

**CITY OF VILLA HILLS, KENTUCKY**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended June 30, 2020**

**CITY OF VILLA HILLS, KENTUCKY**  
**ANNUAL FINANCIAL REPORT**  
**June 30, 2020**

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**CITY OF VILLA HILLS, KENTUCKY**

**CITY OFFICIALS**

**As of June 30, 2020**

**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, 2020, 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, 2020, 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 25, 2020 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.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker, & Co., Inc.

Erlanger, Kentucky

September 25, 2020

## 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, 2020 and 2019 total position, net of depreciation and related debt, exceeded liabilities by \$4,179,966 and \$4,892,393 as follows:

**Table 1 - Net Position**

Assets	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 2,195,485	\$ 2,201,562
Restricted assets	519,145	356,112
Capital assets, net of depreciation	<u>5,660,697</u>	<u>5,361,936</u>
Total Assets	<u>8,375,327</u>	<u>7,919,610</u>
Deferred Outflow of Resources	<u>2,021,444</u>	<u>1,029,290</u>
Total Assets and Deferred Outflow of Resources	<u>10,396,771</u>	<u>8,948,900</u>
Liabilities		
Current liabilities	735,126	456,574
Long term liabilities	675,375	657,906
Net pension and OPEB liability	<u>4,467,151</u>	<u>2,651,147</u>
Total Liabilities	<u>5,877,652</u>	<u>3,765,627</u>
Deferred Inflow of Resources	<u>339,153</u>	<u>290,880</u>
Total Liabilities and Deferred Inflow of Resources	<u>6,216,805</u>	<u>4,056,507</u>
Net Position		
Net investment in capital assets	4,962,415	4,666,437
Restricted	192,611	341,785
Unrestricted	<u>(975,060)</u>	<u>(115,829)</u>
Total Net Position	<u>\$ 4,179,966</u>	<u>\$ 4,892,393</u>

Governmental activities decreased the City's net position by \$712,427 in 2020 compared to a \$60,799 increase in FY 2019. This decrease takes into account a non-cash depreciation expense of \$454,550 and a pension expense that is \$575,593 more than was actually contributed to the pension system. The City saw increases in some revenue sources. Payroll tax collections increased 6%, property tax revenue and insurance premium tax revenues stayed relatively the same. Capital and operational grants increased due to a State of Kentucky road grant received in 2020. In addition, the City has been approved for \$295,800 in CARES Act funding related to the Covid-19 pandemic. The City's expenditures for each functional area were about the same as the previous fiscal year, with the exception of road repairs and pension expense. Road repairs includes amounts spent on Buttermilk SNK and the increase in pension expense is from increased payroll costs and an increased proportionate share of the net pension liability.

**Table 2 - Governmental Activities**

Revenues	<b>2020</b>	<b>Restated 2019</b>
Program Revenues:		
Charges for services	\$ 1,230,122	\$ 1,204,731
Operating grants and contributions	526,626	222,042
Capital grants and contributions	345,243	-
Total Program Revenues	2,101,991	1,426,773
General Revenues		
Property taxes	2,124,010	2,106,517
Insurance and franchise taxes	609,078	609,947
Payroll taxes/gross receipts fees	540,602	508,926
Other general revenues	98,143	142,245
Total General Revenues	3,371,833	3,367,635
Total Revenues	5,473,824	4,794,408
Program Expenses		
Legislative and administrative	1,050,466	1,067,110
Public safety	2,218,174	2,207,163
Public works & road repairs	1,522,197	729,574
Parks and recreation	33,584	40,979
Events & beautification	12,103	13,694
Interest on long-term debt	23,053	29,893
Depreciation	454,549	450,119
Pension and OPEB	872,125	195,077
Total Expenses	6,186,251	4,733,609
Net Change in Net Position	\$ (712,427)	\$ 60,799

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 \$4,084,260 or 66% of total cost in FY 2020 (compared to 60% in FY 2019), 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 2020 and 2019. The net change in position reflects the actual management of City controlled funds and shows a \$712,427 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. 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 decrease at year-end was \$405,945 (a \$650,341 decrease from negative \$244,396 in FY 2019). \$140,450 of that decrease came from the Municipal Road Aid Fund and \$145,519 came from the General Fund.

