

CITY OF VILLA HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2021

CITY OF VILLA HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2021

TABLE OF CONTENTS

	<u>Pages</u>
List of City Officials	1
Financial Section	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Notes to Financial Statements.....	13-36
Required Supplementary Section	
Budgetary Comparison Schedule - Budget to Actual - General Fund.....	37
Budgetary Comparison Schedule - Budget to Actual - Road Tax Fund.....	38
Budgetary Comparison Schedule - Budget to Actual - Municipal Road Aid Fund.....	39
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan - Non-Hazardous.....	40
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan - Hazardous.....	41
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan - Non-Hazardous.....	42
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan - Hazardous.....	43
Supplementary Information	
Combining Balance Sheet - Minor Governmental Funds.....	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Minor Governmental Funds.....	45
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46-47

CITY OF VILLA HILLS, KENTUCKY

CITY OFFICIALS

As of June 30, 2021

Mayor

Heather Jansen

Council Members

Rod Baehner

Cathy Stover

Jim Cahill

Seth Thompson

Scott Ringo

Suzanne Wadsworth

City Administrator

Craig Bohman

City Clerk

Jennifer Lipson

Police Chief

Bryan Allen

Public Works

Derick 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, 2021, 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, 2021, 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 37-43 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 44-45 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 27, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Villa Hills' 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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Erlanger, Kentucky

September 27, 2021

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, 2021 and 2020 total position, net of depreciation and related debt, exceeded liabilities by \$3,970,872 and \$4,179,966 as follows:

Table 1 - Net Position

	2021	2020
Assets		
Current and other assets	\$ 2,782,113	\$ 2,195,485
Restricted assets	21,605	519,145
Capital assets, net of depreciation	5,550,633	5,660,597
Total Assets	<u>8,354,351</u>	<u>8,375,227</u>
Deferred Outflow of Resources	<u>1,619,102</u>	<u>2,021,444</u>
Total Assets and Deferred Outflow of Resources	<u>9,973,453</u>	<u>10,396,671</u>
Liabilities		
Current liabilities	168,254	735,126
Long term liabilities	600,227	675,375
Net pension and OPEB liability	5,038,733	4,467,151
Total Liabilities	<u>5,807,214</u>	<u>5,877,652</u>
Deferred Inflow of Resources	<u>195,367</u>	<u>339,153</u>
Total Liabilities and Deferred Inflow of Resources	<u>6,002,581</u>	<u>6,216,805</u>
Net Position		
Net investment in capital assets	4,975,624	4,962,415
Restricted	193,705	192,611
Unrestricted	(1,198,457)	(975,060)
Total Net Position	<u>\$ 3,970,872</u>	<u>\$ 4,179,966</u>

Governmental activities decreased the City's net position by \$209,094 in 2021 compared to a \$712,427 decrease in FY 2020. This decrease takes into account a non-cash depreciation expense of \$522,108 and a pension expense that is \$488,468 more than was actually contributed to the pension system. The

City saw increases in some revenue sources. Payroll tax collections increased 17%, and insurance premium tax revenues increased 31%. Capital and operational grants increased due CARES Act funding related to the Covid-19 pandemic for \$407,739. The City's expenditures for each functional area were down from the previous fiscal year, with the exception of public safety and parks and recreation. Public safety includes expenses for police officers. The increase in parks and recreation is very slight and is due to an increase in public activities in during this fiscal year.

Table 2 - Governmental Activities

Revenues	2021	2020
Program Revenues:		
Charges for services	\$ 1,247,823	\$ 1,230,122
Operating grants and contributions	644,525	526,626
Capital grants and contributions	-	345,243
Total Program Revenues	<u>1,892,348</u>	<u>2,101,991</u>
General Revenues		
Property taxes	2,154,954	2,124,010
Insurance and franchise taxes	801,829	609,078
Payroll taxes/gross receipts fees	632,990	540,602
Other general revenues	128,428	98,143
Total General Revenues	<u>3,718,201</u>	<u>3,371,833</u>
Total Revenues	<u>5,610,549</u>	<u>5,473,824</u>
Program Expenses		
Legislative and administrative	973,306	1,050,466
Public safety	2,331,638	2,218,174
Public works & road repairs	1,094,326	1,522,197
Parks and recreation	38,973	33,584
Events & beautification	6,377	12,103
Interest on long-term debt	22,777	23,053
Depreciation	522,108	454,549
Pension and OPEB	830,138	872,125
Total Expenses	<u>5,819,643</u>	<u>6,186,251</u>
Net Change in Net Position	<u>(209,094)</u>	<u>(712,427)</u>

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 \$3,927,295 or 67% of total cost in FY 2021 (compared to 66% in FY 2020), 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 2021 and 2020. The net change in position reflects the actual management of City controlled funds and shows a \$209,094 negative offset.

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 (which together are minor governmental funds). The Road Tax Fund, which was 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 \$609,716 (a \$1,015,661 increase from negative \$405,945 in FY 2020). \$547,012 of that increase came from the General Fund and \$65,878 came from the Special Revenue Fund.

Table 3 - Revenues and Expenditures by Fund

	2021	2020
Revenues		
General Fund revenues	\$ 4,905,650	\$ 4,529,310
Road Tax Fund revenues	510,323	473,946
Municipal Road Aid Fund revenues	145,560	149,071
Minor Governmental Funds revenues	117,468	60,097
Total Revenues	<u>5,679,001</u>	<u>5,212,424</u>
Expenditures		
General Fund expenditures	4,133,504	4,674,829
Road Tax Fund expenditures	534,956	485,390
Municipal Road Aid Fund expenditures	124,101	289,521
Minor Governmental Funds expenditures	276,724	168,629
Total Expenditures	<u>5,069,285</u>	<u>5,618,369</u>
Excess (deficit) of revenues over expenditures	<u>\$ 609,716</u>	<u>\$ (405,945)</u>
Net Change in Fund Balances		
Other Financing Sources	-	295,800
General Fund	547,012	(316,715)
Road Tax Fund	(24,633)	(11,444)
Municipal Road Aid Fund	21,459	(140,450)
Minor Governmental Funds	65,878	62,664
Total Change in Fund Balance	<u>\$ 609,716</u>	<u>\$ (110,145)</u>

Actual General Fund revenues were \$47,696 more than budgeted revenues. When the City's beginning reserve balance is considered, the amount available for appropriations (\$6,789,310) exceeded the amount expended and transferred (\$4,349,500) by the total net fund balance of \$2,439,810.

