

CITY OF VILLA HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017

CITY OF VILLA HILLS, KENTUCKY
ANNUAL FINANCIAL REPORT
June 30, 2017

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CITY OF VILLA HILLS, KENTUCKY

CITY OFFICIALS

As of June 30, 2017

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

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, 2017, 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, 2017, 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 27-31 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 pages 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 18, 2017 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 18, 2017

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, 2017 and 2016 total position, net of depreciation and related debt, exceeded liabilities by \$5,107,615 and \$5,057,019 as follows:

	2017	2016
Assets		
Current and other assets	\$ 1,899,060	\$ 2,246,672
Restricted assets	608,752	130,329
Capital assets, net of depreciation	4,780,156	4,864,100
Total Assets	7,287,968	7,241,101
Deferred Outflow of Resources	312,181	274,689
Total Assets and Deferred Outflow of Resources	7,600,149	7,515,790
Liabilities		
Current liabilities	152,749	101,370
Long term liabilities	811,863	778,239
Liabilities to be paid with restricted funds	11,368	120,471
Net pension liability	1,432,025	1,326,221
Total Liabilities	2,408,005	2,326,301
Deferred Inflow of Resources	84,529	132,470
Total Liabilities and Deferred Inflow of Resources	2,492,534	2,458,771
Net Position		
Net investment in capital assets	3,959,574	4,119,500
Restricted	587,273	15,941
Unrestricted	560,768	921,578
Total Net Position	\$ 5,107,615	\$ 5,057,019

Governmental activities increased the City's net position by \$50,596 in 2017 compared to a \$465,608 decrease in FY 2016. This increase takes into account a non-cash depreciation expense of \$350,127 and a pension expense that is \$20,371 less 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, \$51,054 was committed in FY 2017. Capital and operational grants were similar to last year. The City's expenditures for each functional area, except for public safety and public work, were similar from the previous fiscal year. Public safety decreased by \$52,590 and public works increased \$50,363 from FY 2016.

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 \$2,604,368 or 71.8% of total cost in FY 2017 (compared to 79.5% in FY 2016), 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 2017 and 2016.

Revenues		
Program Revenues:	<u>2017</u>	<u>2016</u>
Charges for services	\$ 829,455	\$ 557,128
Operating grants and contributions	42,534	38,035
Capital grants and contributions	150,438	149,085
Total Program Revenues	<u>1,022,427</u>	<u>744,248</u>
General Revenues		
Property taxes	1,483,946	1,444,162
Insurance and franchise taxes	647,436	572,269
Payroll taxes/gross receipts fees	442,158	313,719
Vehicle sticker license	3,298	15,340
Other general revenues	78,126	72,698
Total General Revenues	<u>2,654,964</u>	<u>2,418,188</u>
Total Revenues	<u>3,677,391</u>	<u>3,162,436</u>
Program Expenses		
Legislative and administrative	1,386,123	1,382,074
Public safety	849,729	902,319
Public works & road repairs	1,301,183	1,242,599
Parks and recreation	56,625	64,047
Events & beautification	13,358	32,787
Interest on long-term debt	19,777	4,218
Total Expenses	<u>3,626,795</u>	<u>3,628,044</u>
Increase (Decrease) in Net Position	<u>\$ 50,596</u>	<u>\$ (465,608)</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, the Road Tax Fund, the Municipal Road Aid Fund, Capital Fund, and Special Revenue Fund. The Road Tax Fund, which is new in FY 2017, collects an ad valorem tax of \$0.067 per \$100 assessment on real property in the City. These funds may be spent only on road repair and replacement. Municipal Road Aid Funds are received monthly from the Kentucky Revenue Cabinet, and are to be used only to replace, maintain or improve the City's roads per statute. The Capital Fund accounts for funds set aside for capital purchases, such as vehicles and equipment. The Special Revenue Fund consist of fund restricted by contributions to the City's Shop with a Cop, and Adopt a Unit programs. The total governmental fund increase at year-end was \$230,131 (a \$252,959 decrease from \$483,090 in FY 2016). \$461,643 of that increase came from the Road tax Fund and \$220,519 came from the General Fund.