	<u>2020</u>	<u>2019</u>
<b>Revenues</b>		
General Fund revenues	\$ 4,529,310	\$ 4,132,267
Road Tax Fund revenues	473,946	469,277
Municipal Road Aid Fund revenues	149,071	153,055
Special Revenue Funds	<u>60,097</u>	<u>39,808</u>
Total Revenues	<u>5,212,424</u>	<u>4,794,407</u>
<b>Expenditures</b>		
General Fund expenditures	4,674,829	3,796,711
Road Tax Fund expenditures	485,390	334,830
Municipal Road Aid Fund expenditures	289,521	130,437
Special Revenue Funds expenditures	<u>168,629</u>	<u>288,033</u>
Total Expenditures	<u>5,618,369</u>	<u>4,550,011</u>
Excess of revenues over expenditures	<u>\$ (405,945)</u>	<u>\$ 244,396</u>
<b>Net Change in Fund Balances</b>		
Other Financing Sources	295,800	-
General Fund	(316,715)	155,160
Road Tax Fund	(11,444)	134,447
Municipal Road Aid Fund	(140,450)	22,618
Special Revenue Funds	<u>62,664</u>	<u>(67,829)</u>
Total Change in Fund Balance	<u>\$ (110,145)</u>	<u>\$ 244,396</u>

Actual General Fund revenues were \$343,083 more than budgeted revenues. When the City's beginning reserve balance is considered, the amount available for appropriations (\$6,729,685) exceeded the amount expended and transferred (\$4,846,025) by the total net fund balance of \$1,883,660.

Actual General Fund expenditures and transfers were under budget by \$77,332, which is 1% of the General Fund budget. Actual Municipal Road Aid Fund revenues were \$9,071 more than budgeted revenues. Actual Municipal Aid Road Fund expenditures were under budget by \$479. 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 2020, the City had \$17,357,656 invested in various capital assets, including land, buildings and improvements, infrastructure, equipment and vehicles. The City purchased capital assets valued at \$753,312 in 2020. The City also recognized \$454,550 in depreciation expense; leaving a net increase in total capital assets, net of depreciation of \$298,762.

**Table 4 - Fixed Assets**

	<b>2020</b>	<b>2019</b>
Land	\$ 28,145	\$ 28,145
Buildings and improvements	1,269,263	1,251,263
Infrastructure	14,611,291	14,067,703
Property and equipment	457,377	450,074
Vehicles	991,580	807,159
Accumulated depreciation	(11,696,955)	(11,242,405)
Capital assets, net	<u>\$ 5,660,701</u>	<u>\$ 5,361,939</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. At June 30, 2020, the City had \$698,282 in long-term debt remaining.

**Table 5 - Long Term Debt**

	<b>2020</b>	<b>2019</b>
2016 Capital Lease - Road Repair	\$ 468,573	\$ 540,437
2016 Capital Lease - Police Cruisers	16,745	32,891
2016 Capital Lease - Dump Truck	-	27,759
2018 Capital Lease - Police Cruisers	36,284	70,369
2018 Capital Lease - Equipment	12,397	24,043
2019 Capital Lease - Dump Truck	139,337	-
2020 Capital Lease - Police Cruiser	24,946	-
	<u>\$ 698,282</u>	<u>\$ 695,499</u>

**CONTACTING THE CITY’S FINANCIAL MANAGEMENT**

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

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>STATEMENT OF NET POSITION</b> <b>June 30, 2020</b>
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	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,379,447
Property taxes receivable - net	21,984
Insurance tax receivable	145,811
Other receivables	648,243
Restricted assets	
Restricted cash	519,145
Capital assets	
Land	28,145
Property, plant and equipment, net of depreciation	5,632,552
<b>Total Assets</b>	<u>8,375,327</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pension and post employment health insurance	2,021,444
<b>Total Assets and Deferred Outflows of Resources</b>	<u>10,396,771</u>
<b>Liabilities</b>	
Accounts payable	508,013
Accrued payroll and payroll taxes	54,165
Capital lease - current portion	172,948
Long-term liabilities	
Capital lease - long term portion	525,334
Compensated absences	150,041
Net pension and post employment health insurance liability	4,467,151
<b>Total Liabilities</b>	<u>5,877,652</u>
<b>Deferred Inflow of Resources</b>	
Deferred inflows related to pension and post employment health insurance	339,153
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>6,216,805</u>
<b>Net Position</b>	
Net investment in capital assets	4,962,415
Restricted	192,611
Unrestricted	(975,060)
<b>Total Net Position</b>	<u>\$ 4,179,966</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, 2020

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Primary Government</b>					
Legislative and administrative	\$ 1,050,466	\$ 10,610	\$ 10,254	\$ -	\$ (1,029,602)
Public safety	2,218,174	724,775	367,301	-	(1,126,098)
Parks and recreation	33,584	10,910	-	-	(22,674)
Public works	404,415	483,827	-	-	79,412
Road repair	1,117,782	-	149,071	345,243	(623,468)
Events & beautification	12,103	-	-	-	(12,103)
Interest & fees	23,053	-	-	-	(23,053)
Unallocated depreciation	454,549	-	-	-	(454,549)
Unallocated pension & OPEB	872,125	-	-	-	(872,125)
<b>Total Primary Government</b>	<b>\$ 6,186,251</b>	<b>\$ 1,230,122</b>	<b>\$ 526,626</b>	<b>\$ 345,243</b>	<b>(4,084,260)</b>
<b>General revenues</b>					
Taxes					
Property taxes, levied for general purposes					2,124,010
Insurance and franchise taxes, levied for general purposes					609,078
Licenses and permit fees					
Payroll and gross receipts license fees					540,602
Licenses and fees					36,288
Miscellaneous					29,052
Gain on disposal of assets					280
Unrestricted investment earnings					32,523
<b>Total general revenues and special items</b>					<b>3,371,833</b>
<b>Change in net position</b>					<b>(712,427)</b>
<b>Net position, beginning</b>					<b>4,892,393</b>
<b>Net position, ending</b>					<b>\$ 4,179,966</b>

