

CITY OF VILLA HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2014

CITY OF VILLA HILLS, KENTUCKY
ANNUAL FINANCIAL REPORT
June 30, 2014

TABLE OF CONTENTS

	<u>Pages</u>
LIST OF CITY OFFICIALS.....	1
FINANCIAL SECTION	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Notes to Financial Statements.....	13-21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Budget to Actual - All Funds.....	22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24

CITY OF VILLA HILLS, KENTUCKY

CITY OFFICIALS

As of June 30, 2014

Mayor

Mike Martin

Council Members

Amy Balson

Holly Isenhour

Rod Baehner

Mary Koenig

Jim Cahill

Brian Wischer

City Clerk

Craig Bohman

Police Chief

Bryan Allen

Public Works

Derek Yelton

Legal Counsel

Todd McMurtry
Gerner & Kearns, Co., LPA



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Council of the
City of Villa Hills, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Villa Hills, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Villa Hills, Kentucky as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedule on page 22 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014 on our consideration of the City of Villa 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Villa Hills, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
August 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis is a required element of the reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34. It provides management with the opportunity to present an overview of the financial activities of the City based on currently known facts, decisions or conditions.

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds and tell how services were financed in the short term as well as what remains for future spending.

The City As A Whole

The Statement of Net Position and the Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting and report the City's net position and changes in them. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All of the City's basic services are considered to be governmental activities, including legislative and administrative, public safety, public works and parks and recreation. Property taxes, insurance premium and franchise taxes and payroll/gross receipts license fees finance most of these services.

At June 30, 2014 and 2013 total position, net of depreciation and related debt, exceeded liabilities by \$6,394,004 and \$6,347,026 as follows:

Assets	2014	2013
Current and other assets	\$ 1,398,310	\$ 1,385,904
Restricted assets	119,737	56,053
Capital assets, net of depreciation	5,109,198	5,335,463
Total Assets	<u>6,627,245</u>	<u>6,777,420</u>
Liabilities		
Current liabilities	73,721	35,533
Long term liabilities	145,754	377,947
Liabilities to be paid with restricted funds	13,766	16,914
Total Liabilities	<u>233,241</u>	<u>430,394</u>
Net Position		
Net Position		
Invested in capital assets, net of depreciation and related debt	5,109,198	5,326,238
Restricted	105,971	39,139
Unrestricted	1,178,835	981,649
Total Net Position	<u>\$ 6,394,004</u>	<u>\$ 6,347,026</u>

Governmental activities increased the City's net position by \$46,978 in 2014. This increase takes into account a non-cash depreciation expense of \$314,353. The City saw slight increases in property tax, payroll tax, and municipal insurance premium tax revenues in 2013-2014. However capital and

operational grants and contributions were down slightly. The City's expenditures for each functional area, except for public works and road repair, were down significantly from the previous fiscal year.

The Statement of Activities presents the cost of each of the City's functions/programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost of \$2,481,558 or 94% of total cost in 2013, shows the financial burden that was placed on the City's taxpayers by each of these functions. The table below details the key elements of the increase (decrease) in net position for fiscal year 2014 and 2013.

Revenues		
Program Revenues:	2014	2013
Charges for services	\$ 370,600	\$ 369,163
Operating grants and contributions	23,157	27,862
Capital grants and contributions	181,303	199,249
Total Program Revenues	<u>575,060</u>	<u>596,274</u>
 General Revenues		
Property taxes	1,447,125	1,439,936
Insurance and franchise taxes	531,626	524,206
Payroll taxes/gross receipts fees	286,782	270,317
Vehicle sticker license	206,718	208,903
Other general revenues	56,285	53,448
Total General Revenues	<u>2,528,536</u>	<u>2,496,810</u>
 Total Revenues	 <u>3,103,596</u>	 <u>3,093,084</u>
 Program Expenses		
Legislative and Administrative	1,309,272	1,599,330
Public safety	771,375	918,283
Public works & road repairs	927,800	732,597
Parks and recreation	45,641	59,078
Interest on long-term debt	2,530	5,758
Total Expenses	<u>3,056,618</u>	<u>3,315,046</u>
 Increase (Decrease) in Net Position	 <u>\$ 46,978</u>	 <u>\$ (221,962)</u>

THE CITY'S FUNDS

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. The City establishes funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money. The governmental fund statements provide a detailed short-term view of the City's general government operations and basic services it provides, helping to determine whether there are more or fewer resources that can be spent in the near future to finance the City's programs.