	<u>2017</u>	<u>2016</u>
Revenues		
General Fund revenues	\$ 3,050,534	\$ 2,991,892
Road Tax Fund revenues	461,643	-
Municipal Road Aid Fund revenues	150,810	906,397
Special Revenue Funds	323,341	14,146
Total Revenues	<u>3,986,328</u>	<u>3,912,435</u>
Expenditures		
General Fund expenditures	2,830,015	2,964,565
Road Tax Fund expenditures	-	-
Municipal Road Aid Fund expenditures	619,284	457,648
Special Revenue Funds expenditures	306,898	7,132
Total Expenditures	<u>3,756,197</u>	<u>3,429,345</u>
Excess of revenues over expenditures	<u>\$ 230,131</u>	<u>\$ 483,090</u>
Net Change in Fund Balances		
General Fund	220,519	(14,488)
Road Tax Fund	461,643	-
Municipal Road Aid Fund	(468,474)	448,749
Special Revenue Funds	16,443	48,829
Total Change in Fund Balance	<u>\$ 230,131</u>	<u>\$ 483,090</u>

Actual General Fund revenues were \$71,720 more than budgeted revenues. When the City's beginning reserve balance is considered, the amount available for appropriations (\$4,626,200) exceeded the amount expended and transferred (\$2,830,015) by the total net fund balance of \$1,796,815

Actual General Fund expenditures and transfers were under budget by \$161,799, which is 5.4% of the General Fund budget.

Actual Municipal Road Aid Fund revenues were \$477,242 less than budgeted revenues, however the budgeted revenues included \$488,052 in proceeds from loans, which were not borrowed. Actual Municipal Aid Road Fund expenditures were under budget by \$8,768 as funds were used for significant road repaving projects in the City.

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 2017, the City had \$15,124,087 invested in various capital assets, including land, buildings and improvements, infrastructure, equipment and vehicles. The City purchased capital assets valued at \$266,183 and deleted assets valued at \$77,185 in 2017. The City also recognized \$350,127 in depreciation expense; leaving a net decrease in total capital assets, net of depreciation of (\$83,944).

	<u>2017</u>	<u>2016</u>
Land	\$ 28,145	\$ 28,145
Buildings and improvements	1,251,263	1,227,468
Infrastructure	12,942,272	12,942,272
Property and equipment	313,662	279,666
Vehicles	588,745	457,538
Accumulated depreciation	(10,343,931)	(10,070,989)
Capital assets, net	<u>\$ 4,780,156</u>	<u>\$ 4,864,100</u>

Debt

In August 2016, the City executed a 4 year capital lease for \$108,100 for police cruisers and in December 2016, the City executed a 5 year lease for \$80,837 for a dump truck. At June 30, 2017, the City had \$820,582 in long-term debt remaining.

	<u>2017</u>	<u>2016</u>
2016 Capital Lease - Road Repair	\$ 678,422	\$ 744,600
2016 Capital Lease - Police Cruisers	78,689	-
2016 Capital Lease - Dump Truck	63,471	-
	<u>\$ 820,582</u>	<u>\$ 744,600</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, 2017
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	<u>Primary Government</u>
	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,744,100
Property taxes receivable - net	24,406
Franchise tax receivable	6,571
Insurance tax receivable	123,983
Restricted assets	
Civic club lease	12,000
Restricted cash	596,752
Capital assets	
Land	28,145
Property, plant and equipment, net of depreciation	4,752,011
Total Assets	<u>7,287,968</u>
Deferred Outflows of Resources	
Pension contribution and amortized outflows	312,181
Total Assets and Deferred Outflows of Resources	<u>7,600,149</u>
Liabilities	
Accounts payable	9,849
Accrued payroll and payroll taxes	35,126
Capital lease - current portion	107,774
Liabilities paid from restricted assets	11,368
Long-term liabilities	
Capital lease - long term portion	712,808
Compensated absences	99,055
Net pension liability	1,432,025
Total Liabilities	<u>2,408,005</u>
Deferred Inflow of Resources	
Deferred inflow of resources related to pensions	84,529
Total Liabilities and Deferred Inflow of Resources	<u>2,492,534</u>
Net Position	
Net investment in capital assets	3,959,574
Restricted	587,273
Unrestricted	560,768
Total Net Position	<u>\$ 5,107,615</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, 2017

