

CITY OF WORTHINGTON HILLS

P.O. BOX 22586

LOUISVILLE, KENTUCKY 40252

File with
2011 Audit

January 20, 2012

Stuedle, Spears & Company, PSC
Certified Public Accountants
2821 S. Hurstbourne Parkway, Suite 1
Louisville, Kentucky 40220

We are providing this letter in connection with your audit of the financial statements of the City of Worthington Hills, Kentucky as of June 30, 2011 and for the year ended June 30, 2011 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each fund of the City of Worthington Hills, Kentucky and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the previously mentioned financial statements in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all -
 - a. Financial records and related data.
 - b. Minutes of the meetings of the City of Worthington Hills, Kentucky City Council or summaries of actions of recent meetings for which minutes have not been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the city involving –
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. The City of Worthington Hills, Kentucky has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
9. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City of Worthington Hills, Kentucky is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

11. There are no:
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion that must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
12. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibilities for those financial statements and related notes.
13. The City of Worthington Hills, Kentucky has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
14. The City of Worthington Hills, Kentucky has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
16. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
17. The financial statements properly classify all funds and activities.
18. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

19. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
20. Provisions for uncollectible receivables have been properly identified and recorded.
21. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
22. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
23. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
24. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
25. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
26. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
27. We have appropriately disclosed the City of Worthington Hills's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
28. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
29. We have evaluated and classified any subsequent events as recognized or not recognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

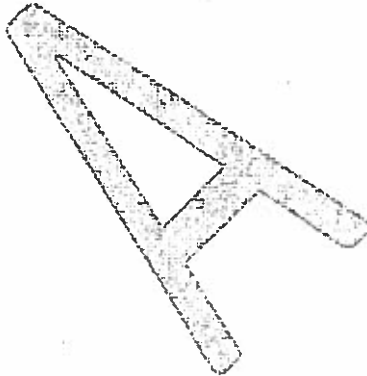
CITY OF WORTHINGTON HILLS, KENTUCKY

Beth Kreaker
NAME

Mayor
TITLE

W
7/8/13

CITY OF WORTHINGTON HILLS, KENTUCKY
INDEPENDENT AUDITORS' REPORT
FOR YEAR ENDED JUNE 30, 2011



RECEIVED
JUL 18 2013
OFFICE OF F.M. & A.

CITY OF WORTHINGTON HILLS, KENTUCKY

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Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 13. The fund financial statements provide detail information about the governmental fund. Most of the City's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balance left over at year-end that is available for spending. This fund is reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The government 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental fund in reconciliation on page 15.

FINANCIAL COMPARISONS

The following condensed financial information has been derived from the government-wide financial statements for the fiscal years ending June 30, 2011 and 2010. The two-year comparisons are organized in the following:

Statement of Net Assets
Revenues
Expenditures
Excess/Deficiency of Revenues over Expenditures
Change in Net Assets
Capital Assets

FINANCIAL COMPARISONS (CONTINUED)

Statement of Net Assets

Total net assets increased \$3,637 during the year ending June 30, 2011. One method used to determine the City's financial health in the short term is to compare current assets to current liabilities. Current assets exceed current liabilities by \$556,498. This indicator clearly points out that the City has sufficient capacity to service its current debt. It is also important to note that total assets exceed total liabilities by \$567,636. This number represents the "book value" of the city.