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

**CITY OF VILLA HILLS, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2020**

<b>Assets</b>	<b>General</b>	<b>Road Tax Fund</b>	<b>Municipal Road Aid Fund</b>	<b>Special Revenue Funds</b>	<b>Total Governmental Funds</b>
Unrestricted Assets					
Cash and cash equivalents	\$ 1,303,216	\$ -	\$ -	\$ 76,231	\$ 1,379,447
Property taxes receivable - net	21,984	-	-	-	21,984
Insurance tax receivable	145,811	-	-	-	145,811
Other receivables	648,243	-	-	-	648,243
Due from other funds	50	-	-	(50)	-
<b>Total Unrestricted Assets</b>	<u>2,119,304</u>	<u>-</u>	<u>-</u>	<u>76,181</u>	<u>2,195,485</u>
Restricted Assets					
Restricted cash	4,632	346,956	153,952	13,605	519,145
<b>Total Assets</b>	<u>\$ 2,123,936</u>	<u>\$ 346,956</u>	<u>\$ 153,952</u>	<u>\$ 89,786</u>	<u>\$ 2,714,630</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 186,111	\$ 216,302	\$ 105,600	\$ -	\$ 508,013
Accrued liabilities	54,165	-	-	-	54,165
Due to other funds	-	-	-	-	-
Liabilities paid with restricted funds					
Restricted accounts	-	-	-	-	-
<b>Total Liabilities</b>	<u>240,276</u>	<u>216,302</u>	<u>105,600</u>	<u>-</u>	<u>562,178</u>
<b>Fund Balances</b>					
Restricted	-	130,654	48,352	13,605	192,611
Committed	558,243	-	-	-	558,243
Assigned	262,331	-	-	76,181	338,512
Unassigned	1,063,086	-	-	-	1,063,086
<b>Total Fund Balances</b>	<u>1,883,660</u>	<u>130,654</u>	<u>48,352</u>	<u>89,786</u>	<u>2,152,452</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,123,936</u>	<u>\$ 346,956</u>	<u>\$ 153,952</u>	<u>\$ 89,786</u>	<u>\$ 2,714,630</u>
Total governmental fund balances					\$ 2,152,452
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets of \$17,357,652, net of accumulated depreciation of (\$11,696,955), used in governmental activities are not financial resources and are not reported in the funds.					5,660,697
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Capital leases					(698,282)
Compensated absences					(150,041)
Net pension and post employment health insurance liability					(4,467,151)
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					2,021,444
Deferred inflows related to pension and post employment health insurance					(339,153)
Net position of governmental activities					<u>\$ 4,179,966</u>

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

**CITY OF VILLA HILLS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2020**

	General Fund	Road Tax Fund	Municipal Road Aid Fund	Special Revenue Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes					
Property	\$ 1,650,064	\$ 473,946	\$ -	\$ -	\$ 2,124,010
Insurance premium	539,733	-	-	-	539,733
Payroll and gross receipts	540,602	-	-	-	540,602
Franchise	69,345	-	-	-	69,345
Licenses and fees	36,288	-	-	-	36,288
Intergovernmental	426,998	-	149,071	-	576,069
Charges for services	1,219,212	-	-	10,910	1,230,122
Fines and forfeitures	6,407	-	-	-	6,407
Interest	32,523	-	-	-	32,523
Sale of surplus property	-	-	-	280	280
Miscellaneous	8,138	-	-	-	8,138
Proceeds from loan	-	-	-	34,400	34,400
Contributions	-	-	-	14,507	14,507
<b>Total Revenues</b>	<b>4,529,310</b>	<b>473,946</b>	<b>149,071</b>	<b>60,097</b>	<b>5,212,424</b>
<b>Expenditures</b>					
Legislative and administrative	374,280	-	-	-	374,280
Contracted Services	1,210,456	-	-	8,190	1,218,646
Public safety	1,612,637	-	-	45,084	1,657,721
Parks and recreation	33,584	-	-	-	33,584
Public works	396,271	-	-	-	396,271
Events & beautification	12,103	-	-	-	12,103
Road repair	797,674	298,890	21,218	-	1,117,782
Capital outlay	237,824	186,500	182,348	7,303	613,975
Debt service:					
Principal	-	-	71,864	99,090	170,954
Interest	-	-	14,091	8,962	23,053
<b>Total Expenditures</b>	<b>4,674,829</b>	<b>485,390</b>	<b>289,521</b>	<b>168,629</b>	<b>5,618,369</b>
Excess (deficit) of revenues over (under) expenditures	(145,519)	(11,444)	(140,450)	(108,532)	(405,945)
<b>Other Financing Sources (Uses)</b>					
Transfers In	-	-	-	171,196	171,196
Transfers Out	(171,196)	-	-	-	(171,196)
Other financing sources	295,800	-	-	-	295,800
<b>Net Change in Fund Balances</b>	<b>(20,915)</b>	<b>(11,444)</b>	<b>(140,450)</b>	<b>62,664</b>	<b>(110,145)</b>
<b>Fund Balances, Beginning of Year</b>	<b>1,904,575</b>	<b>142,098</b>	<b>188,802</b>	<b>27,122</b>	<b>2,262,597</b>
<b>Fund Balances, End of Year</b>	<b>\$ 1,883,660</b>	<b>\$ 130,654</b>	<b>\$ 48,352</b>	<b>\$ 89,786</b>	<b>\$ 2,152,452</b>