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	\$ 1,386,123	\$ 364,850	\$ 10,298	\$ -	\$ (1,010,975)
Public safety	849,729	355	32,236	-	(817,138)
Parks and recreation	56,625	2,607	-	-	(54,018)
Public works	433,442	-	-	150,438	(283,004)
Road repair	867,741	461,643	-	-	(406,098)
Events & beautification	13,358	-	-	-	(13,358)
Interest & fees	19,777	-	-	-	(19,777)
Total Primary Government	\$ 3,626,795	\$ 829,455	\$ 42,534	\$ 150,438	(2,604,368)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,483,946
Insurance and franchise taxes, levied for general purposes					647,436
Licenses and permit fees					
Payroll and gross receipts license fees					442,158
Vehicle sticker license					3,298
Licenses and fees					47,557
Miscellaneous					7,141
Gain on disposal of assets					11,797
Unrestricted investment earnings					11,631
Total general revenues and special items					2,654,964
Change in net position					50,596
Net position, beginning					5,057,019
Net position, ending					\$ 5,107,615

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

CITY OF VILLA HILLS, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

Assets	General	Road Tax Fund	Municipal Road Aid Fund	Special Revenue Funds	Total Governmental Funds
Unrestricted Assets					
Cash and cash equivalents	\$ 1,674,629	\$ -	\$ -	\$ 69,471	\$ 1,744,100
Property taxes receivable - net	24,406	-	-	-	24,406
Franchise tax receivable	6,571	-	-	-	6,571
Insurance tax receivable	123,983	-	-	-	123,983
Due from other funds	-	1,889	-	-	1,889
Total Unrestricted Assets	<u>1,829,589</u>	<u>1,889</u>	<u>-</u>	<u>69,471</u>	<u>1,900,949</u>
Restricted Assets					
Restricted cash	1,460	459,754	127,000	8,538	596,752
Civic club lease	12,000	-	-	-	12,000
Total Restricted Assets	<u>13,460</u>	<u>459,754</u>	<u>127,000</u>	<u>8,538</u>	<u>608,752</u>
Total Assets	<u>\$ 1,843,049</u>	<u>\$ 461,643</u>	<u>\$ 127,000</u>	<u>\$ 78,009</u>	<u>\$ 2,509,701</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 9,849	\$ -	\$ -	\$ -	\$ 9,849
Accrued liabilities	35,126	-	-	-	35,126
Due to other funds	1,889	-	-	-	1,889
Liabilities paid with restricted funds					
Restricted accounts	-	-	11,368	-	11,368
Total Liabilities	<u>46,864</u>	<u>-</u>	<u>11,368</u>	<u>-</u>	<u>58,232</u>
Fund Balances					
Restricted	1,460	461,643	115,632	8,538	587,273
Committed	1,140,000	-	-	37,500	1,177,500
Assigned	133,438	-	-	31,971	165,409
Unassigned	521,287	-	-	-	521,287
Total Fund Balances	<u>1,796,185</u>	<u>461,643</u>	<u>115,632</u>	<u>78,009</u>	<u>2,451,469</u>
Total Liabilities and Fund Balances	<u>\$ 1,843,049</u>	<u>\$ 461,643</u>	<u>\$ 127,000</u>	<u>\$ 78,009</u>	<u>\$ 2,509,701</u>
Total governmental fund balances					\$ 2,451,469
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets of \$15,124,087, net of accumulated depreciation of (\$10,343,931), used in governmental activities are not financial resources and are not reported in the funds.					4,780,156
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Capital leases					(820,582)
Compensated absences					(99,055)
Net pension liability					(1,432,025)
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					312,181
Deferred inflow of resources					(84,529)
Net position of governmental activities					<u>\$ 5,107,615</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, 2017