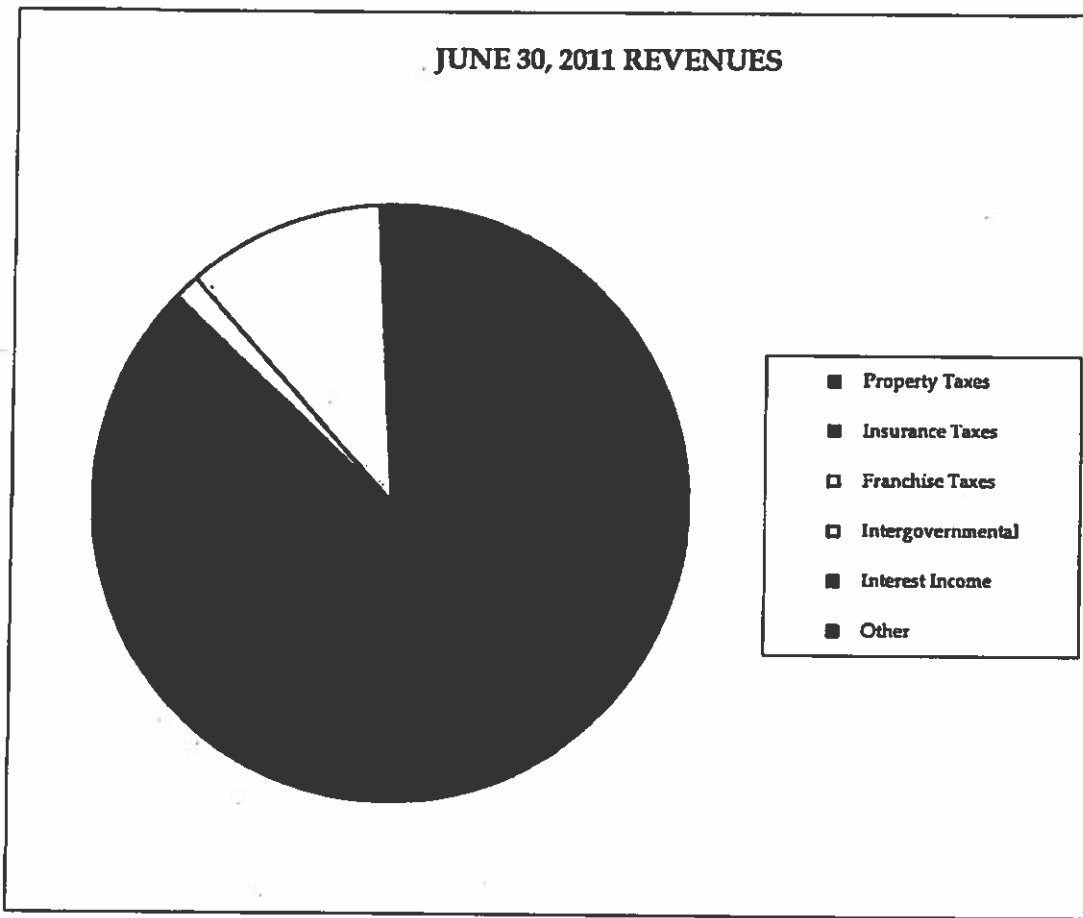
	2011	2010	Positive (Negative) Variance
Assets			
Current assets	\$ 562,608	565,684	\$ (3,076)
Capital assets, net of accumulated depreciation	11,138	12,755	(1,617)
Total assets	<u>\$ 573,746</u>	<u>\$ 578,439</u>	<u>\$ (4,693)</u>
Liabilities			
Current liabilities	6,110	14,440	(8,330)
Total liabilities	<u>\$ 6,110</u>	<u>\$ 14,440</u>	<u>\$ (8,330)</u>
Net Assets			
Invested in Capital Assets	\$ 11,138	12,755	(1,617)
Assigned - Roads	199,791	167,941	31,850
Unassigned	356,707	383,303	(26,596)
Total Net Assets	<u>\$ 567,636</u>	<u>\$ 563,999</u>	<u>\$ 3,637</u>
Total Net Assets and Liabilities	<u>\$ 573,746</u>	<u>\$ 578,439</u>	<u>\$ (4,693)</u>

Revenues

Total governmental revenues are derived from several sources. However, the two primary sources of revenues are property and insurance taxes and assessments. These two sources represent 87% of the City's total revenues. Property tax increased \$18,963 in comparison with the prior year. In comparison with the prior year insurance tax revenue increased by \$2,794. In comparison to the prior year, total revenues increase by \$19,472. The increase in total revenues was primarily due to the increase in property tax revenue.

