Tax consists of occupational, net profit and payroll license fees treated as public service taxes. The payroll license fee taxes comprise most of the category.

CITY OF CRESTVIEW HILLS, KENTUCKY

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GENERAL FUND										
Reserved	\$ 1,980,444	\$ 2,320,933	\$ 2,354,693	\$ 2,550,061	\$ 2,726,798	\$ 2,811,109	\$ 2,914,995	\$ 2,968,392	\$ -	\$ -
Unreserved	742,165	709,825	699,336	887,322	861,375	803,823	942,991	1,065,465	-	-
Nonspendable	-	-	-	-	-	-	-	-	17,750	17,750
Assigned -										
capital projects	-	-	-	-	-	-	-	-	246,913	-
Unassigned	-	-	-	-	-	-	-	-	3,972,539	4,220,227
Total general fund	\$ 2,722,609	\$ 3,030,758	\$ 3,054,029	\$ 3,437,383	\$ 3,588,173	\$ 3,614,932	\$ 3,857,986	\$ 4,033,857	\$ 4,237,202	\$ 4,237,977

CITY OF CRESTVIEW HILLS, KENTUCKY
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUES										
Taxes	\$ 1,383,774	\$ 1,467,352	\$ 451,140	\$ 500,614	\$ 537,713	\$ 575,720	\$ 566,925	\$ 615,117	\$ 590,355	\$ 578,885
Licenses and permits	248,034	172,393	1,272,328	1,481,646	1,537,452	1,678,335	1,730,165	1,768,991	1,798,809	1,961,338
Intergovernmental	44,118	43,501	47,872	388,423	93,625	92,741	52,492	55,555	75,755	252,831
Fines and forfeitures	5,198	4,001	3,137	3,157	4,579	53,679	11,856	3,376	(954)	2,677
Charges for services	-	16,567	12,957	16,018	13,705	15,119	17,724	17,599	21,990	15,111
Interest	54,873	54,482	82,807	166,756	154,108	153,535	99,311	64,146	29,847	22,660
Miscellaneous	19,474	65,512	4,340	3,098	61,853	9,668	1,327	66,208	12,455	33,972
Total revenues	<u>1,755,471</u>	<u>1,823,808</u>	<u>1,874,581</u>	<u>2,559,712</u>	<u>2,403,035</u>	<u>2,578,797</u>	<u>2,479,800</u>	<u>2,590,992</u>	<u>2,528,257</u>	<u>2,867,474</u>
EXPENDITURES										
Current:										
General government	343,724	420,078	378,902	389,275	469,564	485,465	503,140	494,272	489,698	473,767
Public Safety	631,733	671,650	739,136	736,596	987,138	985,510	952,783	1,010,548	1,051,286	1,180,680
Public works	289,922	304,712	358,627	635,459	443,642	845,619	518,165	664,487	524,818	948,301
Community development	47,050	32,481	74,831	42,785	36,125	42,609	68,223	49,949	66,985	70,566
Capital expenditures	-	-	16,223	6,205	2,853	-	-	-	-	-
Capital outlay	119,373	79,238	276,091	2,152,054	786,932	-	-	-	-	-
Debt service:										
Principal	7,500	7,500	7,500	7,500	107,724	100,000	105,000	110,000	110,000	115,000
Interest	-	-	-	29,353	96,065	92,835	89,435	85,865	82,125	78,385
Total expenditures	<u>1,439,302</u>	<u>1,515,659</u>	<u>1,851,310</u>	<u>3,999,227</u>	<u>2,930,043</u>	<u>2,552,038</u>	<u>2,236,746</u>	<u>2,415,121</u>	<u>2,324,912</u>	<u>2,866,699</u>
Excess(deficiency) of revenues over(under) expenditures	<u>316,169</u>	<u>308,149</u>	<u>23,271</u>	<u>(1,439,515)</u>	<u>(527,008)</u>	<u>26,759</u>	<u>243,054</u>	<u>175,871</u>	<u>203,345</u>	<u>775</u>
OTHER FINANCING SOURCES(USES)										
Bond issue	-	-	-	2,565,000	-	-	-	-	-	-
Bond issue costs	-	-	-	(64,333)	-	-	-	-	-	-
Transfers in	107,438	73,713	276,091	298,152	179,475	418,827	142,577	258,680	106,562	488,264
Transfers out	(107,438)	(73,713)	(276,091)	(298,152)	(179,475)	(418,827)	(142,577)	(258,680)	(106,562)	(488,264)
Total other financing sources and uses	-	-	-	2,500,667	-	-	-	-	-	-
Net change in fund balances	<u>\$ 316,169</u>	<u>\$ 308,149</u>	<u>\$ 23,271</u>	<u>\$ 1,061,152</u>	<u>\$ (527,008)</u>	<u>\$ 26,759</u>	<u>\$ 243,054</u>	<u>\$ 175,871</u>	<u>\$ 203,345</u>	<u>\$ 775</u>
Debt service as a percentage of noncapital expenditures	<u>0.006</u>	<u>0.005</u>	<u>0.005</u>	<u>0.035</u>	<u>0.105</u>	<u>0.094</u>	<u>0.094</u>	<u>0.091</u>	<u>0.089</u>	<u>0.069</u>