	General Fund	Road Tax Fund	Municipal Road Aid Fund	Special Revenue Funds	Total Governmental Funds
Revenues					
Taxes					
Property	\$ 1,483,946	\$ -	\$ -	\$ -	\$ 1,483,946
Insurance premium	554,108	-	-	-	554,108
Payroll and gross receipts	442,158	-	-	-	442,158
Franchise	93,328	-	-	-	93,328
Licenses and fees	50,855	-	-	-	50,855
Intergovernmental	42,534	-	150,438	-	192,972
Charges for services	365,205	461,643	-	2,607	829,455
Fines and forfeitures	565	-	-	-	565
Interest	11,259	-	372	-	11,631
Sale of surplus property	-	-	-	11,797	11,797
Miscellaneous	6,576	-	-	-	6,576
Loan proceeds	-	-	-	208,937	208,937
Total Revenues	<u>3,050,534</u>	<u>461,643</u>	<u>150,810</u>	<u>223,341</u>	<u>3,886,328</u>
Expenditures					
Legislative and administrative	332,285	-	-	-	332,285
Contracted Services	1,033,702	-	-	-	1,033,702
Public safety	803,428	-	-	563	803,991
Parks and recreation	29,944	-	-	8,435	38,379
Public works	371,074	-	-	-	371,074
Events & beautification	13,358	-	-	-	13,358
Road repair	111,164	-	533,329	-	644,493
Capital outlay	35,060	-	-	231,123	266,183
Debt service:					
Principal	-	-	66,178	66,777	132,955
Interest	-	-	19,777	-	19,777
Total Expenditures	<u>2,730,015</u>	<u>-</u>	<u>619,284</u>	<u>306,898</u>	<u>3,656,197</u>
Excess (deficit) of revenues over (under) expenditures	320,519	461,643	(468,474)	(83,557)	230,131
Other Financing Sources (Uses)					
Transfers In	-	-	-	100,000	100,000
Transfers Out	(100,000)	-	-	-	(100,000)
Net Change in Fund Balances	220,519	461,643	(468,474)	16,443	230,131
Fund Balances, Beginning of Year	<u>1,575,666</u>	<u>-</u>	<u>584,106</u>	<u>61,566</u>	<u>2,221,338</u>
Fund Balances, End of Year	<u>\$ 1,796,185</u>	<u>\$ 461,643</u>	<u>\$ 115,632</u>	<u>\$ 78,009</u>	<u>\$ 2,451,469</u>

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, 2017</p>
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Net change in fund balances-total governmental funds	\$ 230,131
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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	266,183
Depreciation expense, net of adjustment	(350,127)

Proceeds from loans	(208,937)
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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

	(20,371)
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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:

Payment of loan principal	132,955
Compensated absences	762
	<hr/>

Change in net position of governmental activities	<u><u>\$ 50,596</u></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, 2017
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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.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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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.

Road Tax 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 Tax Funds collected through an ad valorem tax of \$0.067 per \$100 assessment on real property in the City. These funds may be spent only on road repair and replacement.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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Municipal Road Aid 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 Municipal Road Aid Funds provided by the Commonwealth of Kentucky. This fund is used to account for the receipt and disbursement of funds in accordance with 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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 \$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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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.

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 Road Tax Fund, 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

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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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, 2016 and are delinquent after November 15, 2016. The City bills and collects its own property taxes and waste fees. The City had property taxes and waste fees receivable of \$24,406 at June 30, 2017. 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, 2017:

Asset type	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Land	\$ 28,145	\$ -	\$ -	\$ 28,145
Buildings and improvements	1,227,468	23,795	-	1,251,263
Infrastructure	12,942,272	-	-	12,942,272
Property and equipment	279,666	33,996	-	313,662
Vehicles	457,538	208,392	(77,185)	588,745
Subtotal	14,935,089	266,183	(77,185)	15,124,087
Less: accumulated depreciation	(10,070,989)	(350,127)	77,185	(10,343,931)
Fixed assets, net	\$ 4,864,100	\$ (83,944)	\$ -	\$ 4,780,156

Depreciation expense was charged to functions as follows:

