

CITY OF INDIAN HILLS, KENTUCKY

Financial Statements and Supplementary Information

Year Ended June 30, 2015

with Report of Independent Auditors

CONTENTS

	<u>Pages</u>
Report of Independent Auditors	1 - 3
Management's Discussion and Analysis.....	4 - 8
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	14
Notes to the Financial Statements.....	15 - 26
Supplementary Information:	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> Standards.....	27 - 28
Supplementary Statement of Revenues and Expenditures - Budget and Actual - Police Department.....	29

Report of Independent Auditors

To the Honorable Mayor and City Council
City of Indian Hills, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Indian Hills, Kentucky (the City), as of and for the year ended June 30, 2015, 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for the major funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2014, the City adopted Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions". Our opinion is not modified with respect to this matter.

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 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary statement of revenues and expenditures – budget and actual – Police Department on page 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

City Council
City of Indian Hills, Kentucky
Report of Independent Auditors, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

September 17, 2015
Louisville, Kentucky

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis

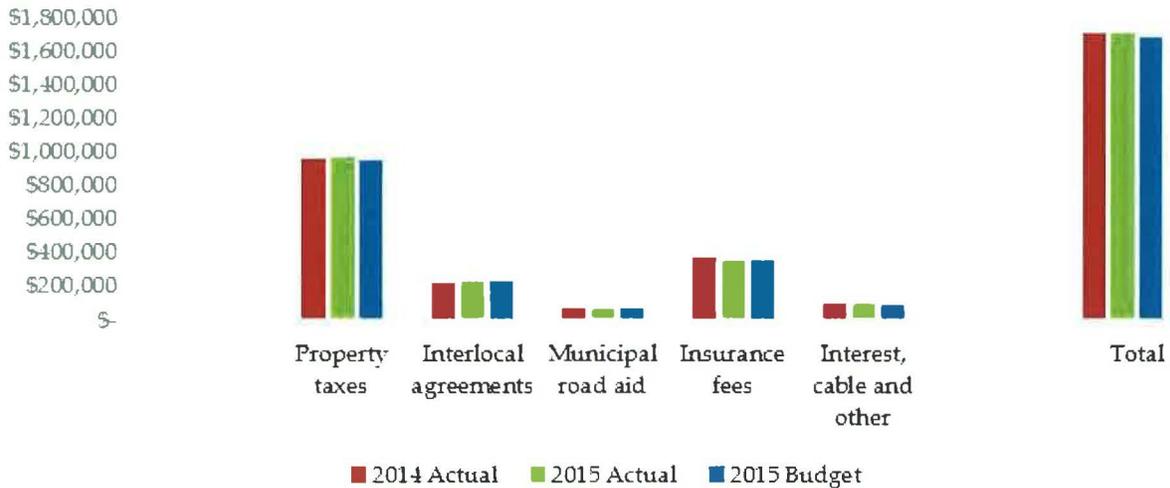
Year Ended June 30, 2015

The purpose of the management's discussion and analysis is to provide an overview of the financial activities of the City of Indian Hills based on currently known facts, decisions or conditions and should be read in conjunction with the City's financial statements, which begin on page 8.

Financial Highlights

The June 30, 2015 balance of cash, cash equivalents and investments for the City was \$2,128,941. This reflects a decrease in cash and investments during the year of \$121,020. Total revenues for the year ended June 30, 2015 was \$1,712,372 and is shown below as compared to the prior fiscal year and current year budget:

Annual Revenues



Using This Annual Report

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The combined basic financial statements comprise three components: 1) combined government-wide financial statements, 2) combined fund financial statements, and 3) notes to the financial statements. The combined financial statements included in this report provide insight into the financial status of the City as of the year ended June 30, 2015.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2015

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. These statements report financial information for the City and provide both short-term and long-term information about the City's financial position, and assist in the assessment of the City's economic condition at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. All of the 2015 fiscal year's revenues and expenses are taken into account when revenue is earned or an expense is incurred.