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

<p><b>CITY OF VILLA HILLS, KENTUCKY</b>  <b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND</b>  <b>CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE</b>  <b>STATEMENT OF ACTIVITIES</b>  <b>For the Year Ended June 30, 2020</b></p>
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Net change in fund balances-total governmental funds \$ (110,145)

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	753,312
Depreciation expense, net of adjustment	(454,550)

Proceeds from loans	(173,737)
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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	(733,710)
Cost of post employment health insurance benefits earned	(138,415)

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	170,954
Compensated absences	<u>(26,136)</u>

Change in net position of governmental activities	<u><u>\$ (712,427)</u></u>
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The accompanying notes are an integral part of these financial statements.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

### The Reporting Entity

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

### Government-Wide Financial Statements

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

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

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

### Fund Financial Statements

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

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types

The City reports the following governmental funds:

*General Fund*

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

*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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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*Municipal Road Aid Fund*

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

*Special Revenue Fund*

This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains a special revenue fund to account for the aggregate balances and activities in the City's DARE program, the Adopt-a-Unit program, 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, 2020, there was one inter-fund receivables/payables, \$50 due to the General Fund from the Capital Fund.

Inventories and Prepaid Items

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

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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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 1<sup>st</sup>. Taxes were payable by October 1, 2019 and are delinquent after November 15, 2019. The City bills and collects its own property taxes and waste fees. The City had property taxes and waste fees receivable of \$21,984 at June 30, 2020. 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, 2020:

Asset Type	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Land	\$ 28,145	\$ -	\$ -	\$ 28,145
Buildings and improvements	1,251,263	18,000	-	1,269,263
Infrastructure	13,789,847	-	-	13,789,847
WIP Buttermilk SNK	277,856	543,588	-	821,444
Property and equipment	450,074	7,303	-	457,377
Vehicles	807,159	184,421	-	991,580
Subtotal	16,604,344	753,312	-	17,357,656
Less: accum. depreciation	(11,242,405)	(454,550)	-	(11,696,955)
Fixed assets, net	\$ 5,361,939	\$ 298,762	\$ -	\$ 5,660,701

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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Depreciation expense was charged to functions as follows:

Governmental Activities	
Legislative and Administrative	\$ 15,535
Parks and Recreation	21,846
Public Safety	110,814
Public Works - Infrastructure	264,098
Public Works	42,257
Total Governmental Activities Depreciation Expense	<u>\$ 454,550</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.

**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:

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 73,916	\$ 12,039	\$ 85,955
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>\$ 468,573</u>	<u>\$ 39,994</u>	<u>\$ 508,567</u>

Capital Lease – Ford Motor Credit

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

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.

The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 16,745	\$ 621	\$ 17,366
Total	<u>\$ 16,745</u>	<u>\$ 621</u>	<u>\$ 17,366</u>

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. The remaining annual debt service requirements are as follows:

Ending June 30,	Principal	Interest	Payment
2021	\$ 36,284	\$ 2,340	\$ 38,624
Total	<u>\$ 36,284</u>	<u>\$ 2,340</u>	<u>\$ 38,624</u>

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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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. The remaining annual debt service requirements are as follows:

Ending June 30,	Principal	Interest	Payment
2021	\$ 12,397	\$ 800	\$ 13,197
Total	<u>\$ 12,397</u>	<u>\$ 800</u>	<u>\$ 13,197</u>