FINANCIAL COMPARISONS (CONTINUED)

Revenues	2011	2010	Positive (Negative) Variance
General Revenues:			
Property Taxes	210,202	191,239	18,963
Insurance Taxes	71,871	69,077	2,794
Franchise Taxes	4,551	5,310	(759)
Intergovernmental	34,538	32,789	1,749
Interest Income	816	1,670	(854)
Other	1,902	4,323	(2,421)
Total Genral Revenues	\$ 323,880	\$ 304,408	\$ 19,472

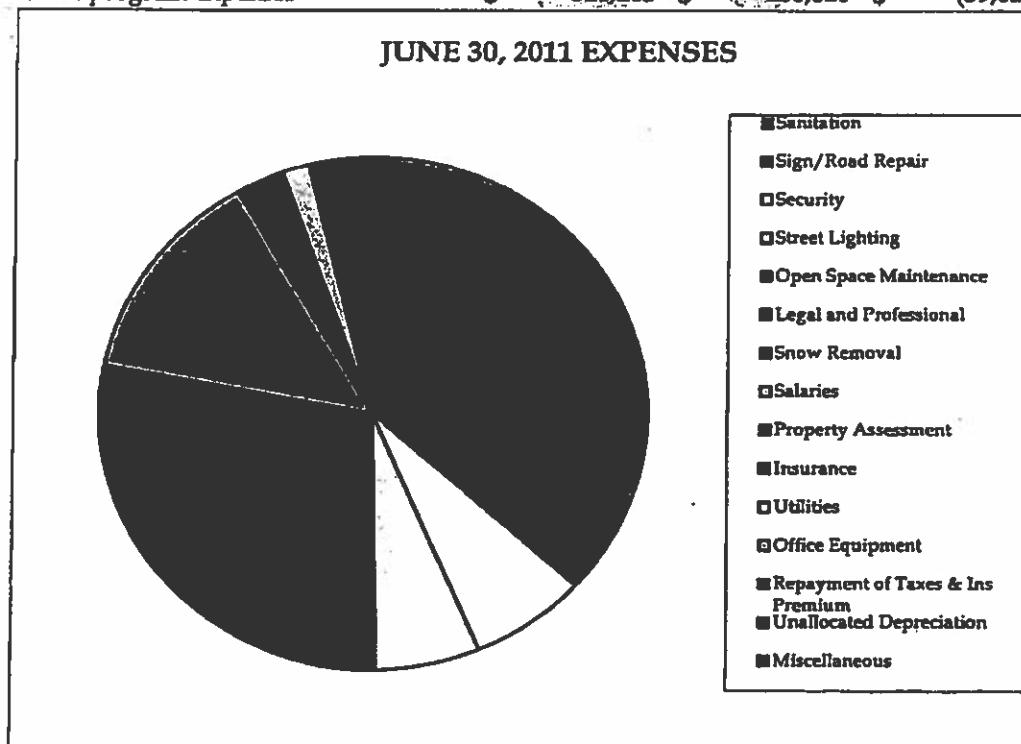


FINANCIAL COMPARISONS (CONTINUED)

Expenditures

Total Governmental expenses decreased by \$39,623 compared to the prior year. The two largest program expense increases were salaries and open space maintenance.

Expenses	2011	2010	Positive (Negative) Variance
Program Expenses:			
Sanitation	\$ 114,484	\$ 114,945	\$ 461
Sign/Road Repair	2,937	15,441	12,504
Security	22,050	22,465	415
Street Lighting	19,452	17,457	(1,995)
Open Space Maintenance	41,466	26,662	(14,804)
Legal and Professional	5,458	15,700	10,242
Snow Removal	43,777	32,924	(10,853)
Salaries	43,621	17,850	(25,771)
Property Assessment	7,936	3,986	(3,950)
Insurance	1,539	1,142	(397)
Utilities	5,072	4,563	(509)
Office Equipment	339	85	(254)
Repayment of Taxes & Ins Premium	99	-	(99)
Unallocated Depreciation	1,617	1,617	-
Miscellaneous	10,996	5,783	(4,613)
Total program expenses	\$ 320,243	\$ 280,620	\$ (39,623)



FINANCIAL COMPARISONS (CONTINUED)

Excess / Deficiency of Revenues over Expenses

This information represents the "bottom line" from a revenue-expense standpoint. Revenues exceeded expenses by \$3,637, whereas revenues exceeded expenses by \$23,788 in the prior year.