Governmental Activities	
Legislative and Administrative	\$ 8,894
Parks and Recreation	18,246
Public Safety	57,251
Public Works - Infrastructure	223,248
Public Works	42,488
Total Governmental Activities Depreciation Expense	\$ 350,127

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, 2015 to November 1, 2016. The lease can be renewed on

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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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 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, 2017, the City maintains a \$17,000 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
2018	\$ 68,033	\$ 17,922	\$ 85,955
2019	69,940	16,015	85,955
2020	71,864	14,091	85,955
2021	73,916	12,039	85,955
2022	75,988	9,967	85,955
2023-2026	318,681	17,976	336,657
Total	\$ 678,422	\$ 88,010	\$ 766,432

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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Capital Lease – Ford Motor Credit

The City executed a 5.95% interest, 4-year \$108,100 capital lease payable effective August 8, 2016 with the Ford Motor Credit in order to finance the cost of three police cruisers. The termination date of this lease is August 8, 2019. The City is to make annual payments to Ford Motor Credit in the amount of \$29,411. This debt is secured by the police vehicles. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 24,729	\$ 4,682	\$ 29,411
2019	26,201	3,210	29,411
2020	27,759	1,652	29,411
Total	<u>\$ 78,689</u>	<u>\$ 9,544</u>	<u>\$ 88,233</u>

Capital Lease – Diamler Truck Financial

The City executed a 3.71% interest, 5-year \$80,837 capital lease payable effective December 9, 2016 with the Diamler Truck Financial in order to finance the cost of a dump truck. The termination date of this lease is December 9, 2020. The City is to make annual payments to Diamler Truck Financial in the amount of \$17,366. This debt is secured by the public works dump truck. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 15,012	\$ 2,354	\$ 17,366
2019	15,568	1,798	17,366
2020	16,146	1,220	17,366
2021	16,745	621	17,366
Total	<u>\$ 63,471</u>	<u>\$ 5,993</u>	<u>\$ 69,464</u>

NOTE G – RESTRICTED CASH

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

	General Fund	Road Tax Fund	Municipal Road Aid Fund	Special Revenue Fund
Flex plan checking	\$ 1,460	\$ -	\$ -	\$ -
Road tax checking	-	459,754	-	-
Municipal road aid checking	-	-	127,000	-
Adopt-a-troop checking	-	-	-	6,048
Shop with a Cop	-	-	-	2,490
Total Restricted Cash	<u>\$ 1,460</u>	<u>\$ 459,754</u>	<u>\$ 127,000</u>	<u>\$ 8,538</u>

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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NOTE H – ECONOMIC DEPENDENCY

The City’s general fund receives 14.3% 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.

NOTE I – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

The City’s eligible employees are covered by the County Employees Retirement System (Plan)

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

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

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 or 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.

<p>CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>

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

For non-hazardous duty employees, the City contributed 18.68%, of which 13.44% was for the pension fund and 5.24% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2017. For hazardous duty employees, the City contributed 31.06%, of which 19.12% was for the pension fund and 11.94% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2017.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$53,462, of which \$38,473 was for the pension fund and \$14,989 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$72,070, of which \$44,376 was for the pension fund and \$27,694 was for the health insurance fund.

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

At June 30, 2017, the City reported a liability of \$1,432,025 (\$578,110 – non-hazardous and \$853,915 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's non-hazardous employer allocation proportion was 0.01174% of the total CERS non-hazardous duty employees and 0.04976% of the total CERS hazardous duty employees. For the year ended June 30, 2017, the City recognized pension expense of \$37,337.

In FY 2017, \$312,181 was recognized as a net deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) changes in proportion e) contributions subsequent to the measurement date. \$84,529 was recognized as a net deferred inflow of resources resulting from changes in proportion deferred inflows of resources.