The City has one main set of funds – governmental – separated into a general fund and special revenue funds. The special revenue funds consist of municipal road aid received monthly from the Kentucky Revenue Cabinet to be used only to replace, maintain or improve the City's roads per statute, Kentucky road grant to be used only for roads, Base Court revenue to be used only to fund public safety expenditures and vehicle sticker revenue assessed by ordinance for maintenance of roads.

The total governmental fund increase at year-end was \$41,050 (\$4,436 increase from the general fund and \$36,614 increase from the special revenue fund).

	2014	2013
Revenues		
General fund revenues	\$ 2,715,575	\$ 2,684,932
Special revenue funds	388,021	408,152
Total Revenues	<u>3,103,596</u>	<u>3,093,084</u>
Expenditures		
General fund expenditures	2,711,139	2,714,196
Special revenue fund expenditures	351,407	370,700
Total Expenditures	<u>3,062,546</u>	<u>3,084,896</u>
Excess of revenues over expenditures	<u>\$ 41,050</u>	<u>\$ 8,188</u>
Net Change in Fund Balances		
General fund	4,436	(29,264)
Special Revenue fund	36,614	37,452
Total Change in Fund Balance	<u>\$ 41,050</u>	<u>\$ 8,188</u>

The General Fund expenditures were under budget by \$85,529, which is 3.1% of the General Fund budget. The Special Revenue Fund expenditures were under budget by \$86,045; which is 19.7% of the Special Revenue Fund budget. Actual expenditures for all funds combined were \$171,574 less than budgeted expenditures. Actual revenues were \$46,928 more than budgeted revenues. When the City's beginning reserve balance is considered, the amount available for appropriations (\$4,493,106) exceeded the amount expended (\$3,062,546) by the total net fund balance of \$1,430,560.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the City had \$14,867,028 invested in various capital assets, including land, buildings and improvements, infrastructure, equipment and vehicles. The City purchased capital assets valued at \$88,088 in 2014. The City also recognized \$314,353 in depreciation expense; leaving a net decrease in total capital assets, net of depreciation of (\$226,265).

	2014	2013
Land	\$ 28,145	\$ 28,145
Buildings and Improvements	1,206,238	1,199,047
Infrastructure	12,737,121	12,737,121
Property and Equipment	354,199	342,560
Vehicles	541,325	472,067
Accumulated Depreciation	(9,757,830)	(9,443,477)
Capital Assets, Net	<u>\$ 5,109,198</u>	<u>\$ 5,335,463</u>

Debt

At June 30, 2014, the City had \$0 in debt versus \$144,825 at June 30, 2013. The City paid its entire debt balance, which did not mature until 2018, during fiscal year 2013-2014. There was no new debt incurred by the City in fiscal year 2014.

	2014	2013
Notes Payable	<u>\$ -</u>	<u>\$ 144,825</u>
	<u>\$ -</u>	<u>\$ 144,825</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Committee, at the City of Villa Hills, 720 Rogers Road, Villa Hills, Kentucky, (859) 341-1515.

CITY OF VILLA HILLS, KENTUCKY STATEMENT OF NET POSITION June 30, 2014

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,255,607
Property taxes receivable - net	10,660
Franchise tax receivable	6,175
Insurance tax receivable	116,859
Prepaid expenses	9,009
Restricted assets	
Civic club lease	30,000
Restricted cash	89,737
Capital assets	
Land	28,145
Property, plant and equipment, net of depreciation	5,081,053
TOTAL ASSETS	6,627,245
LIABILITIES	
Accounts payable	59,088
Accrued payroll and payroll taxes	14,633
Liabilities paid from restricted assets	
Adopt-A-Troop	10,313
D.A.R.E	810
Instructional Baseball League	1,274
Shop with a Cop	1,369
Long-term liabilities	
Compensated absences	145,754
TOTAL LIABILITIES	233,241
NET POSITION	
Invested in capital assets, net of related debt	5,109,198
Restricted	105,971
Unrestricted	1,178,835
TOTAL NET POSITION	\$ 6,394,004

The accompanying notes are an integral part of these financial statements.