CITY OF CRESTVIEW HILLS, KENTUCKY
Governmental Activities Tax Revenues By Source

Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Payroll License Tax	Net Profits License Tax	Other	Bank Deposits Tax	Total
2003	\$ 433,513	\$ 937,078	\$ 214,104	\$ 33,930	\$ 13,183	\$ 1,631,808
2004	\$ 438,881	\$ 1,013,102	\$ 137,251	\$ 35,142	\$ 15,369	\$ 1,639,745
2005	\$ 451,140	\$ 1,044,820	\$ 179,369	\$ 32,138	\$ 16,001	\$ 1,723,468
2006	\$ 481,741	\$ 1,263,986	\$ 185,497	\$ 32,163	\$ 18,873	\$ 1,982,260
2007	\$ 515,938	\$ 1,347,770	\$ 160,017	\$ 29,665	\$ 21,775	\$ 2,075,165
2008	\$ 550,722	\$ 1,428,168	\$ 221,286	\$ 28,881	\$ 24,998	\$ 2,254,055
2009	\$ 566,925	\$ 1,423,096	\$ 246,184	\$ 16,935	\$ 27,015	\$ 2,280,155
2010	\$ 582,114	\$ 1,469,286	\$ 224,179	\$ 42,513	\$ 33,003	\$ 2,351,095
2011	\$ 590,355	\$ 1,542,323	\$ 182,584	\$ 36,972	\$ 36,931	\$ 2,389,165
2012	\$ 578,885	\$ 1,608,387	\$ 270,185	\$ 42,186	\$ 40,580	\$ 2,540,223

The Public Service Tax consists of occupational, net profit and payroll license fees treated as public service taxes. The revenue base for public service taxes (license fees) is not available, in that the City is not the actual tax collector. The payroll license fees are based on a rate of 1% of total payroll of all persons working in the City up to a maximum of \$110,100. The net profit license fee is based on a rate of .75% of net profits earned in the City.

CITY OF CRESTVIEW HILLS, KENTUCKY**Assessed Value of Taxable Property**

Last Ten Fiscal Years

(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Less: Tax-Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2003	\$ 331,597,443	-	\$ 50,049,943	\$ 281,547,500	0.1525
2004	333,129,343	-	50,788,343	282,341,000	0.1525
2005	350,658,793	-	53,480,343	297,178,450	0.1525
2006	370,017,043	-	53,949,143	316,067,900	0.1525
2007	392,589,331	-	54,007,943	338,581,388	0.1525
2008	400,259,531	-	55,055,943	345,203,588	0.1525
2009	460,876,508	-	59,642,343	401,234,165	0.1415
2010	472,415,708	-	61,450,643	410,965,065	0.1455
2011	464,245,283	-	68,371,543	395,873,740	0.1520
2012	470,174,042	-	70,333,302	399,840,740	0.1545

Source - Kenton County PVA

The County assesses property at 100% of fair market value.

