

**CITY OF VILLA HILLS, KENTUCKY**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended June 30, 2016**

**CITY OF VILLA HILLS, KENTUCKY**

**ANNUAL FINANCIAL REPORT**

**June 30, 2016**

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**CITY OF VILLA HILLS, KENTUCKY**

**CITY OFFICIALS**

**As of June 30, 2016**

**Mayor**

Irvin T. "Butch" Callery

**Council Members**

George Burns

Scott Ringo

Gregory Kilburn

Jennifer Vaden

Mary Koenig

Gary Waugaman

**City Administrator/Clerk**

Craig Bohman

**Police Chief**

Bryan Allen

**Public Works**

Derek Yelton

**Legal Counsel**

Mary Ann Stewart  
Adams, Stepner, Woltermann & Dusing, PLLC



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

Charles A. Van Gorder, CPA  
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, each major fund, and the aggregate remaining fund information of the City of Villa Hills, Kentucky, as of and for the year ended June 30, 2016, 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.

#### ***-Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Villa Hills, Kentucky as of June 30, 2016, 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 and the budgetary comparison schedules and pension disclosures on pages 28-31 are 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***-Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major special revenue funds schedules on page 32-33 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016 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.*

Van Gorder, Walker, & Co., Inc.  
Erlanger, Kentucky  
September 20, 2016

## 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, 2016 and 2015 total position, net of depreciation and related debt, exceeded liabilities by \$5,057,019 and \$5,522,627 as follows:

Assets	<b>2016</b>	<b>2015</b>
Current and other assets	\$ 2,246,672	\$ 1,653,907
Restricted assets	130,329	169,629
Capital assets, net of depreciation	4,864,100	4,961,613
Total Assets	7,241,101	6,785,149
Deferred Outflow of Resources	274,689	156,426
Total Assets and Deferred Outflow of Resources	7,515,790	6,941,575
Liabilities		
Current liabilities	101,370	83,797
Long term liabilities	778,239	128,350
Liabilities to be paid with restricted funds	120,471	1,491
Net pension liability	1,326,221	1,092,891
Total Liabilities	2,326,301	1,306,529
Deferred Inflow of Resources	132,470	112,419
Total Liabilities and Deferred Inflow of Resources	2,458,771	1,418,948
Net Position		
Net investment in capital assets	4,119,500	4,961,613
Restricted	15,941	168,138
Unrestricted	921,578	392,876
Total Net Position	\$ 5,057,019	\$ 5,522,627

Governmental activities decreased the City's net position by \$465,608 in 2016 compared to a \$248,298 increase in FY 2015. This increase takes into account a non-cash depreciation expense of \$370,726 and

a pension expense that is \$135,118 more than was actually contributed to the pension system. The City saw slight increases in all major revenue sources, with the exception of the vehicle license fee, which has been discontinued. Municipal insurance premium tax funds will continue to be committed by the City annually for road repair, \$190,573 was committed in FY 2016. Capital and operational grants were similar to last year. The City's expenditures for each functional area, except for public safety, were similar from the previous fiscal year. Public safety increased by \$208,572 from FY 2015.

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 \$2,883,796 or 79.5% of total cost in FY 2016 (compared to 74.3% in FY 2015), 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 2016 and 2015.

Revenues

	<b>2016</b>	<b>2015</b>
Program Revenues:		
Charges for services	\$ 557,128	\$ 559,759
Operating grants and contributions	38,035	24,617
Capital grants and contributions	149,085	178,754
Total Program Revenues	<u>744,248</u>	<u>763,130</u>
General Revenues		
Property taxes	1,444,162	1,440,217
Insurance and franchise taxes	572,269	507,975
Payroll taxes/gross receipts fees	313,719	278,546
Vehicle sticker license	15,340	120,593
Other general revenues	72,698	97,104
Total General Revenues	<u>2,418,188</u>	<u>2,444,435</u>
Total Revenues	<u>3,162,436</u>	<u>3,207,565</u>