CITY OF VILLA HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017
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At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 2,524	\$ -	\$ 12,316	\$ -	\$ 14,840	\$ -
Net difference between projected actual actual earning on plan investments	54,348	-	72,035	-	126,383	-
Changes of assumptions	30,625	-	49,001	-	79,626	-
Changes in proportion and differences between contributions and proportionate share of contributions	8,483	-	-	84,529	8,483	84,529
Contributions subsequent to the measurement date	38,473	-	44,376	-	82,849	-
Total	\$ 134,453	\$ -	\$ 177,728	\$ 84,529	\$ 312,181	\$ 84,529

The City's contributions subsequent to the measurement date of \$82,849 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2018	\$ 33,119
2019	22,362
2020	61,058
2021	28,264
	\$ 144,803

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
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

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, 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.

Changes of Assumptions

In 2015, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 (set back 1 year 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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

<u>Asset Class</u>	<u>CERS Hazardous & Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

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:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>		
		<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Total</u>
1% decrease	6.5%	\$ 720,418	\$ 1,072,766	\$ 1,793,184
Current discount rate	7.5%	578,110	853,915	1,432,025
1% increase	8.5%	456,123	673,401	1,129,524

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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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.

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.

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 \$210,894. 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 is the result of an employee disciplinary hearing and the other case is a third party complaint against a builder for negligence. For both of these cases, any liability would be covered by the City's insurance.

NOTE K – SUBSEQUENT EVENTS

Management has evaluated events through September 18, 2017, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2017 through September 18, 2017 to disclose.

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
Prior year funds available for use	\$ -	\$ 13,000	\$ 13,000	\$ 1,575,666	\$ 1,562,666
Resources (inflows)					
Taxes and fees	2,916,893	51,054	2,967,947	3,046,833	78,886
Grants	3,067	-	3,067	403	(2,664)
Vehicle license fees (prior year)	7,800	-	7,800	3,298	(4,502)
Amounts available for appropriation	<u>2,927,760</u>	<u>64,054</u>	<u>2,991,814</u>	<u>4,626,200</u>	<u>1,634,386</u>
Charges to appropriations (outflows)					
Administration	344,573	-	344,573	332,285	12,288
Contracted services	1,021,963	30,000	1,051,963	1,033,702	18,261
Events and beautification	19,700	-	19,700	13,358	6,342
Police	846,914	-	846,914	821,178	25,736
Public Works	419,899	(17,000)	402,899	375,574	27,325
Recreation	46,911	-	46,911	42,754	4,157
Total departmental charges to appropriations	<u>2,699,960</u>	<u>13,000</u>	<u>2,712,960</u>	<u>2,618,851</u>	<u>94,109</u>
Transfer in (out) -					
Capital Fund	(100,000)	-	(100,000)	(100,000)	-
Road Repair Designation	(127,800)	(51,054)	(178,854)	(111,164)	67,690
Total General Fund Expenses	<u>2,927,760</u>	<u>64,054</u>	<u>2,991,814</u>	<u>2,830,015</u>	<u>161,799</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,796,185</u>	<u>\$ 1,796,185</u>

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
ROAD TAX FUND
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
Prior year funds available for use	\$ -	\$ -	\$ -	\$ -	\$ -
Resources (inflows)					
Road tax	460,000	-	460,000	461,643	1,643
Taxes and interest	-	-	-	-	-
Amounts available for appropriation	<u>460,000</u>	<u>-</u>	<u>460,000</u>	<u>461,643</u>	<u>1,643</u>
Charges to appropriations (outflows)					
Capital outlay	<u>460,000</u>	<u>-</u>	<u>460,000</u>	<u>-</u>	<u>460,000</u>
Total charges to appropriations	<u>460,000</u>	<u>-</u>	<u>460,000</u>	<u>-</u>	<u>460,000</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,643</u>	<u>\$ 461,643</u>

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
Prior year funds available for use	\$ -	\$ -	\$ -	\$ 584,106	\$ 584,106
Resources (inflows)					
Kentucky Municipal Road Aid	140,000	-	140,000	150,438	10,438
Taxes and interest	-	-	-	372	372
Proceeds from Loans	450,000	38,052	488,052	-	(488,052)
Amounts available for appropriation	<u>590,000</u>	<u>38,052</u>	<u>628,052</u>	<u>734,916</u>	<u>106,864</u>
Charges to appropriations (outflows)					
Capital outlay	504,000	37,652	541,652	533,329	8,323
Debt service and bond costs	<u>86,000</u>	<u>400</u>	<u>86,400</u>	<u>85,955</u>	<u>445</u>
Total charges to appropriations	<u>590,000</u>	<u>38,052</u>	<u>628,052</u>	<u>619,284</u>	<u>8,768</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,632</u>	<u>\$ 115,632</u>