Actual General Fund expenditures and transfers were under budget by \$272,660, which is 6% of the General Fund budget. Actual Municipal Road Aid Fund revenues were \$5,560 more than budgeted revenues. Actual Municipal Aid Road Fund expenditures were under budget by \$15,899. The Capital Fund included only transfers, proceeds from sales of assets and proceeds from a new capital lease 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 2021, the City had \$17,769,696 invested in various capital assets, including land, buildings and improvements, infrastructure, equipment and vehicles. The City purchased capital assets valued at \$412,040 in 2021. The City also recognized \$522,108 in depreciation expense; leaving a net decrease in total capital assets, net of depreciation of \$110,068.

Table 4 - Fixed Assets

	2021	2020
Land	\$ 28,145	\$ 28,145
Buildings and improvements	1,269,263	1,269,263
Infrastructure	14,912,572	14,611,291
Property and equipment	499,881	457,377
Vehicles	1,059,835	991,580
Accumulated depreciation	(12,219,063)	(11,696,955)
Capital assets, net	<u>\$ 5,550,633</u>	<u>\$ 5,660,701</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. In May 2018, the City executed a 4 -year capital lease for \$141,013 for police cruisers and a 4-year capital lease for \$48,180 to equip those cruisers. In September 2019 the City executed a 5-year capital lease for \$139,337 for a dump truck. In April 2020, the City executed a 4-year capital lease for \$34,400 for a police cruiser. In September 2020, the City executed a 4-year capital lease for \$68,255 for two police cruisers. At June 30, 2021, the City had \$575,009 in long-term debt remaining.

Table 5 - Long Term Debt

	2021	2020
2016 Capital Lease - Road Repair	\$ 394,657	\$ 468,573
2016 Capital Lease - Police Cruisers	-	16,745
2018 Capital Lease - Police Cruisers	-	36,284
2018 Capital Lease - Equipment	-	12,397
2019 Capital Lease - Dump Truck	113,513	139,337
2020 Capital Lease - Police Cruiser	17,164	24,946
2020 Capital Lease - Police Cruisers	49,675	-
	<u>\$ 575,009</u>	<u>\$ 698,282</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, 2021

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,582,434
Property taxes receivable - net	24,275
Insurance tax receivable	173,961
Other receivables	1,443
Restricted assets	
Restricted cash	21,605
Capital assets	
Land	28,145
Property, plant and equipment, net of depreciation	5,522,488
Total Assets	<u>8,354,351</u>
Deferred Outflows of Resources	
Deferred outflows related to pension and post employment health insurance	<u>1,619,102</u>
Total Assets and Deferred Outflows of Resources	<u>9,973,453</u>
Liabilities	
Accounts payable	6,315
Accrued payroll and payroll taxes	35,235
Capital lease - current portion	126,704
Long-term liabilities	
Capital lease - long term portion	448,305
Compensated absences	151,922
Net pension and post employment health insurance liability	5,038,733
Total Liabilities	<u>5,807,214</u>
Deferred Inflow of Resources	
Deferred inflows related to pension and post employment health insurance	<u>195,367</u>
Total Liabilities and Deferred Inflow of Resources	<u>6,002,581</u>
Net Position	
Net investment in capital assets	4,975,624
Restricted	193,705
Unrestricted	(1,198,457)
Total Net Position	<u>\$ 3,970,872</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, 2021

Functions/Programs						Net Revenue (Expense) and Changes in Net Position	
	Expenses	Program Revenues			Governmental Activities		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Primary Government							
Legislative and administrative	\$ 973,306	\$ 11,459	\$ 6,074	\$ -	\$ -		(955,773)
Public safety	2,331,638	742,530	492,891	-	-		(1,096,217)
Parks and recreation	38,973	9,809	-	-	-		(29,164)
Public works	469,128	484,025	-	-	-		14,897
Road repair	625,198	-	145,560	-	-		(479,638)
Events & beautification	6,377	-	-	-	-		(6,377)
Interest & fees	22,777	-	-	-	-		(22,777)
Unallocated depreciation	522,108	-	-	-	-		(522,108)
Unallocated pension & OPEB	830,138	-	-	-	-		(830,138)
Total Primary Government	\$ 5,819,643	\$ 1,247,823	\$ 644,525	\$ -			(3,927,295)
General revenues							
Taxes							
Property taxes, levied for general purposes							2,154,954
Insurance and franchise taxes, levied for general purposes							801,829
Licenses and permit fees							
Payroll and gross receipts license fees							632,990
Licenses and fees							59,494
Miscellaneous							22,053
Gain on disposal of assets							39,404
Unrestricted investment earnings							7,477
Total general revenues and special items							3,718,201
Change in net position							(209,094)
Net position, beginning							4,179,966
Net position, ending							\$ 3,970,872