	<u>2011</u>	<u>2010</u>	Positive (Negative) Variance
Total Revenues	\$ 323,880	\$ 304,408	\$ 19,472
Total Expenses	320,243	280,620	(39,623)
Excess of Revenues Over Expenses	<u>\$ 3,637</u>	<u>\$ 23,788</u>	<u>\$ (20,151)</u>

Change in Net Assets

Another way to view the financial condition of the City is Change in Net Assets. One is able to address the question; is the city as a whole better off than the prior year? The answer to this question is, yes, the city is in better financial condition than this time last year. Ending net assets increased by \$3,637.

	<u>2011</u>	<u>2010</u>
Beginning Net Assets	\$ 563,999	\$ 527,312
Increase (Decrease) in Net Assets	3,637	36,687
Ending Net Assets	<u>\$ 567,636</u>	<u>\$ 563,999</u>

Capital Asset Administration

For the year ended June 30, 2011, the City showed a net decrease in capital assets of \$1,617 compared to the previous year. The decrease is due to a depreciation expense of \$1,617 for the year. The City did not have any capital asset additions or disposals for the year. The City's \$11,138 in capital assets consists of infrastructure and equipment.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities:				
Equipment	\$ 1,636	\$ -	\$ -	\$ 1,636
Infrastructure	12,900	-	-	12,900
Totals at Historical Cost	<u>\$ 14,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,536</u>
Less Accumulated Depreciation	(1,781)	(1,617)	-	(3,398)
Net Capital Assets	<u><u>\$ 12,755</u></u>	<u><u>\$ (1,617)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,138</u></u>

General Fund Budgetary Highlights

Revenues

General fund revenues of \$289,057 were \$30,943 less than budgeted general fund revenues of \$320,000. Actual revenues were less than budgeted revenues due to property tax revenue and interest income being less than anticipated.

Expenditures

For the year ended June 30, 2011, general fund expenditures of \$315,653 were \$16,597 less than the \$332,250 budgeted. Actual expenditures were less than budgeted expenditures primarily due to sanitation and overpayment of taxes and insurance expenditures being less than anticipated.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

It is the opinion of management that most economic indicators point to stable to slight growth. Major revenue sources of property taxes and insurance premium tax fees are projected to remain stable. As a result of management's expectations, general fund budget expenditures were increased to \$391,750 for the fiscal year ended June 30, 2012.

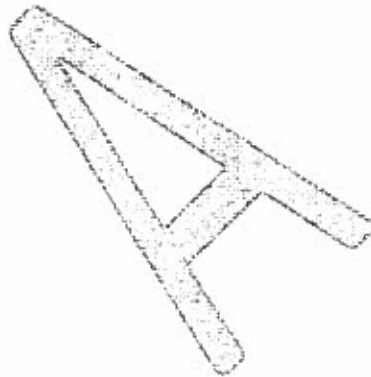
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and provide accountability for the money it receives. For questions about this report or any additional information, please contact the City Clerk at P.O. Box 22586, Louisville, Kentucky 40252-0586.

Respectfully submitted,

Beth A. Kreakie
Mayor

Anita Wilborn
Treasurer



BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-wide financial statements

Fund financial statements:

- **Governmental funds**

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF WORTHINGTON HILLS, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 509,898	\$ 509,898
Investments	-	-
Accounts Receivable	52,710	52,710
Total Current Assets	562,608	562,608
Noncurrent Assets:		
Capital Assets (Net)	11,138	11,138
Total Noncurrent Assets	11,138	11,138
Total Assets	\$ 573,746	\$ 573,746
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,110	\$ 6,110
Total Current Liabilities	6,110	6,110
Total Liabilities	\$ 6,110	\$ 6,110
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	11,138	11,138
Assigned to Roads	199,791	199,791
Unassigned	356,707	356,707
Total Net Assets	567,636	567,636
Total Liabilities & Net Assets	\$ 573,746	\$ 573,746