Program Expenses

Legislative and administrative	1,382,074	1,309,981
Public safety	902,319	693,747
Public works & road repairs	1,242,599	887,206
Parks and recreation	64,047	61,623
Events & beautification	32,787	6,712
Interest on long-term debt	4,218	-
Total Expenses	<u>3,628,044</u>	<u>2,959,269</u>
Increase (Decrease) in Net Position	<u>\$ (465,608)</u>	<u>\$ 248,296</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, municipal aid road fund, capital fund, and special revenue funds. The 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. The capital fund is a new fund in FY 2016 which accounts for funds set aside for capital purchases, such as vehicles and equipment. The special revenue funds consist of fund restricted by contributions to the City's DARE, Shop with a Cop, and Adopt a Unit programs, as well as the City's Instructional Baseball League. The total governmental fund increase at year-end was \$307,688 (a \$266,638 increase from \$41,050 in FY 2015). \$159,594 of that increase came from the General Fund and \$135,357 came from the Municipal Aid Road Fund.

	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
General Fund revenues	\$ 2,991,892	\$ 3,000,578
Municipal Aid Road Fund revenues	906,397	252,820
Special Revenue Funds	14,146	20,233
Total Revenues	<u>3,912,435</u>	<u>3,273,631</u>
<b>Expenditures</b>		
General Fund expenditures	2,964,565	2,840,984
Municipal Aid Road Fund expenditures	457,648	117,463
Special Revenue Funds expenditures	7,132	7,496
Total Expenditures	<u>3,429,345</u>	<u>2,965,943</u>
Excess of revenues over expenditures	<u>\$ 483,090</u>	<u>\$ 307,688</u>
<b>Net Change in Fund Balances</b>		
General Fund	(14,488)	159,594
Municipal Aid Road Fund	448,749	135,357
Special Revenue Funds	48,829	12,737
Total Change in Fund Balance	<u>\$ 483,090</u>	<u>\$ 307,688</u>

Actual General Fund revenues were \$77,967 more than budgeted revenues. When the City's beginning reserve balance is considered, the amount available for appropriations (\$4,582,046) exceeded the amount expended and transferred (\$3,006,380) by the total net fund balance of \$1,575,666

Actual General Fund expenditures and transfers were under budget by \$41,810, which is 1.3% of the General Fund budget.

Actual Municipal Aid Road Fund revenues were \$803 less than budgeted revenues. Actual Municipal Aid Road Fund expenditures were under budget by \$134,552, as funds are being held for upcoming road repair projects in the next fiscal year.

The Capital Fund included only transfers and proceeds from sales of assets in the current year and the Special Revenue Fund is not budgeted, since it is fiduciary in nature and being held at the discretion of individual programs.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2016, the City had \$14,935,089 invested in various capital assets, including land, buildings and improvements, infrastructure, equipment and vehicles. The City purchased capital assets valued at \$273,213 and deleted assets valued at \$302,486 in 2016. The City also recognized \$370,726 in depreciation expense; leaving a net decrease in total capital assets, net of depreciation of (\$97,513).

	2016	2015
Land	\$ 28,145	\$ 28,145
Buildings and improvements	1,227,468	1,206,238
Infrastructure	12,942,272	12,737,121
Property and equipment	279,666	391,858
Vehicles	457,538	601,000
Accumulated depreciation	(10,070,989)	(10,002,749)
Capital assets, net	<u>\$ 4,864,100</u>	<u>\$ 4,961,613</u>

### Debt

In May 2016, the City executed an 11 year capital lease for \$750,000 for road repair. At June 30, 2016, the City had \$744,600 in long-term debt remaining.