CITY OF VILLA HILLS, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Legislative and administrative	\$ 1,309,272	\$ 360,633	\$ -	\$ -	\$ (948,639)
Public safety	771,375	9,967	23,157	-	(738,251)
Parks and recreation	45,641	-	-	-	(45,641)
Public works	927,800	-	-	181,303	(746,497)
Interest on long-term debt	2,530	-	-	-	(2,530)
Total Primary Government	\$ 3,056,618	\$ 370,600	\$ 23,157	\$ 181,303	(2,481,558)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,447,125
Insurance and franchise taxes, levied for general purposes					531,626
Licenses and permit fees					
Payroll/gross receipts license fees					286,782
Vehicle sticker license					206,718
Licenses					38,183
Miscellaneous					16,559
Unrestricted investment earnings					1,543
Total general revenues and special items					2,528,536
Change in net position					46,978
Net position, beginning					6,347,026
Net position, ending					\$ 6,394,004

The accompanying notes are an integral part of these financial statements.

CITY OF VILLA HILLS, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2014

		Other	Total
	General	Governmental	Governmental
ASSETS		Funds	Funds
Unrestricted Assets			
Cash and cash equivalents	\$ 1,255,607	\$ -	\$ 1,255,607
Property taxes receivable - net	10,660	-	10,660
Franchise tax receivable	6,175	-	6,175
Insurance tax receivable	116,859	-	116,859
Prepaid expenses	9,009	-	9,009
Total Unrestricted Assets	<u>1,398,310</u>	<u>-</u>	<u>1,398,310</u>
Restricted Assets			
Restricted cash	15,671	74,066	89,737
Civic club lease	30,000	-	30,000
Total Restricted Assets	<u>45,671</u>	<u>74,066</u>	<u>119,737</u>
TOTAL ASSETS	<u>\$ 1,443,981</u>	<u>\$ 74,066</u>	<u>\$ 1,518,047</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 59,088	\$ -	\$ 59,088
Accrued expenses	14,633	-	14,633
Liabilities to be paid with restricted funds			
Restricted accounts	<u>13,766</u>	<u>-</u>	<u>13,766</u>
TOTAL LIABILITIES	<u>87,487</u>	<u>-</u>	<u>87,487</u>
FUND BALANCES			
Nonspendable	9,009	-	9,009
Restricted	-	74,066	74,066
Committed	31,905	-	31,905
Unassigned	<u>1,315,580</u>	<u>-</u>	<u>1,315,580</u>
TOTAL FUND BALANCES	<u>1,356,494</u>	<u>74,066</u>	<u>1,430,560</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,443,981</u>	<u>\$ 74,066</u>	<u>\$ 1,518,047</u>
Total governmental fund balances			\$ 1,430,560
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets of \$14,867,028, net of accumulated depreciation of (\$9,757,830), used in governmental activities are not financial resources and are not reported in the funds.			5,109,198
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Compensated absences			<u>(145,754)</u>
Net position of governmental activities			<u>\$ 6,394,004</u>

The accompanying notes are an integral part of these financial statements.

CITY OF VILLA HILLS, KENTUCKY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For the Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 1,447,125	\$ -	\$ 1,447,125
Insurance premium taxes	457,528	-	457,528
Payroll/gross receipts taxes	286,782	-	286,782
Franchise taxes	74,098	-	74,098
Garbage assessment	345,878	-	345,878
Interest income	1,543	-	1,543
Licenses	38,183	-	38,183
Miscellaneous	16,559	-	16,559
Municipal road aid	-	181,303	181,303
Passport revenue	2,385	-	2,385
Penalties and interest	12,370	-	12,370
Base court revenue	9,368	-	9,368
Police pay incentive	23,157	-	23,157
Police reports/citations	599	-	599
Vehicle sticker license	-	206,718	206,718
TOTAL REVENUES	2,715,575	388,021	3,103,596
EXPENDITURES			
Legislative and administrative	298,949	-	298,949
Contracted Services	992,295	-	992,295
Public safety	825,842	-	825,842
Parks and recreation	28,981	-	28,981
Public works	329,629	351,407	681,036
Debt service	147,355	-	147,355
Capital outlay	88,088	-	88,088
TOTAL EXPENDITURES	2,711,139	351,407	3,062,546
NET CHANGE IN FUND BALANCES	4,436	36,614	41,050
FUND BALANCES, BEGINNING OF YEAR	1,352,058	37,452	1,389,510
FUND BALANCES, END OF YEAR	\$ 1,356,494	\$ 74,066	\$ 1,430,560

The accompanying notes are an integral part of these financial statements.

<p>CITY OF VILLA 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, 2014</p>

Net change in fund balances-total governmental funds	\$ 41,050
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Amounts reported for *governmental activities* in the statement of activities are different because:

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.