CITY OF CRESTVIEW HILLS, KENTUCKY**Property Tax Rates (1)****Direct and Overlapping Governments****Last Ten Fiscal Years**

Fiscal Year	City of Crestview Hills	Overlapping rates County			Total Direct and Overlapping Rates
		Kenton County	School District	Others	
2003	0.1525	0.1310	0.492	0.112	0.8875
2004	0.1525	0.1310	0.548	0.115	0.9465
2005	0.1525	0.1350	0.556	0.132	0.9755
2006	0.1525	0.1360	0.556	0.135	0.9795
2007	0.1525	0.1380	0.564	0.141	0.9955
2008	0.1525	0.1410	0.558	0.148	0.9995
2009	0.1415	0.1420	0.558	0.153	0.9945
2010	0.1455	0.1480	0.557	0.165	1.0155
2011	0.1520	0.1151	0.557	0.999	1.8232
2012	0.1545	0.1151	0.557	0.999	1.8256

(1) Per \$100 assessed valuation

The City of Crestview Hills is a portion of the County and School District.

Other taxing districts include the Kenton County Library, Health District, TANK, and Extension District. These additional taxing districts were not included in previous years.

CITY OF CRESTVIEW HILLS, KENTUCKY
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Collections	Total Collections to Date	
					Amount	Percentage of Collection
2003	\$ 430,405	\$ 429,298	100%	\$ 1,107	\$ 430,405	100%
2004	433,138	430,604	99%	2,534	433,138	100%
2005	453,197	451,307	99%	(167)	451,140	100%
2006	482,004	476,663	99%	2,892	479,555	99%
2007	516,249	512,251	99%	3,731	515,982	100%
2008	526,580	520,656	99%	5,240	525,896	100%
2009	567,718	530,212	93%	36,369	566,581	100%
2010	597,713	590,730	99%	5,567	596,297	99%
2011	584,788	583,275	100%	1,513	584,788	100%
2012	576,994	576,737	100%	-	576,737	100%

Source - City of Crestview Hills finance office.

CITY OF CRESTVIEW HILLS, KENTUCKY
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Total Primary Government	Per Capita(1)	% of Per Capita Personal Income (1)
	General Obligations Bonds	Notes			
2003	-	35,224	35,224	12	0.00%
2004	-	27,724	27,724	9	0.00%
2005	-	20,224	20,224	6	0.00%
2006	2,565,000	12,724	2,577,724	798	0.01%
2007	2,470,000	-	2,470,000	734	0.01%
2008	2,370,000	-	2,370,000	658	0.01%
2009	2,265,000	-	2,265,000	611	0.01%
2010	2,155,000	-	2,155,000	565	0.01%
2011	2,045,000	-	2,045,000	536	0.01%
2012	1,930,000	-	1,930,000	609	0.01%

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (1) See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF CRESTVIEW HILLS, KENTUCKY
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligations Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Actual Taxable Value(1) of Property	Per Capita(2)
2003	-	-	-	0.00%	-
2004	-	-	-	0.00%	-
2005	-	-	-	0.00%	-
2006	2,565,000	-	2,565,000	0.81%	762
2007	2,470,000	-	2,470,000	0.63%	734
2008	2,370,000	-	2,370,000	0.59%	658
2009	2,265,000	-	2,265,000	0.49%	611
2010	2,155,000	-	2,155,000	0.46%	565
2011	2,045,000	-	2,045,000	0.44%	536
2012	1,930,000	-	1,930,000	0.41%	609

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (1) See the Schedule of Assessed Value of Taxable Property for property value data.
- (2) Population data can be found in the Schedule of Demographic and Economic Statistics.