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

CITY OF VILLA HILLS, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

Assets			Municipal	Minor	Total
	General	Road Tax Fund	Road Aid Fund	Governmental Funds	Governmental Funds
Unrestricted Assets					
Cash and cash equivalents	\$ 2,264,644	\$ 106,021	\$ 73,978	\$ 137,791	\$ 2,582,434
Property taxes receivable - net	24,275	-	-	-	24,275
Insurance tax receivable	173,961	-	-	-	173,961
Prepaid expenses	1,443	-	-	-	1,443
Due from other funds	-	-	-	-	-
Total Unrestricted Assets	2,464,323	106,021	73,978	137,791	2,782,113
Restricted Assets					
Restricted cash	3,732	-	-	17,873	21,605
Total Assets	\$ 2,468,055	\$ 106,021	\$ 73,978	\$ 155,664	\$ 2,803,718
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 2,148	\$ -	\$ 4,167	\$ -	\$ 6,315
Accrued liabilities	35,235	-	-	-	35,235
Due to other funds	-	-	-	-	-
Liabilities paid with restricted funds					
Restricted accounts	-	-	-	-	-
Total Liabilities	37,383	-	4,167	-	41,550
Fund Balances					
Restricted	-	106,021	69,811	17,873	193,705
Committed	213,000	-	-	-	213,000
Assigned	-	-	-	137,791	137,791
Unassigned	2,217,672	-	-	-	2,217,672
Total Fund Balances	2,430,672	106,021	69,811	155,664	2,762,168
Total Liabilities and Fund Balances	\$ 2,468,055	\$ 106,021	\$ 73,978	\$ 155,664	\$ 2,803,718
Total governmental fund balances					\$ 2,762,168
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets of \$17,655,925, net of accumulated depreciation of (\$12,105,292), used in governmental activities are not financial resources and are not reported in the funds.					5,550,633
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Capital leases					(575,009)
Compensated absences					(151,922)
Net pension and post employment health insurance liability					(5,038,733)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reportable in the funds					
Deferred outflows related to pension and post employment health insurance					1,619,102
Deferred inflows related to pension and post employment health insurance					(195,367)
Net position of governmental activities					\$ 3,970,872

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, 2021

	General Fund	Road Tax Fund	Municipal Road Aid Fund	Minor Governmental Funds	Total Governmental Funds
Revenues					
Taxes					
Property	\$ 1,644,631	\$ 510,323	\$ -	\$ -	\$ 2,154,954
Insurance premium	648,387	-	-	-	648,387
Payroll and gross receipts	632,990	-	-	-	632,990
Franchise	153,442	-	-	-	153,442
Licenses and fees	59,494	-	-	-	59,494
Intergovernmental	498,965	-	145,560	-	644,525
Charges for services	1,238,014	-	-	9,809	1,247,823
Fines and forfeitures	11,484	-	-	-	11,484
Interest	7,477	-	-	-	7,477
Sale of surplus property	-	-	-	39,404	39,404
Miscellaneous	7,266	-	-	-	7,266
Proceeds from loan	-	-	-	68,255	68,255
Contributions	3,500	-	-	-	3,500
Total Revenues	4,905,650	510,323	145,560	117,468	5,679,001
Expenditures					
Legislative and administrative	392,632	-	-	-	392,632
Contracted Services	1,165,600	-	-	5,541	1,171,141
Public safety	1,703,478	-	-	32,073	1,735,551
Parks and recreation	38,973	-	-	-	38,973
Public works	472,867	-	-	-	472,867
Events & beautification	6,377	-	-	-	6,377
Road repair	353,577	233,475	38,146	-	625,198
Capital outlay	-	301,481	-	110,759	412,240
Debt service:					
Principal	-	-	73,916	117,613	191,529
Interest	-	-	12,039	10,738	22,777
Total Expenditures	4,133,504	534,956	124,101	276,724	5,069,285
Excess (deficit) of revenues over (under) expenditures	772,146	(24,633)	21,459	(159,256)	609,716
Other Financing Sources (Uses)					
Transfers In	-	-	-	225,134	225,134
Transfers Out	(225,134)	-	-	-	(225,134)
Other financing sources	-	-	-	-	-
Net Change in Fund Balances	547,012	(24,633)	21,459	65,878	609,716
Fund Balances, Beginning of Year	1,883,660	130,654	48,352	89,786	2,152,452
Fund Balances, End of Year	\$ 2,430,672	\$ 106,021	\$ 69,811	\$ 155,664	\$ 2,762,168

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

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, 2021

Net change in fund balances-total governmental funds	\$ 609,716
--	------------

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	412,240
Depreciation expense, net of adjustment	(522,108)

Proceeds from loans	(68,255)
---------------------	----------

Governmental funds report City pension and post employment health insurance contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employer contributions is reported as an expense

Cost of pension benefits earned	(654,175)
Cost of post employment health insurance benefits earned	(175,964)

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	191,529
Compensated absences	<u>(2,077)</u>

Change in net position of governmental activities	<u>\$ (209,094)</u>
---	---------------------

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

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021

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, 2021

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, and the Shop with a Cop program.

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, 2021, there were no inter-fund receivables/payables.

Inventories and Prepaid Items

If applicable, inventories in the governmental funds consist of expendable supplies held for consumption stated on a first in, first out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Prepaid items record payments to vendors that benefit future reporting periods. Both inventories and prepaid items are similarly reported in government-wide and fund financial statements.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

City employees 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 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 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Other Post-Employment Benefits – Health Insurance Plan

For purposes of measuring the net liability for other post-employment benefits – health insurance plan (OPEB), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the OPEB. For this purpose, benefit payments are recognized when due and payable. In accordance with the benefit terms. Investments are reported at fair value.

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.

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 net balance of the flex plan benefit account and reservations for road construction in the Municipal-Aid Road Fund.