Capital asset purchases capitalized	88,088
Depreciation expense	(314,353)

Issuance of long-term debt provides financial resources to governmental funds, while the repayment of note and lease principal is an expenditure in the governmental funds.

Repayment of note and lease principal	144,825
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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, such as compensated absences.

87,368

Change in net position of governmental activities	<u>\$ 46,978</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Villa Hills, Kentucky (City) was incorporated under the provisions of the Commonwealth of Kentucky in June 1962. The City provides the following services as authorized by its charter: public safety, streets, public improvements, and general administrative services.

The accounting policies of the City of Villa Hills, Kentucky conform to U.S. generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

The Reporting Entity

The City of Villa Hills, Kentucky operates under a Mayor and Council form of government. An elected mayor and six council members govern the City. As required by generally accepted accounting principles these financial statements present the primary government. The City has no component units or entities from which the government is considered to be financially accountable.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are generally supported by taxes and City general revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expense and program revenues associated with a distinct functional activity. Program revenues include: charges for services, which report fees, fines and forfeitures, and other charges to users of the City's services; operating grants and contributions which finance annual operating activities, including restricted investment income; and capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

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

Fund Financial Statements

Fund financial statements, as applicable, are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting and include the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. If applicable, the proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

Governmental 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. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related 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 in the year when payment is due.

Major revenue sources, where accrual is most likely to occur, include property taxes, insurance premium taxes and payroll/gross receipts license fees.

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.

Fund Types

The City reports the following governmental funds:

General Fund

This fund is the government's primary operating fund. This fund accounts for all financial resources of the general government not accounted for in another fund.

Special Revenue Fund

This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains a special revenue fund for Road Funds. The road fund is used to account for the receipt and disbursement of funds in accordance with Kentucky Revised Statutes for municipal road aid and to account for use of vehicle sticker license

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

revenue for road maintenance as stated in the ordinance.

Cash and Cash Equivalents

Statutes authorize the City to invest in obligations of the United States and of its agencies and instrumentalities, certificates of deposit, passbooks, bankers' acceptances, commercial paper, bonds of other state or local governments, and mutual funds. Cash and cash equivalents consist of those instruments with maturities of less than three months and certificates of deposit with maturities less than 1 year.

All accounts held are insured under the FDIC insurance program and amounts held in excess of the FDIC coverage are covered by collateral.

Inter-fund Receivables/Payables

During the course of operations, it is possible for transactions to occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. For the year ended June 30, 2014, there are no inter-fund receivables or payables.

Inventories and Prepaid Items

If applicable, inventories in the governmental funds consist of expendable supplies held for consumption stated on a first in, first out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Prepaid items record payments to vendors that benefit future reporting periods. Both inventories and prepaid items are similarly reported in government-wide and fund financial statements.

Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position.

All fixed assets are valued at historical cost or historical estimated cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The City has elected to capitalize assets with a cost of \$500 or more. Capital assets are depreciated using the straight-line method in the government-wide financial statements. Infrastructure assets are booked with at the total cost of construction of the asset. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded in operations.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40 years
Building improvements	10-20 years
Public domain infrastructure	40 years
Vehicles	5-10 years
Furniture and equipment	3-5 years

Compensated Absences

During the 2014 fiscal year, the City changed its compensated absence policy. City employees now earn paid time off (PTO), accrued each pay period, based on hours worked and a rate factor based on years of service. Employees may carry a portion of their PTO forward year to year.

City employees who held accrued vacation/sick time under the previous system have been allowed to keep that accrued time, represented as a specific dollar amount, but must add new accruals under the new PTO system.

The balance of PTO and vacation/sick time due to employees at the end of the fiscal year is accrued, along with related costs and fringe benefits, in the government-wide financial statements. Governmental funds report only the portion of compensated absences that have matured and have been paid to employees; these are included in employee wage expense in the funds.

Long-Term Debt

In the government-wide financial statements outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Payment of principle and interest is reported as expenditures.

Fund Balances

Net position is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources. These include residual balances from the Kentucky Municipal Road Aid Fund and the Vehicle License Sticker revenues.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These include the fund balances from Adopt-A-Troop, Dare, Instructional Baseball League, the Flex-Benefit Plan, Shop with a Cop, and the Civic Club Lease.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted or committed fund balances.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The City does not account for or report on encumbrances.