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
2021	\$ 7,782	\$ 1,671	\$ 9,453
2022	8,304	1,150	9,454
2023	8,860	594	9,454
Total	<u>\$ 24,946</u>	<u>\$ 3,415</u>	<u>\$ 28,361</u>

Capital Lease – DaimlerTruck 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
2021	\$ 25,824	\$ 5,306	\$ 31,130
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>\$ 139,337</u>	<u>\$ 16,312</u>	<u>\$ 155,649</u>

**NOTE G – RESTRICTED CASH**

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

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

	General Fund	Road Tax Fund	Municipal Road Aid Fund	Special Revenue Fund
Flex plan checking	\$ 4,632	\$ -	\$ -	\$ -
Road tax checking	-	346,956	-	-
Municipal road aid checking	-	-	153,952	-
Adopt-a-troop checking	-	-	-	6,240
Shop with a cop	-	-	-	7,365
Total Restricted Cash	\$ 4,632	\$ 346,956	\$ 153,952	\$ 13,605

**NOTE H – 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 I – 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, 2019

	Non-hazardous	Hazardous	Total
Active Plan Members	84,632	9,402	94,034
Inactive Plan Members	85,300	2,702	88,002
Retired Members	58,933	8,000	66,933
	228,865	20,104	248,969
Number of participating employers			1,140

**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:

<p><b>CITY OF VILLA HILLS, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2020</b></p>
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Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	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 of 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%

### **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:

<p><b>CITY OF VILLA HILLS, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2020</b></p>
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Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	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	September 1, 2008 - December 31, 2013
	Unreduced retirement	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	On or after January 1, 2014
	Unreduced retirement	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:

	<u>Required Contribution</u>
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, 2020. 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, 2020.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$76,598, of which \$61,444 was for the pension fund and \$15,154 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 \$219,934, of which \$167,034 was for the pension fund and \$52,900 was for the health insurance fund.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the City reported a liability of \$4,467,151 (\$1,040,608 – non-hazardous and \$3,426,543 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the City's non-hazardous employer allocation proportion was 0.01194% of the total CERS non-hazardous duty employees and 0.097845% of the total CERS hazardous duty employees. For the year ended June 30, 2020, the City recognized pension expense of \$733,710 in addition to its \$228,478 pension contribution.

At June 30, 2020, 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	\$ 21,443	\$ (3,548)	\$ 114,834	\$ -	\$ 136,277	\$ (3,548)
Net difference between projected actual earnings on plan investments	-	(13,538)	-	(38,251)	-	(51,789)
Changes of assumptions	84,999	-	262,355	-	347,354	-
Changes in proportion and differences between contributions and proportionate share of contributions	13,896	(17,289)	692,876	(10,781)	706,772	(28,070)
Contributions subsequent to the measurement date	61,444	-	167,034	-	228,478	-
	<u>\$ 181,782</u>	<u>\$ (34,375)</u>	<u>\$ 1,237,099</u>	<u>\$ (49,032)</u>	<u>\$ 1,418,881</u>	<u>\$ (83,407)</u>

The City's contributions subsequent to the measurement date of \$228,478 will be recognized as a reduction of the net pension liability in the year ending 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	Net
June 30,	Deferral
2020	\$ 585,635
2021	377,898
2022	140,068
2023	3,396
	<u>\$ 1,106,997</u>

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

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

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

**Changes of Assumptions**

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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non-hazardous members and 50% for hazardous duty members.

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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) Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

### 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 of benefit payments to determine the total pension liability.

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**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	\$ 1,050,371	\$ 839,816	\$ 664,320
Hazardous	3,379,066	2,702,768	2,148,301
Total	\$ 4,429,437	\$ 3,542,584	\$ 2,812,621

**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.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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*Contributions* – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
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.

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:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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### 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, 2020.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the City's proportion of the non-hazardous plan was .01194%, At June 30, 2019, the City's proportion of the hazardous plan was 0.097826%.

For the year ended June 30, 2020, the City recognized an OPEB expense of \$138,415. In addition, 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	\$ -	\$ (60,584)	\$ -	\$ (134,646)	\$ -	\$ (195,230)
Net difference between projected actual earnings on plan investments	-	(8,918)	-	(41,612)	-	(50,530)
Changes of assumptions	59,416	(397)	218,722	(1,370)	278,138	(1,767)
Changes in proportion and differences between contributions and proportionate share of contributions	6,941	(8,188)	249,430	(31)	256,371	(8,219)
Contributions subsequent to the measurement date	15,154	-	52,900	-	74,493	-
	<u>\$ 81,511</u>	<u>\$ (78,087)</u>	<u>\$ 521,052</u>	<u>\$ (177,659)</u>	<u>\$ 609,002</u>	<u>\$ (255,746)</u>

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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The City's contributions subsequent to the measurement date, \$15,154 for non-hazardous duty employees and \$52,900 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2020	\$ 118,099
2021	79,591
2022	54,777
2023	32,372
2024	(4,979)
Thereafter	(1,098)
	<u>\$ 278,762</u>

### Actuarial Assumptions

The total OPEB liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2017, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
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 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

summarized in the following table:

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

**Changes of Assumptions**

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

In 2019 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.85% to 5.68%

In 2018 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.84% to 5.85%

In 2017, the demographic and economic assumptions that affect the measurement of the total OPEB liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

**Discount Rate**

The discount rate used to measure the total OPEB liability was 5.68% for the non-hazardous plan and 5.69% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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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.