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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Use of Estimates

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

NOTE C – ACCOUNTS RECEIVABLE

Property and Waste Fees Receivable

Property taxes were assessed on property values as of January 1st. Taxes were payable by October 1, 2020 and are delinquent after November 15, 2020. The City bills and collects its own property taxes and waste fees. The City had property taxes and waste fees receivable of \$24,275 at June 30, 2021. 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, 2021:

Asset Type	Balance at June 30, 2020	Additions	Deletions	Balance at June 30, 2021
Land	\$ 28,145	\$ -	\$ -	\$ 28,145
Buildings and improvements	1,269,263	-	-	1,269,263
Infrastructure	13,789,847	301,281	-	14,091,128
WIP Buttermilk SNK	821,444	-	-	821,444
Property and equipment	457,377	42,504	-	499,881
Vehicles	991,580	68,255	-	1,059,835
Subtotal	17,357,656	412,040	-	17,769,696
Less: accum. depreciation	(11,696,955)	(522,108)	-	(12,219,063)
Fixed assets, net	<u>\$ 5,660,701</u>	<u>\$ (110,068)</u>	<u>\$ -</u>	<u>\$ 5,550,633</u>

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Depreciation expense was charged to functions as follows:

Governmental Activities	
Legislative and Administrative	\$ 20,389
Parks and Recreation	17,473
Public Safety	123,682
Public Works - Infrastructure	285,219
Public Works	75,345
Total Governmental Activities Depreciation Expense	<u>\$ 522,108</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 lease is currently being 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 Fields. A new lease, effective July 1, 2019 through June 30, 2024, renewable once for an additional five 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.

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. This lease has been renewed and the current lease ends on December 31, 2027. 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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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
2022	\$ 75,988	\$ 9,967	\$ 85,955	
2023	78,118	7,837	85,955	
2024	80,294	5,661	85,955	
2025	82,559	3,396	85,955	
2026	77,698	1,094	78,792	
Total	<u>\$ 394,657</u>	<u>\$ 27,955</u>	<u>\$ 422,612</u>	

Capital Lease – Daimler Truck Financial

The City executed a 3.71% interest, 5-year \$80,837 capital lease payable effective December 9, 2016 with the Daimler 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 Daimler Truck Financial in the amount of \$17,366. This debt is secured by the public works dump truck. This capital lease is paid in full.

Capital Lease – Ford Motor Credit

The City executed a 6.45% interest, 4-year \$141,013 capital lease payable effective May 25, 2018 with the Ford Motor Credit Company in order to finance the cost of five police cruisers. The termination date of this lease is May 24, 2021. The City is to make annual payments to Ford Motor Credit Company in the amount of \$38,624. This debt is secured by the police cruisers. This capital lease is paid in full.

Capital Lease – Ford Motor Credit

The City executed a 6.45% interest, 4-year \$48,180 capital lease payable effective May 30, 2018 with the Ford Motor Credit Company in order to finance the cost of equipment to outfit five police cruisers. The termination date of this lease is June 8, 2021. The City is to make annual payments to Ford Motor Credit Company in the amount of \$13,197. This debt is secured by the equipment to outfit the police cruisers. This capital lease is paid in full.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Capital Lease – Ford Motor Credit

The City executed a 6.70% interest, 4-year \$34,400 capital lease payable effective April 13, 2020 with the Ford Motor Company in order to finance a police cruiser. The termination date of this lease is April 13, 2023. The City is to make annual payments to Ford Motor Credit Company in the amount of \$9,453.74. This debt is secured by the police cruiser. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,		Principal	Interest	Payment
2022	\$ 8,304	\$ 1,150	\$ 9,454	
2023	8,860	594	9,454	
Total	<u>\$ 17,164</u>	<u>\$ 1,744</u>	<u>\$ 18,908</u>	

Capital Lease – Daimler Truck Financial

The City executed a 3.808% interest, 5-year \$139,337 capital lease payable effective February 18, 2021 with Daimler Truck Financial in order to finance a dump truck. The termination date of the lease is February 18, 2025. The City is to make annual payments to Daimler Truck Financial in the amount of \$31,130.24. The debt is secured by the dump truck. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,		Principal	Interest	Payment
2022	\$ 26,808	\$ 4,322	\$ 31,130	
2023	27,829	3,301	31,130	
2024	28,888	2,242	31,130	
2025	29,989	1,141	31,130	
Total	<u>\$ 113,513</u>	<u>\$ 11,006</u>	<u>\$ 124,519</u>	

Capital Lease – Ford Motor Credit

The City executed a 5.99% interest, 4-year \$68,255 capital lease payable effective September 25, 2020 with the Ford Motor Company in order to finance two police cruisers. The termination date of this lease is September 25, 2023. The City is to make annual payments to Ford Motor Credit Company in the amount of \$18,580.34. This debt is secured by the police cruiser. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,		Principal	Interest	Payment
2022	\$ 15,605	\$ 2,975	\$ 18,580	
2023	16,540	2,040	18,580	
2024	17,530	1,050	18,580	
Total	<u>\$ 49,675</u>	<u>\$ 6,065</u>	<u>\$ 55,740</u>	

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G – LONG-TERM GRANT AGREEMENTS

Crescent-Villa Fire Authority Lease Agreement

On April 21, 2021, the Cities of Crescent Springs and Villa Hills, Kentucky each entered into a separate Capital Lease Agreements to jointly fund the Crescent-Villa Fire Authority (CVFA) Firehouse project. The City of Crescent Springs lease was in the amount of \$2,268,001 and the City of Villa Hills Lease was in the amount of \$3,401,799. The lease also includes a bond premium of \$441,927 less issuance costs of \$111,927 which is held and amortized by CVFA for a total project cost of \$6,000,000, of which 5,670,000 is guaranteed by the respective cities.

The Crescent-Villa Fire Authority (CVFA) will manage the project, pull construction funds, and transfer funds monthly to the sinking fund account, from which lease payments will be made. The cities of Crescent Springs and Villa Hills have agreed to pay, monthly to the CVFA, their respective portion of the lease's debt service payment including principal, interest, and fees. The agreement is a 25-year lease agreement at 3% interest. The lease is secured by the firehouse building.