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

Budgets and Budgetary Accounting

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

1. In accordance with City ordinance, prior to June 1, the Mayor submits to the City Council a proposed operating budget 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.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
5. Appropriations continue in effect until a new budget is adopted.
6. The City Council may authorize supplemental appropriations during the year.

NOTE C – ACCOUNTS RECEIVABLE

Property and Waste Fees Receivable

Property taxes were assessed on property values as of January 1st. Taxes were payable by October 1, 2013 and are delinquent after November 15, 2013. The City bills and collects its own property taxes and waste fees. Property taxes and waste fees receivable of \$18,657 is shown net of estimated uncollectible taxes of \$7,997.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE D – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended June 30, 2014:

Asset type	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Land	\$ 28,145	\$ -	\$ -	\$ 28,145
Buildings and improvements	1,199,047	7,191	-	1,206,238
Infrastructure	12,737,121	-	-	12,737,121
Property and equipment	342,560	11,639	-	354,199
Vehicles	472,067	69,258	-	541,325
Subtotal	14,778,940	88,088	-	14,867,028
Less: accumulated depreciation	(9,443,477)	(314,353)	-	(9,757,830)
Fixed assets, net	<u>\$ 5,335,463</u>	<u>\$ (226,265)</u>	<u>\$ -</u>	<u>\$ 5,109,198</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
Legislative and Administrative	\$ 14,570
Parks and Recreation	16,660
Public Safety	34,761
Public Works - Infrastructure	223,248
Public Works	25,114
Total Governmental Activities Depreciation Expense	<u>\$ 314,353</u>

NOTE E – NOTES PAYABLE

City Building Loan

On February 1, 2008, the City entered into a loan agreement with PNC Bank for \$282,982 in connection with the purchase of the property located at 720 Rogers Road to be used as the new City Building. The loan was scheduled to mature February 1, 2018 and bore a fixed interest rate of 3.55% per year. The repayment has been paid in regularly scheduled monthly payments of \$2,814. During the 2013-2014 fiscal year, the City Council voted to pay the entire principal balance of this loan, and on December 5, 2013 paid the remaining principal balance of \$130,474. The total principal payments made during the year totaled \$144,825 resulting in a principal balance of \$0 as of June 30, 2014.

NOTE F – OPERATING LEASES

Mobile Data Terminals

Beginning July 31, 2004, the City agreed to annually pay \$13,962 for a period of ten years to the Kenton County Fiscal Court. These annual payments are to cover the remaining costs associated with the purchase of the Mobile Data Terminals in excess of the bonds issued by the Kenton County Fiscal Court. This lease payment was completed in June 2014.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

Warehouse Space Lease

On September 30, 2004, the City entered into an agreement for rental of warehouse storage space. The current term of the lease is from November 1, 2013 to November 1, 2014. The lease can be renewed on a year to year basis upon agreement of both parties. The space is rented at a monthly cost of \$675.

Capital Improvements – Franzen Fields

On January 1, 2002, the City entered into a lease agreement with the Villa Hills Civic Club, Inc. to lease the property known as Franzen Fields. The original lease period was January 1, 2002 through December 31, 2002. The lease was extended under the same terms in the years 2003 through 2006. The lease required the City to pay rent in the sum of \$5,000 annually, maintain and repair the grounds and pay the cost of utilities and trash removal for Franzen Fields. A new lease, effective January 1, 2009 through December 31, 2009, renewable annually for ten years, requires the City to pay rent in the sum of \$1 annually, maintain and repair the grounds as well as pay the cost of utilities and trash removal for Franzen Fields. In lieu of the annual rent payment, the City agreed to provide up to a maximum of \$60,000 over the ten year period for capital improvements at Franzen Fields. In 2009, the City set aside \$60,000 in the General Fund as restricted funds for future capital improvement purposes. The City will amortize this \$60,000 restricted asset over the ten year period, at an annual rate of \$6,000 per year, beginning in fiscal year 2009-10. During fiscal years 2010 and 2011, the City made \$59,281 in capital improvements to Franzen Fields. As of June 30, 2014, the City maintains a \$30,000 restricted asset. The liability to provide improvements to Franzen Fields has been fulfilled.

Villa Madonna Ball Field Lease

On January 1, 2010, the City entered into an agreement with the St. Walburg Monastery of Benedictine Sisters, Inc. to lease land located on Amsterdam Road for use as youth and adult sports and recreation facilities. The lease is for a period of nine (9) years and ends on December 31, 2018. The annual rental fee is \$1 per year. In previous years, the City paid to construct the necessary improvements. The City performs the required maintenance.