	2016	2015
Note Payable	\$ 744,600	\$ -
	<u>\$ 744,600</u>	<u>\$ -</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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>STATEMENT OF NET POSITION</b> <b>June 30, 2016</b>
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	<u>Primary Government</u> <u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,105,516
Property taxes receivable - net	17,998
Franchise tax receivable	6,299
Insurance tax receivable	116,859
Restricted assets	
Civic club lease	18,000
Restricted cash	112,329
Capital assets	
Land	28,145
Property, plant and equipment, net of depreciation	4,835,955
<b>Total Assets</b>	<u>7,241,101</u>
<b>Deferred Outflows of Resources</b>	
Pension contribution and amortized outflows	<u>274,689</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>7,515,790</u>
<b>Liabilities</b>	
Accounts payable	982
Accrued payroll and payroll taxes	58,293
Capital lease - current portion	66,178
Liabilities paid from restricted assets	96,388
Long-term liabilities	
Capital lease - long term portion	678,422
Compensated absences	99,817
Net pension liability	1,326,221
<b>Total Liabilities</b>	<u>2,326,301</u>
<b>Deferred Inflow of Resources</b>	
Deferred inflow of resources related to pensions	<u>132,470</u>
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>2,458,771</u>
<b>Net Position</b>	
Net investment in capital assets	4,119,500
Restricted	15,941
Unrestricted	921,578
<b>Total Net Position</b>	<u><u>\$ 5,057,019</u></u>

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, 2016**

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
<b>Primary Government</b>					
Legislative and administrative	\$ 1,382,074	\$ 365,962	\$ 8,668	\$ -	\$ (1,007,444)
Public safety	902,319	413	29,367	-	(872,539)
Parks and recreation	64,047	-	-	-	(64,047)
Public works	383,079	-	-	149,085	(233,994)
Road repair	859,520	190,753	-	-	(668,767)
Events & beautification	32,787	-	-	-	(32,787)
Interest & fees	4,218	-	-	-	(4,218)
<b>Total Primary Government</b>	<b>\$ 3,628,044</b>	<b>\$ 557,128</b>	<b>\$ 38,035</b>	<b>\$ 149,085</b>	<b>(2,883,796)</b>
<b>General revenues</b>					
Taxes					
Property taxes, levied for general purposes					1,444,162
Insurance and franchise taxes, levied for general purposes					572,269
Licenses and permit fees					
Payroll/gross receipts license fees					313,719
Vehicle sticker license					15,340
Licenses					44,501
Miscellaneous					25,128
Unrestricted investment earnings					3,069
<b>Total general revenues and special items</b>					<b>2,418,188</b>
<b>Change in net position</b>					<b>(465,608)</b>
<b>Net position, beginning</b>					<b>5,522,627</b>
<b>Net position, ending</b>					<b>\$ 5,057,019</b>

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

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>BALANCE SHEET - GOVERNMENTAL FUNDS</b> <b>June 30, 2016</b>
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		Municipal	Special	Total
	General	Aid Road	Revenue	Governmental
Assets	Fund	Funds	Funds	
Unrestricted Assets				
Cash and cash equivalents	\$ 1,491,979	\$ 608,152	\$ 5,385	\$ 2,105,516
Property taxes receivable - net	17,998	-	-	17,998
Franchise tax receivable	6,299	-	-	6,299
Insurance tax receivable	116,859	-	-	116,859
Due from other funds	-	37	41,815	41,852
Total Unrestricted Assets	1,633,135	608,189	47,200	2,288,524
Restricted Assets				
Restricted cash	1,575	96,388	14,366	112,329
Civic club lease	18,000	-	-	18,000
Total Restricted Assets	19,575	96,388	14,366	130,329
<b>Total Assets</b>	<b>\$ 1,652,710</b>	<b>\$ 704,577</b>	<b>\$ 61,566</b>	<b>\$ 2,418,853</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 982	\$ -	\$ -	\$ 982
Accrued liabilities	34,210	24,083	-	58,293
Due to other funds	41,852	-	-	41,852
Liabilities paid with restricted funds				
Restricted accounts	-	96,388	-	96,388
<b>Total Liabilities</b>	<b>77,044</b>	<b>120,471</b>	<b>-</b>	<b>197,515</b>
<b>Fund Balances</b>				
Restricted	1,575	-	14,366	15,941
Committed	1,158,291	584,106	-	1,742,397
Assigned	82,034	-	47,200	129,234
Unassigned	333,766	-	-	333,766
<b>Total Fund Balances</b>	<b>1,575,666</b>	<b>584,106</b>	<b>61,566</b>	<b>2,221,338</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,652,710</b>	<b>\$ 704,577</b>	<b>\$ 61,566</b>	<b>\$ 2,418,853</b>
Total governmental fund balances				\$ 2,221,338
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets of \$14,935,089, net of accumulated depreciation of (\$10,070,989), used in governmental activities are not financial resources and are not reported in the funds.				4,864,100
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Capital leases				(744,600)
Compensated absences				(99,817)
Net pension liability				(1,326,221)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore are not reportable in the funds				
Deferred outflow of resources				274,689
Deferred inflow of resources				(132,470)
Net position of governmental activities				<u>\$ 5,057,019</u>