CITY OF CRESTVIEW HILLS, KENTUCKY
Direct and Overlapping Governmental Activities Debt
June 30, 2012

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable(1)</u>	<u>Estimated Share of Overlapping Debt</u>
Kenton County (2)	\$ 85,192,244	4.03%	\$ 3,433,247
Kenton County School District (3)	159,648,815	4.83%	7,711,038
Other Kenton County Governments (4)	17,967,537	4.03%	724,092
Subtotal for overlapping debt	<u>262,808,596</u>		<u>11,868,377</u>
City of Crestview Hills direct debt	<u>1,930,000</u>		<u>1,930,000</u>
Total direct and overlapping	\$ <u>264,738,596</u>		\$ <u>13,798,377</u>

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Crestview Hills. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

(2) Kenton County Treasurer's office.

(3) Kenton County School District Treasurer's office.

(4) Kenton County Public Library, Kenton County Public Health Taxing District, TANK and Kenton County Extension District.

CITY OF CRESTVIEW HILLS, KENTUCKY

Legal Debt Margin Information

Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 28,154,750	\$ 28,234,100	\$ 29,717,845	\$ 31,606,790	\$ 39,258,933	\$ 40,025,953	\$ 46,087,651	\$ 47,241,571	\$ 46,424,528	\$ 47,017,404
Total net debt applicable to limit	-	-	-	2,565,000	2,470,000	2,370,000	2,265,000	2,155,000	2,045,000	1,930,000
Legal debt margin	28,154,750	28,234,100	29,717,845	29,041,790	36,788,933	37,655,953	43,822,651	45,086,571	44,379,528	45,087,404
Total net debt applicable to the limit as a percentage of debt limit				8.12%	6.29%	5.92%	4.91%	4.56%	4.40%	4.10%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 399,840,740
Add back: exempt real property	70,333,302
Total assessed value	<u>470,174,042</u>
Debt limit(10% of total assessed value)	47,017,404
Debt applicable to limit:	
General obligation bonds	1,930,000
Less: amount set aside for repayment general obligation debt	<u>1,930,000</u>
Total net debt applicable to limit	\$ <u>45,087,404</u>
Legal debt margin	

Note: Under state finance law, the City of Crestview Hills outstanding debt should not exceed 10 percent of assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF CRESTVIEW HILLS, KENTUCKY

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Personal Income (1)	Total Personal Income Expressed In Thousands (1)	Median Age (2)	Unemployment Rate (2)
2003	2,886	\$45,510	\$131,342	44.0	3.3%
2004	3,232	\$46,430	\$150,062	44.0	3.7%
2005	3,232	\$57,473	\$185,753	44.7	4.4%
2006	3,367	\$59,755	\$201,195	44.4	5.0%
2007	3,382	\$63,600	\$215,095	43.9	4.3%
2008	3,604	\$57,473	\$207,133	43.6	5.5%
2009	3,709	\$58,645	\$217,514	43.9	8.1%
2010	3,816	\$57,001	\$217,516	44.0	9.9%
2011	3,816	\$57,473	\$217,516	44.0	9.9%
2012	3,168	\$57,473	\$217,516	44.0	9.5%

(1) Census Bureau and Kentucky State Data Center*

(2) Kentucky Cabinet for Workforce Development*

(3) 2012 represents final Census Data while prior years are estimates.

* Information shown is estimated based on regional numbers and known Crestview Hills economic trends.

CITY OF CRESTVIEW HILLS, KENTUCKY

Principal Employers

Current Year and Ten Years Ago

2012

<u>Taxpayer</u>	<u>Rank</u>	<u>Percentage of Total City Payroll Taxes</u>
St. Elizabeth Physicians	1	10.6%
Diocese of Covington	2	8.7%
Thomas More College	3	6.3%
Columbia Sussex Management LLC	4	3.0%
Fischer Management Inc	5	4.1%
The Bank of Kentucky Inc.	6	2.8%
Dresssman Benzinger Lavelle PSC	7	2.7%
Children's Hospital Medical Center	8	2.6%
Huntington Kentucky LLC	9	2.2%
Oncology/Hematology Care Inc.	10	2.0%
TOTAL		<u>45.0%</u>