Because the City not receiving any renumeration for this payment, and the eligibility for the payment is determined by annual budget appropriations, the City is considering this transaction as a voluntary non-exchange transaction with an annual contribution grant to the CVFA paid through the general fund. The following is a summary of the City's future grant principal payable:

Grant type	Balance at June 30,		Grant Payments	Balance at June 30,	
	2020	Additions		2021	Current Portion
General Fund - CVFA Firehouse	\$ -	\$ 3,401,999	\$ (7,500)	\$ 3,394,499	\$ 91,250
Totals	\$ -	\$ 3,401,999	\$ (7,500)	\$ 3,394,499	\$ 91,250

The remaining grant payments are as follows:

Year Ending June 30,	Principal	Interest & Fees	Total Grant Contribution
2022	\$ 91,250	\$ 121,083	\$ 212,333
2023	94,250	107,806	202,056
2024	97,250	104,743	201,993
2025	101,500	101,582	203,082
2026	106,250	98,283	204,533
2027-2031	580,500	437,629	1,018,129
2032-2036	680,750	337,032	1,017,782
2037-2041	797,250	219,074	1,016,324
2042-2046	845,499	80,906	926,405
	\$ 3,394,499	\$ 1,608,138	\$ 5,002,637

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE H – 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	\$ 3,732	\$ -	\$ -	\$ -
Road tax checking	-	106,021	-	-
Municipal road aid checking	-	-	73,978	-
Adopt-a-troop checking	-	-	-	6,790
Shop with a cop	-	-	-	11,083
Total Restricted Cash	<u>\$ 3,732</u>	<u>\$ 106,021</u>	<u>\$ 73,978</u>	<u>\$ 17,873</u>

NOTE I – ECONOMIC DEPENDENCY

The City's general fund receives 13% 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 J – COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) 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/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The City of Villa Hills has both Non-Hazardous and Hazardous employees.

Membership in CERS consisted of the following at June 30, 2020

	Non-Hazardous		Non-Hazardous	
	Pension	OPEB	Pension	OPEB
Active Plan Members	81,506	81,147	9,474	9,470
Inactive Plan Members	91,543	29,362	3,422	856
Retired Members	64,539	36,371	10,023	6,853
	<u>237,588</u>	<u>146,880</u>	<u>22,919</u>	<u>17,179</u>
Number of participating employers	<u>1,139</u>		<u>266</u>	

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty 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 rate	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
	Reduced retirement	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

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 pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty 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	Before September 1, 2008 At least one month of hazardous duty service credit or 55 years old, or any age with 20 years of service.
	Reduced retirement	15 years service and 50 years old
Tier 2	Participation date Unreduced retirement	September 1, 2008 - December 31, 2013 At least 5 years of hazardous duty service credit and 60 years old or any age with 25 years of service.
	Reduced retirement	15 years service and 50 years old
Tier 3	Participation date Unreduced retirement	On or after January 1, 2014 At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced retirement	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 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 pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	8%
Tier 2	8%
Tier 3	8%

Contributions

For non-hazardous duty employees, the City contributed 24.06%, of which 19.3% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2021. For hazardous duty employees, the City contributed 39.58%, of which 30.06% was for the pension fund and 9.52% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2021.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$88,970, of which \$71,368 was for the pension fund and \$17,602 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$252,700, of which \$191,919 was for the pension fund and \$60,781 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, 2021, the City reported a liability of \$5,038,733 (\$1,252,715 – non-hazardous and \$3,786,018 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the City's non-hazardous employer allocation proportion was 0.012442% of the total CERS non-hazardous duty employees and 0.09612% of the total CERS hazardous duty employees. For the year ended June 30, 2021, the City recognized pension expense of \$654,175 in addition to its \$263,287 pension contribution.

At June 30, 2021, 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 of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 23,761	\$ -	\$ 89,880	\$ -	\$ 113,641	\$ -
Net difference between projected actual earnings on plan investments	23,843	-	65,286	-	89,129	-
Changes of assumptions	37,207	-	109,910	-	147,117	-
Changes in proportion and differences between contributions and proportionate share of contributions	26,570	(10,085)	386,787	(26,851)	413,357	(36,936)
Contributions subsequent to the measurement date	71,368	-	191,919	-	263,287	-
	<u>\$ 182,749</u>	<u>\$ (10,085)</u>	<u>\$ 843,782</u>	<u>\$ (26,851)</u>	<u>\$ 1,026,531</u>	<u>\$ (36,936)</u>

The City's contributions subsequent to the measurement date of \$263,287 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2021	\$ 438,030
2022	200,613
2023	49,241
2024	38,423
2025	-
Thereafter	-
	<u>\$ 726,307</u>

Actuarial Assumptions

The total pension liability as of June 30, 2021 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.05-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)

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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Changes of Assumptions

There have been no changes in actuarial assumptions since June 30, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Plan Target Allocation

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

Asset Class	CERS Pensions (Haz & Non-Haz)		Long Term Expected Nominal Return
	Target Allocation		
US equity	18.75%		4.50%
Non-US equity	18.75%		5.25%
Private equity	10.00%		6.65%
Specialty credit/high yield	15.00%		3.90%
Core bonds	13.50%		-0.25%
Cash	1.00%		-0.75%
Real estate	5.00%		5.30%
Opportunistic	3.00%		2.25%
Real return	15.00%		3.95%
Total	100.00%		6.26%

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 1,175,051	\$ 952,834	\$ 768,829
Hazardous	3,581,571	2,898,045	2,340,107
Total	\$ 4,756,622	\$ 3,850,879	\$ 3,108,936

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$20.07 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$20.07 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2020, was 4.76% of covered-employee payroll for non-hazardous duty employees and 9.52% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the City were \$15,154 for non-hazardous duty employees and \$52,900 for hazardous duty employees for the year ended June 30, 2021.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the City reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2020, the City's proportion of the non-hazardous plan was .01242%, At June 30, 2020, the City's proportion of the hazardous plan was 0.09609%.