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

The following table presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.68% for the non-hazardous plan and 5.97% 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:

	Proportionate Share of Net OPEB Liability		
	1% Decrease	Current Rate	1% Increase
Discount rate, non-hazardous	4.68%	5.68%	6.68%
Net OPEB liability, non-hazardous	\$ 268,978	\$ 200,792	\$ 144,611
Discount rate, hazardous	4.69%	5.69%	6.69%
Net OPEB liability, non-hazardous	1,009,812	723,775	491,596
Total	\$ 1,278,790	\$ 924,567	\$ 636,207

**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	\$ 149,330	\$ 200,792	\$ 263,195
Net OPEB liability, hazardous	503,614	723,775	992,360
Total	\$ 652,944	\$ 924,567	\$ 1,255,555

**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 J – CONTIGENCIES**

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

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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The City has been named as a defendant for breach of contract for failure to pay sums claimed by a former City employee and City code enforcement inspection contractor. The plaintiff claims the City owes him \$30,000 due to the City's termination of the contract prior to its expiration date. The City has made a settlement offer, significantly less than \$30,000, and the plaintiff has not responded. The City plans to vigorously defend this claim and anticipates filing a claim for summary judgment.

In 2013 the Kentucky General Assembly passed significant pension reform under Senate Bill 2. Among the reform's various provisions was the introduction of "spiking" penalties beginning January 1, 2014 for the last employer of record whose employees retired after that date who had earned more than 10% in creditable compensation from one year to the next during their last 5 years of employment. The penalty incurred would be calculated to equal the actuarial difference needed to cover the extra lifetime payments the employee earned above the 10% threshold during their final years of employment. The City of Villa Hills had two retirements that qualified for spiking penalties, one on January 31, 2014 and one on March 31, 2014. The two penalties together equal \$210,894. There are significant constitutional questions related to this statute and how it is applied. 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.

#### **NOTE K – 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 L – 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 2020-21 fiscal year budget has been passed to incorporate the effects of the pandemic on the revenues and expenses.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2020</b>
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**NOTE M – CARES ACT FUNDING**

In response to the COVID-19 Global Pandemic, the City has qualified and been approved for \$295,800 in Federal CARES Act funding passed through the Commonwealth of Kentucky's Department for Local Government. This funding has been designated to reimburse the City for payroll expenses for public safety employees during the pandemic. The City has recognized these funds as other financial resources and as an accounts receivable at June 30, 2020

**NOTE N – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

Statement No. 83 – *Certain Asset Retirement Obligations* – FY 2020

Statement No. 88 – *Certain Disclosures Related to Debt* – FY 2020

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance* – FY 2020

**NOTE O – FUTURE ACCOUNTING STANDARDS**

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

Statement No. 87 – *Leases* – FY 2022

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

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

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 P – RESTATEMENT OF PRIOR YEAR BALANCES**

Prior year account balances in the Governmental Activities Table (Table 2) in the Management's Discussion and Analysis have been restated to match the current year's presentation. The net balance amounts have not changed.

**CITY OF VILLA HILLS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**NOTE Q – SUBSEQUENT EVENTS**

Management has evaluated events through September 25, 2020, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2020 through September 25, 2020 to disclose.

**CITY OF VILLA HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
<b>Prior year funds available for use</b>	\$ 473,243	\$ -	\$ 473,243	\$ 1,904,575	\$ 1,431,332
<b>Resources (inflows)</b>					
Taxes and fees	3,407,396	-	3,407,396	3,757,079	349,683
Interlocal contract	726,388	-	726,388	722,788	(3,600)
Grants	348,243	-	348,243	345,243	(3,000)
Use of prior year funds	-	-	-	-	-
<b>Amounts available for appropriation</b>	<u>4,955,270</u>	<u>-</u>	<u>4,955,270</u>	<u>6,729,685</u>	<u>1,774,415</u>
<b>Charges to appropriations (outflows)</b>					
Administration	386,492	-	386,492	374,280	12,212
Contracted services	1,206,907	-	1,206,907	1,210,456	(3,549)
Events and beautification	14,700	-	14,700	12,103	2,597
Police	1,706,641	-	1,706,641	1,657,721	48,920
Public Works	411,338	-	411,338	396,271	15,067
Recreation	53,597	-	53,597	51,584	2,013
Road repair designation	972,486	-	972,486	972,414	72
<b>Total departmental charges to appropriations</b>	<u>4,752,161</u>	<u>-</u>	<u>4,752,161</u>	<u>4,674,829</u>	<u>77,332</u>
<b>Transfer in (out) -</b>					
Capital Fund	(171,196)	-	(171,196)	(171,196)	-
Transfer to surplus reserves	(31,913)	-	(31,913)	-	31,913
<b>Total General Fund Expenses</b>	<u>4,955,270</u>	<u>-</u>	<u>4,955,270</u>	<u>4,846,025</u>	<u>109,245</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,660</u>	<u>\$ 1,883,660</u>