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



<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES</b> <b>GOVERNMENTAL FUNDS</b> <b>For the Year Ended June 30, 2016</b>
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	General Fund	Municipal Aid Road Fund	Special Revenue Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$2,441,281	\$ -	\$ -	\$ 2,441,281
Licenses	52,642	7,200	-	59,842
Intergovernmental	106,278	149,085	-	255,363
Charges for services	363,392	-	-	363,392
Fines and forfeitures	7,405	-	-	7,405
Interest	2,957	112	-	3,069
Sale of surplus property	-	-	5,385	5,385
Miscellaneous	17,937	-	8,761	26,698
Loan proceeds	-	750,000	-	750,000
<b>Total Revenues</b>	<u>2,991,892</u>	<u>906,397</u>	<u>14,146</u>	<u>3,912,435</u>
<b>Expenditures</b>				
Legislative and administrative	334,853	-	-	334,853
Contracted Services	1,022,615	-	-	1,022,615
Public safety	818,955	-	-	818,955
Parks and recreation	44,970	-	7,132	52,102
Public works	365,584	-	-	365,584
Events & beautification	32,787	-	-	32,787
Capital outlay	344,801	448,030	-	792,831
Loan fees	-	2,455	-	2,455
Debt service:				
Principal	-	5,400	-	5,400
Interest	-	1,763	-	1,763
<b>Total Expenditures</b>	<u>2,964,565</u>	<u>457,648</u>	<u>7,132</u>	<u>3,429,345</u>
Excess of revenues over expenditures	27,327	448,749	7,014	483,090
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	41,815	41,815
Transfers Out	(41,815)	-	-	(41,815)
<b>Net Change in Fund Balances</b>	(14,488)	448,749	48,829	483,090
<b>Fund Balances, Beginning of Year</b>	<u>1,590,154</u>	<u>135,357</u>	<u>12,737</u>	<u>1,738,248</u>
<b>Fund Balances, End of Year</b>	<u>\$1,575,666</u>	<u>\$ 584,106</u>	<u>\$ 61,566</u>	<u>\$ 2,221,338</u>

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

<p><b>CITY OF VILLA HILLS, KENTUCKY</b>  <b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND</b>  <b>CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE</b>  <b>STATEMENT OF ACTIVITIES</b>  <b>For the Year Ended June 30, 2016</b></p>
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Net change in fund balances-total governmental funds	\$ 483,090
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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	273,213
Depreciation expense, net of adjustment	(370,726)

Proceeds from loans	(750,000)
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Governmental funds report City pension contributions as expenditures.

However, in the statement of activities, the cost of pension benefits earned net of employer contributions is reported as pension expense

City pension contributions	164,070
Cost of benefits earned	(299,188)

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:

Payment of loan principal	5,400
Compensated absences	<u>28,533</u>

Change in net position of governmental activities	<u><u>\$ (465,608)</u></u>
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The accompanying notes are an integral part of these financial statements.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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## **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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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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.

*Municipal Aid Road 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



<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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Kentucky Revised Statutes for municipal road aid.  
*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 to account for the aggregate balances and activities in the City's DARE program, the Adopt-a-Unit program, the Shop with a Cop program, and the Instructional Baseball League.

*Capital Fund*

The Capital Fund is made of an appropriated General Fund transfer and the proceeds of the sale of surplus property. The purpose of this fund to hold the resources necessary to pay for the replacement of vehicles and capital equipment based on a replacement schedule. These funds are assigned within the budget 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, 2016, there were two inter-fund receivables/payables, \$41,815 due to the Capital Fund and \$37 due to the Municipal Aid Road Fund, both due from the General Fund.

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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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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 \$2,500 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.

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 2015 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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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*Non-spendable* fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be non-spendable.