See accompanying notes to the basic financial statements

**CITY OF WORTHINGTON HILLS, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue Primary Governmental Activities
Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions		
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Government	\$ 179,119	\$ -	\$ -	\$ -	\$ (179,119)
Sanitation	114,484	-	-	-	(114,484)
Security	22,050	-	-	-	(22,050)
Streets and Roads	2,973	-	-	-	(2,973)
Unallocated Depreciation	1,617	-	-	-	(1,617)
Total Governmental Activities	320,243	-	-	-	(320,243)
Total Primary Government	\$ 320,243	\$ -	\$ -	\$ -	\$ (320,243)
General Revenues:					
Taxes:					
Property Taxes					210,202
Insurance Taxes					71,871
Franchise Taxes					4,551
Intergovernmental					34,538
Interest Income					816
Other					1,902
Total General Revenues					323,880
Change in Net Assets					3,637
Net Assets - July 1, 2010					563,999
Net Assets - June 30, 2011					\$ 567,636

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON HILLS, KENTUCKY
BALANCE SHEET- ALL FUNDS
JUNE 30, 2011

	General Fund	Road Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 291,686	\$ 218,212	\$ 509,898
Investments	-	-	-
Accounts Receivable	52,710	-	52,710
Due From Other Funds	-	-	-
Total Assets	344,396	218,212	562,608
LIABILITIES			
Accounts Payable	\$ 6,110	\$ -	\$ 6,110
Due To Other Funds	-	-	-
Total Liabilities	6,110	-	6,110
FUND BALANCE			
Restricted	-	199,791	199,791
Unassigned	356,707	-	356,707
Total Fund Balance	356,707	199,791	556,498
Total Liabilities and Fund Balance	\$ 362,817	\$ 199,791	

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, net of accumulated depreciation of \$3,398.

11,138

Net assets of Governmental Activities

\$ 567,636

See accompanying notes to the basic financial statements

**CITY OF WORTHINGTON HILLS, KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE-ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Road Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 210,202	\$ -	\$ 210,202
Interest Income	461	355	816
Municipal Aid	70	34,468	34,538
Insurance Premiums	71,871	-	71,871
Cable TV	4,551	-	4,551
Other	1,902	-	1,902
Total Revenue	289,057	34,823	323,880
EXPENDITURES			
City Services- Sanitation	114,484	-	114,484
Open Space Maintenance	41,466	-	41,466
Snow Removal	43,777	-	43,777
Salaries	43,621	-	43,621
Street Lighting	19,452	-	19,452
Security	22,050	-	22,050
Sign and Road Repairs	-	2,937	2,937
Attorney Fees	5,458	-	5,458
City Services- Utilities/Phone	5,072	-	5,072
Property Assessment	7,936	-	7,936
Office Equipment	339	-	339
Insurance	1,539	-	1,539
Overpayment of Taxes and Insurance	99	-	99
Other	10,360	36	10,396
Total Expenditures	315,653	2,973	318,626
Change in Fund Balance	(26,596)	31,850	5,254
Net Change in Fund Balance	(26,596)	31,850	5,254
Fund balances-Beginning	383,303	167,941	551,244
Fund balances-Ending	\$ 356,707	\$ 199,791	\$ 556,498

See accompanying notes to the basic financial statements

**CITY OF WORTHINGTON HILLS, KENTUCKY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE-ALL GOVERNMENTAL FUNDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of the net changes in fund balances - Total Governmental Funds to the change in net assets of governmental activities:

Net change in fund balances - Total Governmental Funds \$ 5,254

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized -

Depreciation expense (1,617)

(1,617)

(1,617)

Change in Net Assets of Governmental Activities

\$ 3,637

See accompanying notes to the basic financial statements

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued before November 30, 1989, have been applied in the government-wide financial statements unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

1.A. FINANCIAL REPORTING ENTITY

The City of Worthington Hills, Kentucky (the City) is a sixth class city located in Jefferson County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: public safety, sanitation, road maintenance, and recreation. Primary revenue sources are property taxes, insurance premium taxes, municipal road aid, franchise taxes, and base court revenue. Those revenues susceptible to accrual are property taxes, insurance premium taxes, municipal road aid, franchise taxes, and base court revenue.