**Reconciliation of Budgetary Fund Balance to GAAP**

<b>Ending Budgetary Fund Balance</b>	\$ 1,883,660
Less: Use of Prior Year Funds	<u>-</u>
<b>Ending Fund Balance</b>	<u>\$ 1,883,660</u>

**CITY OF VILLA HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**ROAD TAX FUND**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
<b>Prior year funds available for use</b>	\$ 25,400	\$ -	\$ 25,400	\$ 142,098	\$ 116,698
<b>Resources (inflows)</b>					
Road tax	460,000	-	460,000	473,946	13,946
<b>Amounts available for appropriation</b>	<u>485,400</u>	<u>-</u>	<u>485,400</u>	<u>616,044</u>	<u>130,644</u>
<b>Charges to appropriations (outflows)</b>					
Capital outlay	435,400	-	435,400	474,745	(39,345)
Road Salt	50,000	-	50,000	10,645	39,355
<b>Total charges to appropriations</b>	<u>485,400</u>	<u>-</u>	<u>485,400</u>	<u>485,390</u>	<u>10</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,654</u>	<u>\$ 130,654</u>

**CITY OF VILLA HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**MUNICIPAL ROAD AID FUND**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts			Actual	Variance Favorable / (Unfavorable)
	Original	Revisions	Final		
<b>Prior year funds available for use</b>	\$ 150,000	\$ -	\$ 150,000	\$ 188,802	\$ 38,802
<b>Resources (inflows)</b>					
Kentucky Municipal Road Aid	140,000	-	140,000	149,071	9,071
<b>Amounts available for appropriation</b>	<u>290,000</u>	<u>-</u>	<u>290,000</u>	<u>337,873</u>	<u>47,873</u>
<b>Charges to appropriations (outflows)</b>					
Capital outlay	183,600	-	183,600	182,348	1,252
Road repair	-	-	-	936	(936)
City Engineer	20,000	-	20,000	20,282	(282)
Debt service and bond costs	<u>86,400</u>	<u>-</u>	<u>86,400</u>	<u>85,955</u>	<u>445</u>
<b>Total charges to appropriations</b>	<u>290,000</u>	<u>-</u>	<u>290,000</u>	<u>289,521</u>	<u>479</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,352</u>	<u>\$ 48,352</u>

**CITY OF VILLA HILLS, KENTUCKY**

**Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-NON-HAZARDOUS  
For the Year Ended June 30, 2020 - Last Ten Years**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.01194%	0.01242%	0.01176%	0.01174%	0.01135%	0.01146%				
Proportionate share of the net pension liability (asset)	\$ 839,816	\$ 756,659	\$ 688,056	\$ 578,110	\$ 488,159	\$ 371,759				
Covered payroll in year of measurement	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	281.76%	197.44%	179.54%	106.95%	125.34%	101.41%				
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 61,444	\$ 48,345	\$ 44,416	\$ 53,462	\$ 67,136	\$ 49,658	\$ 50,371			
Actual contribution	61,444	48,345	44,416	53,462	67,136	49,658	50,371			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
City's covered payroll	318,361	298,058	306,740	383,240	540,548	389,475	366,601			
Contributions as a percentage of covered payroll	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, 2020, is based on the June 30, 2019, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE I in the Notes to the Financial Statements.

**CITY OF VILLA HILLS, KENTUCKY**

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

**For the Year Ended June 30, 2020 - Last Ten Years**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.09785%	0.05346%	0.04417%	0.04976%	0.05459%	0.06000%				
Proportionate share of the net pension liability (asset)	\$ 2,702,768	\$ 1,292,786	\$ 988,161	\$ 853,915	\$ 838,062	\$ 721,131				
Covered payroll in year of measurement	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	481.14%	389.43%	297.67%	178.21%	177.27%	142.25%				
Plan fiduciary net position as a percentage of total pension liability	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 167,034	\$ 139,650	\$ 65,536	\$ 72,070	\$ 96,935	\$ 108,497	\$ 110,364			
Actual contribution	167,034	139,650	65,536	72,070	96,935	108,497	110,364			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
City's covered payroll	555,669	561,746	295,207	331,967	479,165	472,754	506,955			
Contributions as a percentage of covered payroll	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, 2020, is based on the June 30, 2019, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE I in the Notes to the Financial Statements.