*Restricted* fund balances are amounts that can only be used pursuant to constraints imposed by external sources. These include balances from the Commonwealth of Kentucky in the Municipal Road Aid Fund and balances in the Special Revenue Fund.

*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 Civic Club Lease, and the net balance of the flex plan benefit account, reservations for road construction in the Municipal-Aid Road Fund; and reservations for cash flow.

*Assigned* fund balances are amounts that are intended to be used for specific purposes as stipulated by informal actions of the council or management. These include insurance premium and payroll taxes set aside for road repair and reservations in the Capital Fund.

*Unassigned* fund balances consist of all residual funds not included in non-spendable, restricted or committed, or assigned 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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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## NOTE C – ACCOUNTS RECEIVABLE

### Property and Waste Fees Receivable

Property taxes were assessed on property values as of January 1<sup>st</sup>. Taxes were payable by October 1, 2015 and are delinquent after November 15, 2015. The City bills and collects its own property taxes and waste fees. The City had property taxes and waste fees receivable of \$12,926 at June 30, 2016. The City feels that all property tax and waste fees are collectible.

## NOTE D – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended June 30, 2016:

Asset type	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Land	\$ 28,145	\$ -	\$ -	\$ 28,145
Buildings and improvements	1,206,238	21,230	-	1,227,468
Infrastructure	12,737,121	205,151	-	12,942,272
Property and equipment	391,858	19,724	(131,916)	279,666
Vehicles	601,000	27,108	(170,570)	457,538
Subtotal	14,964,362	273,213	(302,486)	14,935,089
Less: accumulated depreciation	(10,002,749)	(370,726)	302,486	(10,070,989)
Fixed assets, net	<u>\$ 4,961,613</u>	<u>\$ (97,513)</u>	<u>\$ -</u>	<u>\$ 4,864,100</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
Legislative and Administrative	\$ 13,516
Parks and Recreation	17,823
Public Safety	36,383
Public Works - Infrastructure	289,420
Public Works	13,584
Total Governmental Activities Depreciation Expense	<u>\$ 370,726</u>

## NOTE E – OPERATING LEASES

### 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, 2014 to November 1, 2015. 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 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



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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, 2016, the City maintains a \$18,000 restricted asset. The liability to provide improvements 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 F – LONG-TERM DEBT**

The City's long-term debt consists of the following:

##### Capital Lease – Heritage Bank

The City executed a 2.73% interest, 11-year \$750,000 capital lease payable effective May 10, 2016 with the Heritage Bank in order to finance the cost of street repairs. The termination date of this secured lease is May 10, 2026. The City is to make monthly payments to Heritage Bank. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 66,178	\$ 19,778	\$ 85,956
2018	68,033	17,923	85,956
2019	69,942	16,014	85,956
2020	71,862	14,094	85,956
2021	73,916	12,040	85,956
2022-2026	394,669	27,934	422,603
Total	<u>\$ 744,600</u>	<u>\$ 107,783</u>	<u>\$ 852,383</u>

#### **NOTE G – ECONOMIC DEPENDENCY**

The City's general fund receives 18.3% 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. This MIP increase was rescinded in the year ended June 30, 2016 in favor of an ad valorem tax of \$0.067 per \$100 assessment on real property in the City.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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#### NOTE H – RESTRICTED CASH

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

	General Fund	Municipal Aid Road Fund	Special Revenue Fund
Flex plan checking	\$ 1,575	\$ -	\$ -
Municipal Aid Road Fund	-	96,388	-
Adopt-a-troop checking	-	-	6,457
Instructional Baseball League	-	-	1,695
Shop with a Cop	-	-	6,214
Total Restricted Cash	<u>\$ 1,575</u>	<u>\$ 96,388</u>	<u>\$ 14,366</u>

#### NOTE I – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System.

##### General information about the County Employees Retirement System ("CERS")

*Plan description* – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

**CITY OF VILLA HILLS, KENTUCKY**  
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Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits. Contributions-Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

### **Contributions**

The City contributed 17.06% (32.95% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City of Villa Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$164,070.