For the year ended June 30, 2021, the City recognized an OPEB expense of \$175,964 in addition to its \$78,383 contribution. The City reported deferred outflows of resources and deferred inflows of resources related to OPEB 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	\$ 50,104	\$ (50,143)	\$ 30,472	\$ (88,674)	\$ 80,576	\$ (138,817)
Net difference between projected actual earnings on plan investments	9,967	-	39,417	-	49,384	-
Changes of assumptions	52,162	(317)	144,862	(818)	197,024	(1,135)
Changes in proportion and differences between contributions and proportionate share of contributions	11,393	(6,595)	175,812	(11,884)	187,205	(18,479)
Contributions subsequent to the measurement date	17,602	-	60,781	-	78,383	-
	<u>\$ 141,228</u>	<u>\$ (57,055)</u>	<u>\$ 451,344</u>	<u>\$ (101,376)</u>	<u>\$ 592,572</u>	<u>\$ (158,431)</u>

The City's contributions subsequent to the measurement date, \$17,602 for non-hazardous duty employees and \$60,781 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Measurement Year Ending June 30,	Net Deferral
2021	\$ 125,857
2022	101,558
2023	78,612
2024	40,372
2025	9,359
Thereafter	-
	\$ 355,758

Actuarial Assumptions

The total OPEB liability as of June 30, 2021 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2020, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percentage of payroll
Amortization period	25 years, closed
Payroll growth rate	2.00%
Investment rate of return	6.25%
Inflation	2.30%
Salary increases	3.30-11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back 1 year for females)
Investment rate of return	6.25%, net of pension plan expense, including inflation,
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set-back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Changes of Assumptions

The discount rates used to calculate the total OPEB liability decreased from 5.68% to 5.34% for the non-hazardous plan and from 5.69% to 5.30% for the hazardous plan. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 74 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34% for the non-hazardous plan and 5.30% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Plan Target Allocation

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

Asset Class	CERS Pensions (Haz & Non-Haz)		Long Term Expected Nominal Return
	Target Allocation		
US equity	18.75%		4.50%
Non-US equity	18.75%		5.25%
Private equity	10.00%		6.65%
Specialty credit/high yield	15.00%		3.90%
Core bonds	13.50%		-0.25%
Cash	1.00%		-0.75%
Real estate	5.00%		5.30%
Opportunistic	3.00%		2.25%
Real return	15.00%		3.95%
Total	100.00%		6.26%

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.34% for the non-hazardous plan and 5.30% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

	Proportionate Share of Net OPEB Liability		
	1% Decrease	Current Rate	1% Increase
Discount rate, non-hazardous	4.34%	5.34%	6.34%
Net OPEB liability, non-hazardous	\$ 385,259	\$ 299,881	\$ 229,757
Discount rate, hazardous	4.30%	5.30%	6.30%
Net OPEB liability, non-hazardous	1,205,400	887,973	632,191
Total	\$ 1,590,659	\$ 1,187,854	\$ 861,948

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 232,183	\$ 299,881	\$ 382,034
Net OPEB liability, hazardous	634,572	887,973	1,199,508
Total	\$ 866,755	\$ 1,187,854	\$ 1,581,542

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE K – 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.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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. The KRS Hearing Officer and the Franklin Circuit Court have ruled in favor of KRS; however the City has appealed to the Kentucky Court of Appeals who also ruled in favor of KRS. The City has requested Discretionary Review by the Kentucky Supreme Court and is awaiting a ruling. 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.

The City has been named in a counter-claim suit for damages by a mortgage company after the City demolished a house with numerous, gross code and safety violations. The City plans to vigorously defend this claim and anticipates filing a claim for summary judgment.

NOTE L – TAX ABATEMENTS

In accordance with GASB 77, the City must disclose tax abatements and incentives provided within the City. The City has one Tax Increment Financing (TIF) District on which tax abatements are provided to fund the cost to develop infrastructure in the City. Normally these funds are provided to a developer, but for this particular District, the funds will be held by the City for future infrastructure costs associated with the development.

Sanctuary Village

The local participation TIF district for Sanctuary Village was created in 2018 and requires the City to collect and hold 70% of the real property taxes collected in the district footprint and use these funds for specific infrastructure projects. This incentive allows the City to finance the large infrastructure expenses associated with the project. The incentive is in place for 30 years.

NOTE M – COVID-19 GLOBAL PANDEMIC

The primary effects on the City from the COVID-19 Global Pandemic has been a reduction in payroll and occupational license tax revenue received and an increase in unbudgeted expenses for personal protective equipment. City management is unsure of a timeline for when, or if, these revenues and expenses will return to pre-pandemic levels. The 2021-22 fiscal year budget has been passed to incorporate the effects of the pandemic on the revenues and expenses.

NOTE N – CARES ACT FUNDING

In response to the COVID-19 Global Pandemic, the City has qualified and was approved for \$407,739 in Federal Cares Act funding passed through the Commonwealth of Kentucky's Department for Local Government. This funding has been designated to help city governments respond to the pandemic and its negative economic impacts. The City has received these funds and recognized them as income during the year ended June 31, 2021.

CITY OF VILLA HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE O – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities* – FY 2021

Statement No. 89 – *Accounting for Interest Cost in Construction Projects* – FY 2021

Statement No. 90 – *Majority Equity Interests* – FY 2021

NOTE P – FUTURE ACCOUNTING STANDARDS

Statement No. 87 – *Leases* – FY 2022

Statement No. 91 – *Conduit Debt Obligations* – FY 2023

Statement No. 92 – *Omnibus 2020* – FY 2022

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated events through September 27, 2021, the date on which the financial statements were available for issue. The City has two events subsequent to June 30, 2021 through September 27, 2021 to disclose.