2003

<u>Taxpayer</u>	<u>Rank</u>	<u>Percentage of Total City Payroll Taxes</u>
Thomas More College	1	7.6%
Fischer Management Inc.	2	7.5%
Huntington Kentucky LLC	3	3.7%
Dresssman Benzinger Lavelle PSC	4	3.0%
Kroger Company	5	2.8%
Roeding Group Companies Inc.	6	2.4%
Commonwealth Orthopedic Center	7	2.3%
St. Elizabeth Physicians	8	2.0%
Apple Sauce Inc	9	1.9%
DVA Renal Healthcare Inc	10	1.0%
		<u>34.2%</u>

CITY OF CRESTVIEW HILLS, KENTUCKY
Full-time Equivalent Government Employees by Function
Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General	3	3	3	3	3	3	3	3	3	3
Public works	1	1	1	1	1	1	1	1	1	1

Source: City Clerk/Treasurer

CITY OF CRESTVIEW HILLS, KENTUCKY

Capital Asset Statistics by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Stations	None	None	None	None	None	None	None	None	None	None
Fire:										
Fire stations	None	None	None	None	None	None	None	None	None	None
Highways and streets:										
Streets(miles)	13	13	13	13	13	13	13	13	13	13
Streetlights	56	56	66	66	66	73	73	73	73	73

Source: Various city departments

Police function is contracted with the Lakeside Park/Crestview Hills Police Authority.
 Fire function is contracted with the City of Ft. Mitchell, Kentucky.
 Emergency Medical Service is contracted with Rural Metro Ambulance.
 Sanitation lines are owned and maintained by the Sanitation District No. 1.

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**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 Mayor and Council
City of Crestview Hills, Kentucky**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Crestview Hills, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Crestview Hills, Kentucky, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Crestview Hills, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Crestview Hills, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Crestview Hills, Kentucky's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 deficiencies (Finding 1) described in the accompanying schedule of findings and responses to be material weaknesses.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies (Findings 2 and 3) described in the accompany schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crestview Hills, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2.

The City of Crestview Hills, Kentucky's response to the findings indentified in our audit is described in the accompanying schedule of findings and responses. We did not audit the city's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, others within the entity, Mayor and Council and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
October 22, 2012**

CITY OF CRESTVIEW HILLS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Finding 1: Lack of Segregation of Duties

The City is responsible for maintaining an adequate system of internal controls over financial activity. The City is a small unit with limited personnel that hinders the ability to provide various segregating of duties. The Financial Officer/Treasurer is responsible for all accounting functions, such as preparing daily deposits, processing accounts payable and payroll, and preparing bank reconciliations with limited oversight.

Recommendation: We recommend the City consider the following:

- (1) Provide for an independent (from the Financial Officer/Treasurer) person to prepare (or review in detail) the bank reconciliation.
- (2) The Mayor or other designated individual such as the City Administrator, provide as much oversight as possible, such as reviewing disbursement documentation, signing checks and otherwise overseeing financial activity including a review of the monthly general ledger.

City's Response:

The City is a small unit with three administrative employees, thus limiting the possibility of segregation of duties. The City will consider other alternatives to protect City assets.

Finding 2: For tax year 2011, the City did not publish the notice of tax rates

This was an isolated oversight and would appear to not be a material or significant compliance deficiency relative to the financial statements.

Recommendation: We recommend the City consider the following:

The City should prepare a checklist of all tax compliance matters and publishing requirements to be used as a control to insure all requirements are met.

City's Response:

The City will maintain a tax compliance record.

Finding 3: Accounting for personal use of car and cell phone

The City needs to review for compliance with IRS regulations. This has not been done in several years.

City's Response:

The City will review personal use of car and cell phone and update any reporting compliance issues such as inclusion of taxable amounts in employee W-2's in compliance with IRS regulations.