All significant activities and organizations on which the City of Worthington Hills, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2011. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial Interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. The authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.A. FINANCIAL REPORTING ENTITY (CONTINUED)

Accountability of fiscal matters – The responsibility and accountability over all funds is vested in the City Commission.

Following consideration of the above criteria, no additional entities are deemed to be component units of the City.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.B. BASIS OF PRESENTATION (CONTINUED)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

Encumbrances

The City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Budgets and the Budgetary Process

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Investments

Investments of the primary government are valued at fair market value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. All investments of the City comply with the Kentucky Revised Statutes concerning the types of investments allowed.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year end, but not yet received. Major receivable balances for the government activities primarily include insurance premium taxes and base court revenue.

In the fund financial statements, material receivables in government funds include revenue accruals such as insurance premium taxes and base court revenue, since they are usually both measurable and available. Nonexchange transactions, collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but are not deferred in the government-wide financial statements in accordance with the accrual basis of accounting.

Fixed Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. For financial reporting purposes, the City has decided to only capitalize future individual assets with a value of \$500 or greater. Fixed assets are not reported in the fund financial statements.

Prior to June 30, 2003, governmental funds' infrastructure assets were not required to be capitalized by the City nor were these assets capitalized by the City. Beginning on July 1, 2004 the City is required to keep a record of all infrastructure assets placed in service from that date forward.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

Fixed Assets (Continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with related accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful life using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Vehicles	5 to 10 years
Equipment	5 to 15 years
Furniture and Fixtures	5 to 10 years
Infrastructure	10 to 25 years

Inventories

Disbursements for inventory type items are considered expenditures at the time of purchase.

Due to and Due from Other Funds

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Accounts Payable

Accounts payable consists of trades payable to vendors who provide goods and services to the City.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.D. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

Equity Classifications

As of June 30, 2011, the City of Worthington Hills implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Council. The Council is the highest level of decision-making authority for the City of Worthington Hills. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the City Administrator, Finance Director or Audit Committee may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax Revenue

Property tax bills are due and payable by August 31st. All bills paid after August 31, but before September 30 are charged 11% interest. After September 30 an additional 1% interest per month is charged until paid. Property tax revenue is recognized when the bills become due and payable. Tax is assessed at a rate of .22 per \$100 valuations based on the most available Property Valuation Office assessment.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

1.E. REVENUES, EXPENDITURES, AND EXPENSES (CONTINUED)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: current, debt service, and capital outlay. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.F. ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the classifications and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local banks in the form of a money market account. These investments subject the City to custodial credit risk, which is the risk that in the event of bank failure the City's deposits may not be recovered. However, the City considers this risk immaterial, and as such, the City does not have a formal investment policy to deal with such risk.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

2.A. DEPOSITS AND INVESTMENTS (CONTINUED)

The City of Worthington Hills, Kentucky categorizes deposits at local financial institutions to give an indication of the level of custodial credit risk assumed by the City.

The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk at June 30, 2011 are as follows:

Account	Bank Balance	Category			Carrying Amount
		1	2	3	
Total	\$ 521,781	\$ 485,000	\$	\$ 36,781	\$ 509,899

The city was undercollateralized with respect to their bank accounts held at one financial institution in the amount of \$36,781. The City will request that additional collateral be pledged to cover the City's bank balances that exceed the FDIC limit of \$300,000.

NOTE 3- DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. ACCOUNTS RECEIVABLE

The City was owed property taxes for the current year and prior years. As of June 30, 2011, delinquent property taxes owed to the city were \$52,710. The City has not estimated an allowance for doubtful accounts, as they consider all property taxes to be fully collectible. Efforts have been made by the City to collect, however, it is uncertain when the delinquent taxes will be received.