CITY OF VILLA HILLS, KENTUCKY

**Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-NON-HAZARDOUS
For the Year Ended June 30, 2017 - Last Ten Years**

**Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.01174%	0.01135%	0.01146%							
Proportionate share of the net pension liability (asset)	\$ 578,110	\$ 488,159	\$ 371,759							
Covered employee payroll in year of measurement	390,291	282,362	285,064							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	148.12%	172.88%	130.41%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 53,462	\$ 67,136	\$ 49,658	\$ 50,371						
Actual contribution	53,462	67,136	49,658	50,371						
Contribution deficiency (excess)	-	-	-	-						
City's covered payroll	286,199	390,291	282,362	285,064						
Contributions as a percentage of covered payroll	18.68%	17.20%	17.59%	17.67%						

Notes to Required Supplementary Information

The net pension liability as of June 30, 2017, is based on the June 30, 2016, 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, 2017 - Last Ten Years**

**Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.04976%	0.05459%	0.06000%							
Proportionate share of the net pension liability (asset)	\$ 853,915	\$ 838,062	\$ 721,131							
Covered payroll in year of measurement	296,538	390,859	321,666							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	287.96%	214.42%	224.19%							
Plan fiduciary net position as a percentage of total pension liability	53.95%	57.52%	63.46%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 72,070	\$ 96,935	\$ 108,497	\$ 110,364						
Actual contribution	72,070	96,935	108,497	110,364						
Contribution deficiency (excess)	-	-	-	-						
City's covered payroll	232,035	296,538	390,859	321,666						
Contributions as a percentage of covered payroll	31.06%	32.69%	27.76%	34.31%						

Notes to Required Supplementary Information

The net pension liability as of June 30, 2017, is based on the June 30, 2016, 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 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS June 30, 2017
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	<u>Capital Fund</u>	<u>Special Revenue Fund</u>	<u>Total Special Revenue Funds</u>
Assets			
Cash and cash equivalents	\$ 69,471	\$ -	\$ 69,471
Cash and cash equivalents-restricted	-	8,538	8,538
Due from other funds	-	-	-
Total Assets	<u>\$ 69,471</u>	<u>\$ 8,538</u>	<u>\$ 78,009</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to General Fund	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances			
Restricted	-	8,538	8,538
Committed	37,500	-	37,500
Assigned	31,971	-	31,971
Total Fund Balances	<u>69,471</u>	<u>8,538</u>	<u>78,009</u>
Total Liabilities and Fund Balances	<u>\$ 69,471</u>	<u>\$ 8,538</u>	<u>\$ 78,009</u>

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

CITY OF VILLA HILLS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Capital Fund	Special Revenue Fund	Total
Revenues			
Sale of surplus property	\$ 11,797	\$ -	\$ 11,797
Parks and recreation	-	2,607	2,607
Proceeds from loans	208,937	-	208,937
Total Revenues	220,734	2,607	223,341
Expenditures			
Current			
Parks and recreation	-	8,435	8,435
Debt service	66,777	-	66,777
Capital outlay	231,686	-	231,686
Total Expenditures	298,463	8,435	306,898
Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources	(77,729)	(5,828)	(83,557)
Other Financing Sources			
Transfers in	100,000	-	100,000
Transfers out	-	-	-
Total Other Financing Sources	100,000	-	100,000
Excess (Deficit) of Revenues Over (Under) Expenditures	22,271	(5,828)	16,443
Fund Balances, Beginning of Year	47,200	14,366	61,566
Fund Balances, End of Year	\$ 69,471	\$ 8,538	\$ 78,009

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



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, 2017 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 18, 2017.

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.



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 18, 2017