The City received its portion of the Federally funded American Rescue Plan Act (ARPA) grant in the amount of \$966,064 in July 2021. These funds are designated for specific uses, and any amount unused by December 31, 2024, will need to be returned.

In August 2021, the Kentucky Supreme Court denied the City's appeal and upheld the ruling of the Kentucky Court of Appeals in the KRS Spiking suit noted in NOTE K above. The City will pay the Kentucky Retirement System it requested spiking charge of \$210,894 in fiscal year 2021-2022.

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance	
	Original	Revisions	Final	Actual	Favorable / (Unfavorable)
	\$		\$	\$	
Prior year funds available for use	\$ -	\$ 280,000	\$ 280,000	\$ 1,883,660	\$ 1,603,660
Resources (inflows)					
Taxes and fees	3,592,935	85,000	3,677,935	3,742,554	64,619
Interlocal contract	745,280	-	745,280	742,530	(2,750)
Grants	27,000	-	27,000	12,827	(14,173)
Transfer in from unrestricted reserves	50,000	(50,000)	-	-	-
Designated CARES Act funds	-	966,000	966,000	407,739	(558,261)
Amounts available for appropriation	4,415,215	1,281,000	5,696,215	6,789,310	1,093,095
Charges to appropriations (outflows)					
Administration	403,140	-	403,140	392,632	10,508
Contracted services	1,279,448	-	1,279,448	1,165,600	113,848
Events and beautification	13,700	-	13,700	6,377	7,323
Police	1,770,048	-	1,770,048	1,703,478	66,570
Public Works	484,132	-	484,132	472,867	11,265
Recreation	47,598	-	47,598	38,973	8,625
Road repair designation	160,098	248,000	408,098	353,577	54,521
Total departmental charges to appropriations	4,158,164	-	4,406,164	4,133,504	272,660
Transfer in (out) -					
Capital Fund	(216,000)	-	(216,000)	(215,996)	4
Transfer to Sanctuary TIF	(9,138)	-	(9,138)	(9,138)	-
Transfer to surplus reserves	(31,913)	-	(31,913)	-	31,913
Total General Fund Expenses	4,415,215	-	4,663,215	4,349,500	313,715
Budgetary fund balance, June 30	\$ 9,138	\$ 1,033,000	\$ 1,042,138	\$ 2,439,810	\$ 1,397,672

Reconciliation of Budgetary Fund Balance to GAAP

Ending Budgetary Fund Balance	\$ 2,439,810
Less: Use of Prior Year Funds	-
Ending Fund Balance	\$ 2,439,810

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
ROAD TAX FUND
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance Favorable / (Unfavorable)	
	Original	Revisions	Final	Actual	
	\$ -	\$ -	\$ 130,000	\$ 130,654	\$ 654
Prior year funds available for use	\$ -	\$ -	\$ 130,000	\$ 130,654	\$ 654
Resources (inflows)					
Road tax	477,000	33,000	510,000	510,323	323
Amounts available for appropriation	477,000	33,000	640,000	640,977	977
Charges to appropriations (outflows)					
Capital outlay	427,000	163,000	590,000	490,067	99,933
Road Salt	50,000	-	50,000	44,889	5,111
Total charges to appropriations	477,000	163,000	640,000	534,956	105,044
Budgetary fund balance, June 30	\$ -	\$ (130,000)	\$ -	\$ 106,021	\$ 106,021

CITY OF VILLA HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance	
	Original	Revisions	Final	Actual	Favorable / (Unfavorable)
Prior year funds available for use	\$ -	\$ -	\$ -	\$ 48,352	\$ 48,352
Resources (inflows)					
Kentucky Municipal Road Aid	140,000	-	140,000	145,560	5,560
Amounts available for appropriation	140,000	-	140,000	193,912	53,912
Charges to appropriations (outflows)					
Capital outlay	33,600	-	33,600	-	33,600
Road repair	-	-	-	25,385	(25,385)
City Engineer	20,000	-	20,000	12,761	7,239
Debt service and bond costs	86,400	-	86,400	85,955	445
Total charges to appropriations	140,000	-	140,000	124,101	15,899
Budgetary fund balance, June 30	\$ -	\$ -	\$ -	\$ 69,811	\$ 69,811

CITY OF VILLA HILLS, KENTUCKY

Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-NON-HAZARDOUS

For the Year Ended June 30, 2021 - Last Ten Years

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net pension liability	0.01242%	0.01194%	0.01242%	0.01176%	0.01174%	0.01135%	0.01146%			
Proportionate share of the net pension liability (asset)	\$ 952,834	\$ 839,816	\$ 756,659	\$ 688,056	\$ 578,110	\$ 488,159	\$ 371,759			
Covered payroll in year of measurement	318,361	298,058	306,740	383,240	540,548	389,475	366,601			
Share of the net pension liability (asset) as a percentage of its covered payroll	299.29%	281.76%	197.44%	179.54%	106.95%	125.34%	101.41%			
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%			

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 71,368	\$ 61,444	\$ 48,345	\$ 44,416	\$ 53,462	\$ 67,136	\$ 49,658	\$ 50,371		
Actual contribution	71,368	61,444	48,345	44,416	53,462	67,136	49,658	50,371		
Contribution deficiency (excess)	-	-	-	-	-	-	-	-		
City's covered payroll	369,782	318,361	298,058	306,740	383,240	540,548	389,475	366,601		
Contributions as a percentage of covered payroll	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%		