**CITY OF VILLA HILLS, KENTUCKY**

**Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure-NON-HAZARDOUS  
For the Year Ended June 30, 2020 - Last Ten Years**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.01194%	0.01242%	0.01176%							
Proportionate share of the net OPEB liability (asset)	\$ 200,792	\$ 220,568	\$ 236,316							
Covered payroll in year of measurement	298,058	306,740	383,240							
Share of the net OPEB liability (asset) as a percentage of its covered payroll	67.37%	57.55%	61.66%							
Plan fiduciary net position as a percentage of total OPEB liability	60.44%	57.62%	52.40%							

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 15,154	\$ 15,678	\$ 14,417	\$ 18,127						
Actual contribution	15,154	15,678	14,417	18,127						
Contribution deficiency (excess)	-	-	-	-						
City's covered payroll	318,361	298,058	306,740	383,240						
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%	4.73%						

**Notes to Required Supplementary Information**

The net OPEB liability as of June 30, 2020, is based on the June 30, 2019, 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 I 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, 2020 - Last Ten Years**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.09783%	0.05346%	0.04417%							
Proportionate share of the net OPEB liability (asset)	\$ 723,775	\$ 381,134	\$ 365,124							
Covered payroll in year of measurement	561,746	295,207	331,967							
Share of the net OPEB liability (asset) as a percentage of its covered payroll	128.84%	114.81%	109.99%							
Plan fiduciary net position as a percentage of total OPEB liability	64.44%	64.24%	59.00%							

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 52,900	\$ 58,815	\$ 27,602	\$ 31,039						
Actual contribution	52,900	58,815	27,602	31,039						
Contribution deficiency (excess)		-	-	-						
City's covered payroll	555,669	561,746	295,207	331,967						
Contributions as a percentage of covered payroll	9.52%	10.47%	9.35%	9.35%						

**Notes to Required Supplementary Information**

The net OPEB liability as of June 30, 2020, is based on the June 30, 2019, 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 I in the Notes to the Financial Statements.

<b>CITY OF VILLA HILLS, KENTUCKY</b> <b>COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS</b> <b>June 30, 2020</b>
--

	<u>Capital Fund</u>	<u>Special Revenue Fund</u>	<u>Total Special Revenue Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 76,231	\$ -	\$ 76,231
Cash and cash equivalents-restricted	-	13,605	13,605
Due from other funds	(50)	-	(50)
<b>Total Assets</b>	<u>\$ 76,181</u>	<u>\$ 13,605</u>	<u>\$ 89,786</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to General Fund	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Restricted	-	13,605	13,605
Committed	-	-	-
Assigned	76,181	-	76,181
<b>Total Fund Balances</b>	<u>76,181</u>	<u>13,605</u>	<u>89,786</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 76,181</u>	<u>\$ 13,605</u>	<u>\$ 89,786</u>

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

**CITY OF VILLA HILLS, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - SPECIAL REVENUE FUNDS**  
**For the Year Ended June 30, 2020**

	Capital Fund	Special Revenue Fund	Total
<b>Revenues</b>			
Sale of surplus property	\$ 280	\$ -	\$ 280
Special revenue contributions	-	10,910	10,910
Other	14,507	-	14,507
Proceeds from loans	34,400	-	34,400
<b>Total Revenues</b>	<u>49,187</u>	<u>10,910</u>	<u>60,097</u>
<b>Expenditures</b>			
Current			
Administration	-	-	-
Police	52,387	-	52,387
Public works	-	-	-
Parks and recreation	-	-	-
Special revenue expenditures	-	8,190	8,190
Debt service	108,052	-	108,052
<b>Total Expenditures</b>	<u>160,439</u>	<u>8,190</u>	<u>168,629</u>
<b>Excess (Deficit) of Revenues Over (Under)</b>			
<b>Expenditures Before Other Sources</b>	<u>(111,252)</u>	<u>2,720</u>	<u>(108,532)</u>
<b>Other Financing Sources</b>			
Transfers in	171,196	-	171,196
Transfers out	-	-	-
<b>Total Other Financing Sources</b>	<u>171,196</u>	<u>-</u>	<u>171,196</u>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	59,944	2,720	62,664
<b>Fund Balances, Beginning of Year</b>	<u>16,237</u>	<u>10,885</u>	<u>27,122</u>
<b>Fund Balances, End of Year</b>	<u>\$ 76,181</u>	<u>\$ 13,605</u>	<u>\$ 89,786</u>

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, 2020 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 25, 2020.

**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.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker, & Co., Inc.  
Erlanger, Kentucky  
September 25, 2020