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

3.B. CAPITAL ASSETS

Fixed asset activity for the year ended June 30, 2011 was as follows:
Depreciation expense of \$1,617 was allocated as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2011</u>
Governmental Activities:				
Equipment	\$ 1,636	\$ -	\$ -	\$ 1,636
Infrastructure	12,900	-	-	12,900
Totals at Historical Cost	<u>\$ 14,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,536</u>
Less Accumulated Depreciation	(1,781)	(1,617)	-	(3,398)
Net Capital Assets	<u>\$ 12,755</u>	<u>\$ (1,617)</u>	<u>\$ -</u>	<u>\$ 11,138</u>

NOTE 4— OTHER NOTES

4.A. LITIGATION

The City is exposed to various legal proceedings incidental to the normal course of business. City Council is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecasted with certainty, final disposition should not have a material effect on the financial position of the City.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains general liability and public official liability insurance of \$1,000,000 per occurrence. A surety bond covers the City Treasurer for \$50,000.

CITY OF WORTHINGTON HILLS, KENTUCKY
COMBINED STATEMENT OF ACTIVITIES
BUDGET TO ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
NON-GAAP BUDGETARY BASIS
YEAR ENDED JUNE 30, 2011

	General Fund		Special Revenue Municipal Road Aid		Memo Total All Funds	
	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES						
Property Taxes	\$ 228,000	\$ 210,202	\$ -	\$ -	\$ 228,000	\$ 210,202
Interest Income	5,000	461		355	5,000	816
Municipal Aid			20,250	34,468	20,250	34,468
Insurance Premium Tax	70,000	71,871	-	-	70,000	71,871
Franchise Tax	7,000	4,551			7,000	4,551
Coal and Mineral	-	70	-	-	-	70
Other	10,000	1,902	-	-	10,000	1,902
Total Revenue	\$ 320,000	\$ 289,057	\$ 20,250	\$ 34,823	\$ 340,250	\$ 323,880
EXPENDITURES						
City Services- Sanitation	\$ 130,000	\$ 114,484	\$ -	\$ -	\$ 130,000	\$ 114,484
Open Space Maintenance	45,000	41,466			45,000	41,466
Road Resurfacing	-	-	10,000	-	10,000	-
Street Lighting	20,000	19,452			20,000	19,452
Salaries	40,000	43,621			40,000	43,621
Security	22,000	22,050			22,000	22,050
Snow Removal	22,500	43,777			22,500	43,777
Sign and Road Repairs	-	-	20,000	2,937	20,000	2,937
Sidewalk Repairs	-	-	8,000	-	8,000	-
Attorney Fees	5,000	5,458			5,000	5,458
Overpayment Taxes and Ins.	10,000	99			10,000	99
Miscellaneous	10,000	2,650		36	10,000	2,686
Telephone	6,000	3,910			6,000	3,910
Property Assessment	5,000	7,936			5,000	7,936
Accounting Services	3,500	3,390			3,500	3,390
Water	1,500	1,162			1,500	1,162
Office Equipment	3,000	339			3,000	339
Insurance Premiums and Bonds	2,000	1,539			2,000	1,539
Supplies/Stationary	1,500	309			1,500	309
Courier Journal	1,500	3,076			1,500	3,076
Postage	1,000	96			1,000	96
Government Dues and	1,000	124			1,000	124
Mileage	1,000	532			1,000	532
Printing	750	183			750	183
Total Expenditures	\$ 332,250	\$ 315,653	\$ 38,000	\$ 2,973	\$ 370,250	\$ 318,626
Excess (deficit) of Revenue Over Expenditures	\$ (12,250)	\$ (26,596)	\$ (17,750)	\$ 31,850	\$ (30,000)	\$ 5,254
Net Assets July 1, 2010	-	383,303	-	167,941	-	551,244
Net Assets June, 2011	\$ -	\$ 356,707	\$ -	\$ 199,791	\$ -	\$ 556,498

**CITY OF WORTHINGTON HILLS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

NOTE 1 - BUDGET VARIANCES

General Fund

General fund revenues of \$289,057 were \$30,943 less than budgeted general fund revenues of \$320,000. Actual revenues were less than budgeted revenues due to property tax revenue and interest income being less than anticipated. For the year ended June 30, 2011, general fund expenditures of \$315,653 were \$16,597 less than the \$332,250 budgeted. Actual expenditures were less than budgeted expenditures primarily due to sanitation and overpayment of taxes and insurance expenditures being less than anticipated.