Notes to Required Supplementary Information

The net pension liability as of June 30, 2021, is based on the June 30, 2020, 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 J 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, 2021 - Last Ten Years
**Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net pension liability	0.09612%	0.09785%	0.05346%	0.04417%	0.04976%	0.05459%	0.06000%			
Proportionate share of the net pension liability (asset)	\$ 2,898,045	\$ 2,702,768	\$ 1,292,786	\$ 988,161	\$ 853,915	\$ 838,062	\$ 721,131			
Covered payroll in year of measurement	555,669	561,746	295,207	331,967	479,165	472,754	506,955			
Share of the net pension liability (asset) as a percentage of its covered payroll	521.54%	481.14%	389.43%	297.67%	178.21%	177.27%	142.25%			
Plan fiduciary net position as a percentage of total pension liability	44.11%	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%			

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 191,919	\$ 167,034	\$ 139,650	\$ 65,536	\$ 72,070	\$ 96,935	\$ 108,497	\$ 110,364		
Actual contribution	191,919	167,034	139,650	65,536	72,070	96,935	108,497	110,364		
Contribution deficiency (excess)	-	-	-	-	-	-	-	-		
City's covered payroll	638,454	555,669	561,746	295,207	331,967	479,165	472,754	506,955		
Contributions as a percentage of covered payroll	30.06%	30.06%	24.86%	22.20%	21.71%	20.23%	22.95%	21.77%		

Notes to Required Supplementary Information

The net pension liability as of June 30, 2021, is based on the June 30, 2020, 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 J in the Notes to the Financial Statements.

CITY OF VILLA HILLS, KENTUCKY

Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure-NON-HAZARDOUS

For the Year Ended June 30, 2021 - Last Ten Years

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net OPEB liability	0.01242%	0.01194%	0.01242%	0.01176%						
Proportionate share of the net OPEB liability (asset)	\$ 299,881	\$ 200,792	\$ 220,568	\$ 236,316						
Covered payroll in year of measurement	318,361	298,058	306,740	383,240						
Share of the net OPEB liability (asset) as a percentage of its covered payroll	94.20%	67.37%	57.55%	61.66%						
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%	52.40%						

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 17,602	\$ 15,154	\$ 15,678	\$ 14,417	\$ 18,127					
Actual contribution	17,602	15,154	15,678	14,417	18,127					
Contribution deficiency (excess)	-	-	-	-	-					
City's covered payroll	369,782	318,361	298,058	306,740	383,240					
Contributions as a percentage of covered payroll	4.76%	4.76%	5.26%	4.70%	4.73%					

Notes to Required Supplementary Information

The net OPEB liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation. The changes to the elements of the OPEB 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 J in the Notes to the Financial Statements.

CITY OF VILLA HILLS, KENTUCKY

Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure-HAZARDOUS

For the Year Ended June 30, 2021 - Last Ten Years

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Proportion of net OPEB liability	0.09609%	0.09783%	0.05346%	0.04417%						
Proportionate share of the net OPEB liability (asset)	\$ 887,973	\$ 723,775	\$ 381,134	\$ 365,124						
Covered payroll in year of measurement	555,669	561,746	295,207	331,967						
Share of the net OPEB liability (asset) as a percentage of its covered payroll	159.80%	128.84%	114.81%	109.99%						
Plan fiduciary net position as a percentage of total OPEB liability	58.84%	64.44%	64.24%	59.00%						

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 60,781	\$ 52,900	\$ 58,815	\$ 27,602	\$ 31,039					
Actual contribution	60,781	52,900	58,815	27,602	31,039					
Contribution deficiency (excess)	-	-	-	-	-					
City's covered payroll	638,454	555,669	561,746	295,207	331,967					
Contributions as a percentage of covered payroll	9.52%	9.52%	10.47%	9.35%	9.35%					

Notes to Required Supplementary Information

The net OPEB liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation.. The changes to the elements of the OPEB 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 J in the Notes to the Financial Statements.

CITY OF VILLA HILLS, KENTUCKY
COMBINING BALANCE SHEET - MINOR GOVERNMENTAL FUNDS
June 30, 2021

	Capital Fund	Special Revenue Fund	Total Minor Governmental Funds
Assets			
Cash and cash equivalents	\$ 137,791	\$ -	\$ 137,791
Cash and cash equivalents-restricted	-	17,873	17,873
Due from other funds	-	-	-
Total Assets	\$ 137,791	\$ 17,873	\$ 155,664
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to General Fund	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Restricted	-	17,873	17,873
Committed	-	-	-
Assigned	137,791	-	137,791
Total Fund Balances	137,791	17,873	155,664
Total Liabilities and Fund Balances	\$ 137,791	\$ 17,873	\$ 155,664

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 - MINOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2021

	Capital Fund	Special Revenue Fund	Total Minor Governmental Funds
Revenues			
Sale of surplus property	\$ 39,404	\$ -	\$ 39,404
Special revenue contributions	-	9,809	9,809
Proceeds from loans	68,255	-	68,255
Total Revenues	107,659	9,809	117,468
Expenditures			
Current			
Administration	-	-	-
Police	100,328	-	100,328
Public works	42,504	-	42,504
Parks and recreation	-	-	-
Special revenue expenditures	-	5,541	5,541
Debt service	128,351	-	128,351
Total Expenditures	271,183	5,541	276,724
Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources	(163,524)	4,268	(159,256)
Other Financing Sources			
Transfers in	225,134	-	225,134
Transfers out	-	-	-
Total Other Financing Sources	225,134	-	225,134
Excess (Deficit) of Revenues Over (Under) Expenditures	61,610	4,268	65,878
Fund Balances, Beginning of Year	76,181	13,605	89,786
Fund Balances, End of Year	\$ 137,791	\$ 17,873	\$ 155,664

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

**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, 2021 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 27, 2021.

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) as a basis for designing 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 financial statement. 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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Erlanger, Kentucky

September 27, 2021