### **Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the City reported a liability of \$1,326,221 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's employer allocation proportion was 0.011354% of the total CERS non-hazardous duty employees and 0.054593% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$299,188. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 7,711	\$ -
Net difference between projected and actual earnings on plan investments	15,917	89,936
Changes of assumptions	86,991	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	42,534
City contributions subsequent to the measurement date	164,070	-
Total	<u>\$ 274,689</u>	<u>\$ 132,470</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.51 years. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period.

#### Deferred Outflows of Resources

In FY 2016, \$274,689 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, d) changes in proportion share, and e) contributions subsequent to the measurement date.



<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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These amounts are being amortized as follows:

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year			
Difference in earnings	9,639	1,928	7,711
Subtotal	9,639	1,928	7,711
3.51 Years Amortization Period			
Recognized in previous years	-	-	-
Recognized in current year			
Actuarial losses	22,259	6,342	15,917
Changes in assumptions	121,647	34,656	86,991
Changes in proportion share	-	-	-
Subtotal	143,906	40,998	102,908
0 Years Amortization Period			
Recognized in current year			
Contributions since measurement date	164,070	-	164,070
Subtotal	164,070	-	164,070
	\$ 317,615	\$ 42,926	\$ 274,689

Future amortization of will be recognized as an offset to pension expense as follows:

Actuarial Losses		Difference in Earnings	
3.51 Year Amortization Period		5 Year Amortization Period	
Fiscal Year Ending	Net Deferral Amortization	Fiscal Year Ending	Net Deferral Amortization
June 30,		June 30,	
2017	\$ 6,342	2017	\$ 1,928
2018	6,342	2018	1,928
2019	3,233	2019	1,928
	\$ 15,917	2020	1,927
			\$ 7,711
Changes in Assumptions		Changes in Proportion	
3.51 Year Amortization Period		3.51 Year Amortization Period	
Fiscal Year Ending	Net Deferral Amortization	Fiscal Year Ending	Net Deferral Amortization
June 30,		June 30,	
2017	\$ 34,656	2017	\$ -
2018	34,656	2018	-
2019	17,679	2019	-
	\$ 86,991		\$ -

The City's contributions subsequent to the measurement date of \$164,070 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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### Deferred Inflows of Resources

In 2015, \$112,419 was recognized as a deferred inflow of resources, and was amortized over a closed five year period at an annual amortization amount of \$22,483. In FY 2016, \$59,480 was recognized as a deferred inflow of resources resulting from changes in proportion share.

These amounts are being amortized as follows:

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ 112,419	\$ 22,483	\$ 89,936
Recognized in current year			
Difference in earnings	-	-	-
Subtotal	<u>112,419</u>	<u>22,483</u>	<u>89,936</u>
3.51 Years Amortization Period			
Recognized in previous years	-	-	-
Recognized in current year			
Changes in proportion share	59,480	16,946	42,534
Subtotal	<u>59,480</u>	<u>16,946</u>	<u>42,534</u>
	<u>\$ 171,899</u>	<u>\$ 39,429</u>	<u>\$ 132,470</u>

Future amortization of will be recognized in pension expense as follows:

Actuarial Losses		Difference in Earnings	
3.51 Year Amortization Period		5 Year Amortization Period	
Fiscal Year Ending June 30,	Net Deferral Amortization	Fiscal Year Ending June 30,	Net Deferral Amortization
2017	\$ -	2017	\$ 22,484
2018	-	2018	22,484
2019	-	2019	22,484
	<u>\$ -</u>	2020	22,484
			<u>\$ 89,936</u>
Changes in Assumptions		Changes in Proportion	
3.51 Year Amortization Period		3.51 Year Amortization Period	
Fiscal Year Ending June 30,	Net Deferral Amortization	Fiscal Year Ending June 30,	Net Deferral Amortization
2017	\$ -	2017	\$ 16,946
2018	-	2018	16,946
2019	-	2019	8,642
	<u>\$ -</u>		<u>\$ 42,534</u>

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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### Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>CERS Hazardous &amp; Non-Hazardous Target Allocation</b>	<b>Long Term Expected Nominal Return</b>
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
<b>Total</b>	<b>100%</b>	

### Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

### Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability		
		Non-Hazardous	Hazardous	Total
1% decrease	6.5%	\$ 623,195	\$ 1,072,748	\$ 1,695,943
Current discount rate	7.5%	488,159	838,062	1,326,221
1% increase	8.5%	372,512	643,621	1,016,133

### Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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**NOTE J – CONTINGENCIES**

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.