Road Fund

Road fund revenues of \$34,823 were \$14,573 greater than budgeted revenues of \$20,250. Road fund expenditures of \$2,973 were \$35,027 less than budgeted expenditures of \$38,000. No individual road fund expenditure exceeded budget for the year ended June 30, 2011.

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 City Commission
City of Worthington Hills, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Worthington Hills, Kentucky as of and for the year ended June 30, 2011, which collectively comprise the City of Worthington Hills, Kentucky's basic financial statements and have issued our report thereon dated January 20, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Worthington 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 Worthington Hills, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Worthington 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 such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be material weaknesses and another deficiency in internal control to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of comments and recommendations as item 2011-01, 2011-02, 2011-03, and 2011-04 to be a material weaknesses.

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting (Continued)

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 following deficiency described in the accompanying schedule of comments and recommendation as item 2011-05 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Worthington 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

We noted certain matters that we reported to the management of the City of Worthington Hills, Kentucky, in a separate letter dated January 20, 2012

This report is intended solely for the information and use of management, City Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Louisville, Kentucky
January 20, 2012

City of Worthington Hills, Kentucky
Comments and Recommendations

Fiscal Year Ended June 30, 2011

INTERNAL CONTROL-MATERIAL WEAKNESSES

2011-01 Accurate Financial Records Are Not Being Maintained

During the audit we noted that accurate financial records are not maintained. We noted that only a manual ledger for cash disbursements is being kept. This ledger is a recording of when disbursements clear the bank. Additionally, we noted that a detailed receipt ledger is not maintained, the only documentation of receipts are the copies of the deposit slips. This information is compiled into a monthly summary of expenses and revenues by the Treasurer. For the year ended June 30, 2011, this summary provided by the City required material adjustments to properly report its operations. We recommend that the management and those charged with governance ensure the accounting records and are properly maintained and reported for the City.

2011-02 The City Lacks Adequate Segregation Of Duties Over Receipts

The City lacks adequate segregation of duties over receipts. The City Treasurer receives mail, prepares bank deposits, makes bank deposits, prepares checks, makes disbursements, and prepares financial reports. To improve internal controls over cash receipts, we recommend that the City establish new procedures for handling receiving cash. We recommend that one person open the mail and restrictively endorse all incoming checks, this person should keep a daily log of all incoming checks. Checks should be forwarded to the City Treasurer for recording into the accounting system and timely deposited. A third person should periodically compare and contrast deposit slips to the daily log of incoming checks to insure that all the receipts were deposited. By segregating the cash handling, recording, and depositing function, the City will be able to more accurately track all incoming checks and strengthen the system of internal control over cash receipts

2011-03 Cash Disbursements Process Needs Improvement

Our test revealed instances where we understand that blank checks were provided to the City Clerk for payment of certain expenses. This practice greatly weakens the internal control and opens the door for fraud, misappropriation, and mistakes. We recommend that this practice be suspended. We suggest that The City develop a cash disbursements control procedure designed to be practicable and to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. We further recommend that strict numerical control be kept over all checks issued and that checks be issued in sequence.

2011-04 Bank Reconciliations For The City Are Not Properly Prepared

Bank reconciliations for the City are not properly prepared. Proper internal control procedures require that monthly bank reconciliations be prepared at the end of each month and are accurate. The Treasurer reviews the monthly bank statements for cleared checks and recalculates the bank balance. However, a listing of outstanding checks and deposits is not being maintained. Consequently, a reconciliation to book balance is not being performed. We recommend the reconciliations be performed promptly after the end of each month and kept on file for future reference. We further recommend that someone other than the Treasurer perform a review, and signify approval by signing and dating each bank reconciliation.

INTERNAL CONTROL- SIGNIFICANT DEFICIENCY**2011-05 Financial Reporting**

There is a lack of adequate controls in financial accounting and reporting to properly prepare financial statements and disclosures according to Generally Accepted Accounting Principles. The Statement on Auditing Standards cites a significant deficiency if an entity is unable to prepare its own financial statements in accordance with Generally Accepted Accounting Principles (GAAP) including the disclosure notes. We recommend that the management and those charged with governance ensure the financial statements are properly reported for the City.