NOTE G – ECONOMIC DEPENDENCY

The City's general fund receives 14.5% of its revenues from insurance premium taxation. This tax is not regulated on a city level, but rather a state level. If legislation were imposed to delete this tax, the city would be negatively impacted. During the year ended June 30, 2014, the City increased its Municipal Insurance Premium (MIP) tax from 5% to 7%, and committed \$175,000 of MIP tax funds towards street improvement.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE H – RESTRICTED CASH

The City has the following internally committed cash in the General Fund and externally restricted cash in the Special Revenue Fund:

	General Fund	Special Revenue Fund
Flex plan checking	\$ 1,905	\$ -
D.A.R.E. checking	810	-
Adopt-a-troop checking	10,313	-
Instructional Baseball League	1,274	-
Shop with a Cop	1,369	-
Special revenue fund cash	-	74,066
Total Restricted Cash	<u>\$ 15,671</u>	<u>\$ 74,066</u>

NOTE I – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Hazardous duty employees who entered the plan after August 31, 2008 must also contribute an additional 1% of their annual creditable compensation for health insurance. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The City contributed 18.89% (37.50% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2014.

The City of Villa Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2014 in the amount of \$163,686.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE J – CONTIGENCIES

The City is at risk for possible litigation due to the nature of the City officials' enforcement of various codes and regulations, such as zoning and building codes.

Currently, the City has been named as a defendant in litigation. The City's exposure is not material and a motion has been made by the City's attorney to dismiss the case. Any liability would be covered by the City's insurance.

In 2013 the Kentucky General Assembly passed significant pension reform under Senate Bill 2. Among the reform's various provisions was the introduction of "spiking" penalties beginning January 1, 2014 for the last employer of record whose employees retired after that date who had earned more than 10% in creditable compensation from one year to the next during their last 5 years of employment. The penalty incurred would be calculated to equal the actuarial difference needed to cover the extra lifetime payments the employee earned above the 10% threshold during their final years of employment. The City of Villa Hills had two retirements that qualified for spiking penalties, one on January 31, 2014 and one on March 31, 2014. The two penalties together equal \$213,919.66. The City of Villa Hills is contesting both penalties under the administrative appeal process through the Kentucky Retirement System and no accrual of this amount has been entered in the City's financial statements.

NOTE K – SUBSEQUENT EVENTS

Management has evaluated events through August 25, 2014, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2014 through August 25, 2014 to disclose.

CITY OF VILLA HILLS, KENTUCKY BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - ALL FUNDS For the Year Ended June 30, 2014

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
Prior year funds available for use	\$ -	\$ 177,452	\$ 177,452	\$ 130,513	\$ (46,939)
Resources (inflows)					
Property taxes, payroll, license taxes, fees	2,656,668	-	2,656,668	2,715,575	58,907
Kentucky Municipal Road Aid	200,000	-	200,000	181,303	(18,697)
Vehicle license fees	200,000	-	200,000	206,718	6,718
Amounts available for appropriation	<u>3,056,668</u>	<u>177,452</u>	<u>3,234,120</u>	<u>3,234,109</u>	<u>(11)</u>
Charges to appropriations (outflows)					
Administration, police, public works, contracted services, and recreation	2,656,668	-	2,656,668	2,571,139	85,529
Vehicle fee - road repair	200,000	33,903	233,903	227,000	6,903
Kentucky Municipal Road Aid	200,000	3,549	203,549	124,407	79,142
Restricted for debt payoff	-	140,000	140,000	140,000	-
Total charges to appropriations	<u>3,056,668</u>	<u>177,452</u>	<u>3,234,120</u>	<u>3,062,546</u>	<u>171,574</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,563</u>	<u>\$ 171,563</u>
Reconciliation of Budgetary Fund Balance to GAAP					
			Beginning Fund Balance	\$ 1,389,510	
			Less: Use of Prior Year Funds	(130,513)	
			Plus: Ending Budgetary Fund Balance	<u>171,563</u>	
			Ending Fund Balance	<u>\$ 1,430,560</u>	



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

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

**To the Honorable Mayor and
Members of the Council of the
City of Villa Hills, Kentucky**

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the City of Villa Hills, Kentucky, as of June 30, 2014 and the related notes to the financial statements which collectively comprise the City of Villa Hills, Kentucky's financial statements, and have issued our report thereon dated August 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Villa Hills, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Villa Hills, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Villa Hills, Kentucky's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Villa 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 audits, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
August 25, 2014