The City has been named as a defendant for breach of contract for failure to pay sums claimed by a former City employee and City code enforcement inspection contractor. The plaintiff claims the City owes him \$30,000 due to the City's termination of the contract prior to its expiration date. The City has made a settlement offer, significantly less than \$30,000, and the plaintiff has not responded. The City plans to vigorously defend this claim and anticipates filing a claim for summary judgment.

A former City employee has filed a Slander/Tortious Interference suit claiming the City brought about intentional and negligent infliction of emotional distress and slander in comments related to a state auditor report. The former employee also claims tortious interference with a contractual relationship occurred when statements made in a public meeting prevented him from obtaining employment. The City's insurance carrier is vigorously defending the City in this matter and any judgement claim 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. Evidentiary hearings took place in December of 2015. There are significant constitutional questions related to this statute and how it is applied. These penalties have been applied to many other cities, counties, and governmental entities across the Commonwealth, many of which are filing similar suits. The City of Villa Hills continues to aggressively litigate 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.

Currently, the City has been named as a defendant in litigation in two other cases, one of which is a code enforcement case which has no monetary claim against the City. The other case is currently in discovery and any liability would be covered by the City's insurance.

**NOTE K – SUBSEQUENT EVENTS**

Management has evaluated events through September 20, 2016, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2016 through September 20, 2016 to disclose.

**CITY OF VILLA HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
<b>Prior year funds available for use</b>	\$ 1,590,154	\$ -	\$ 1,590,154	\$ 1,590,154	\$ -
<b>Resources (inflows)</b>		-			
Taxes and fees	2,901,825	7,000	2,908,825	2,991,322	82,497
Grants	5,000	-	5,000	570	(4,430)
LGEA funds	100	-	100	-	(100)
<b>Amounts available for appropriation</b>	<u>4,497,079</u>	<u>7,000</u>	<u>4,504,079</u>	<u>4,582,046</u>	<u>77,967</u>
<b>Charges to appropriations (outflows)</b>					
Administration	335,550	-	335,550	334,853	697
Contracted services	1,042,549	-	1,042,549	1,040,195	2,354
Events and beautification	34,700	-	34,700	32,787	1,913
Police	863,276	-	863,276	853,379	9,897
Public Works	410,867	-	410,867	388,958	21,909
Recreation	48,333	-	48,333	47,715	618
LGEA funds	100	-	100	-	100
Road repair	264,000	7,000	271,000	266,678	4,322
<b>Total charges to appropriations</b>	<u>2,999,375</u>	<u>7,000</u>	<u>3,006,375</u>	<u>2,964,565</u>	<u>41,810</u>
<b>Transfer in (out) - Capital Fund</b>	<u>(45,200)</u>	<u>-</u>	<u>(45,200)</u>	<u>(41,815)</u>	<u>3,385</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 1,452,504</u>	<u>\$ -</u>	<u>\$ 1,452,504</u>	<u>\$ 1,575,666</u>	<u>\$ 123,162</u>

**CITY OF VILLA HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**MUNICIPAL AID ROAD FUND**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts				Variance Favorable / (Unfavorable)
	Original	Revisions	Final	Actual	
<b>Prior year funds available for use</b>	\$ 135,357	\$ -	\$ 135,357	\$ 135,357	\$ -
<b>Resources (inflows)</b>					
Kentucky Municipal Road Aid	150,000	-	150,000	149,085	(915)
Taxes and interest	-	7,200	7,200	7,312	112
Proceeds from Loans	-	750,000	750,000	750,000	-
<b>Amounts available for appropriation</b>	<u>285,357</u>	<u>757,200</u>	<u>1,042,557</u>	<u>1,041,754</u>	<u>(803)</u>
<b>Charges to appropriations (outflows)</b>					
Capital outlay	285,000	300,000	585,000	448,030	136,970
Debt service and bond costs	-	7,200	7,200	9,618	(2,418)
<b>Total charges to appropriations</b>	<u>285,000</u>	<u>307,200</u>	<u>592,200</u>	<u>457,648</u>	<u>134,552</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 357</u>	<u>\$ 450,000</u>	<u>\$ 450,357</u>	<u>\$ 584,106</u>	<u>\$ 133,749</u>

**CITY OF VILLA HILLS, KENTUCKY****Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-NON-HAZARDOUS****For the Year Ended June 30, 2016****Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.011354%	0.011459%								
Proportionate share of the net pension liability (asset)	\$ 488,159	\$ 371,759								
Covered employee payroll in year of measurement	282,362	285,064								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	172.88%	130.41%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								

**Schedule of the City's Contributions  
County Employee's Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 67,136	\$ 49,658	\$ 50,371							
Actual contribution	67,136	49,658	50,371							
Contribution deficiency (excess)	-	-	-							
City's covered payroll	390,291	282,362	285,064							
Contributions as a percentage of covered payroll	17.20%	17.59%	17.67%							

**Notes to Required Supplementary Information  
for the Year Ended June 30, 2016  
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE I in the Notes to the Financial Statements.



**CITY OF VILLA HILLS, KENTUCKY****Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-HAZARDOUS****For the Year Ended June 30, 2016****Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.054593%	0.060003%								
Proportionate share of the net pension liability (asset)	\$ 838,062	\$ 721,131								
Covered payroll in year of measurement	390,859	321,666								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	214.42%	224.19%								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

**Schedule of the City's Contributions  
County Employee's Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 96,935	\$ 108,497	\$ 110,364							
Actual contribution	96,935	108,497	110,364							
Contribution deficiency (excess)	-	-	-							
City's covered payroll	296,538	390,859	321,666							
Contributions as a percentage of covered payroll	32.69%	27.76%	34.31%							

**Notes to Required Supplementary Information  
for the Year Ended June 30, 2016  
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE I in the Notes to the Financial Statements.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS</b> <b>June 30, 2016</b>
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	Capital Fund	Special Revenue Fund	Total Special Revenue Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 5,385	\$ -	\$ 5,385
Cash and cash equivalents-restricted	-	14,366	14,366
Due from other funds	41,815	-	41,815
<b>Total Assets</b>	<u>\$ 47,200</u>	<u>\$ 14,366</u>	<u>\$ 61,566</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to General Fund	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Restricted	-	14,366	14,366
Assigned	47,200	-	47,200
<b>Total Fund Balances</b>	<u>47,200</u>	<u>14,366</u>	<u>61,566</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 47,200</u>	<u>\$ 14,366</u>	<u>\$ 61,566</u>

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

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN</b> <b>FUND BALANCES - SPECIAL REVENUE FUNDS</b> <b>For the Year Ended June 30, 2016</b>
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	Capital Fund	Special Revenue Fund	Total
<b>Revenues</b>			
Sale of surplus property	\$ 5,385	\$ -	\$ 5,385
Parks and recreation	-	8,761	8,761
<b>Total Revenues</b>	<u>5,385</u>	<u>8,761</u>	<u>14,146</u>
<b>Expenditures</b>			
Current			
Parks and recreation	-	7,132	7,132
Capital outlay expenditures	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>7,132</u>	<u>7,132</u>
<b>Excess of Revenues Over Expenditures Before Other Sources</b>	<u>5,385</u>	<u>1,629</u>	<u>7,014</u>
<b>Other Financing Sources</b>			
Transfers in	41,815	-	41,815
Transfers out	-	-	-
<b>Total Other Financing Sources</b>	<u>41,815</u>	<u>-</u>	<u>41,815</u>
<b>Excess of Revenues Over Expenditures</b>	<u>47,200</u>	<u>1,629</u>	<u>48,829</u>
<b>Fund Balances, Beginning of Year</b>	<u>-</u>	<u>12,737</u>	<u>12,737</u>
<b>Fund Balances, End of Year</b>	<u>\$ 47,200</u>	<u>\$ 14,366</u>	<u>\$ 61,566</u>



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

Charles A. Van Gorder, CPA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
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, 2016 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 September 20, 2016.

**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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. 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.





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  
September 20, 2016