The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position reflects the financial position of the City at fiscal year ended June 30, 2015. Accordingly, the City's net position, the difference between assets (what the City owns) and the liabilities (what the City owes) net of the deferred inflows and outflows of resources related to the pension plan, is one way to determine the financial condition of the City. Over time, increases or decreases in net position are one indicator of whether the financial health of the City is improving or deteriorating. However, additional factors such as changes in the City's revenue structure, its tax base, its level of assets held, and the recognition of the City's allocated portion of the long-term obligation for pension benefits, should be considered in order to assess thoroughly the overall financial condition of the City.

The City's current net position is presented in three components:

1. Investment in capital assets
2. Restricted capital assets for the use of the police department
3. Unrestricted

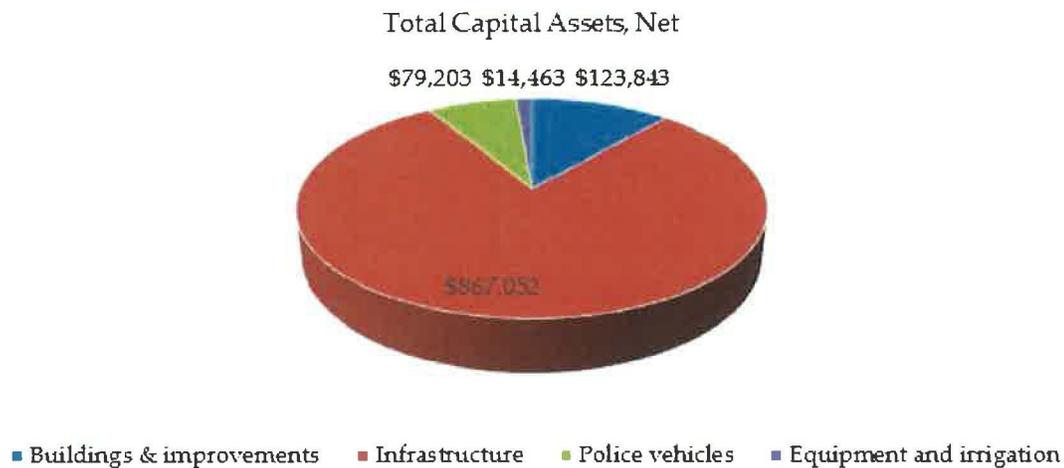
The Statement of Activities reflects the City's revenues and expenses, as well as other transactions that increase or decrease net position. The City's operations for the year ended June 30, 2015 increased the City's net position by \$198,387 and resulted in a net position of \$2,450,500 at June 30, 2015.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2015

Although the largest portion of the City's net position is unrestricted, the remaining 44% reflects its total investment in capital assets, including the police building valued at \$123,843, net of accumulated depreciation, which is restricted to use as a police station. The City depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of \$514,022 as of June 30, 2015. Depreciation and amortization expense for the year ended June 30, 2015 was \$103,443. The City's capital assets and land at cost on June 30, 2015 are summarized as follows:



The City participates in a cost-sharing pension plan with numerous other governmental agencies that is administered by the Kentucky Retirement System. During fiscal year 2015, the City was required to adopt a new governmental accounting standard related to the accounting for pension plans. In accordance with this new accounting standard, the City recorded a liability for its proportionate share of the net pension liability of the cost-sharing plan. The net pension liability and the City's allocation were determined by the Kentucky Retirement System. The adoption of this new accounting standard resulted in a \$720,000 reduction in the City's beginning net position at July 1, 2014. The City's net pension liability at June 30, 2015 was \$706,000.

Fund Financial Statements

The City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund financial statements, which begin on page 11, provide a detailed short term view of the City's general government operations and the basic services it provides. Governmental funds are used to account for essentially the same functions reported as governmental activity in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

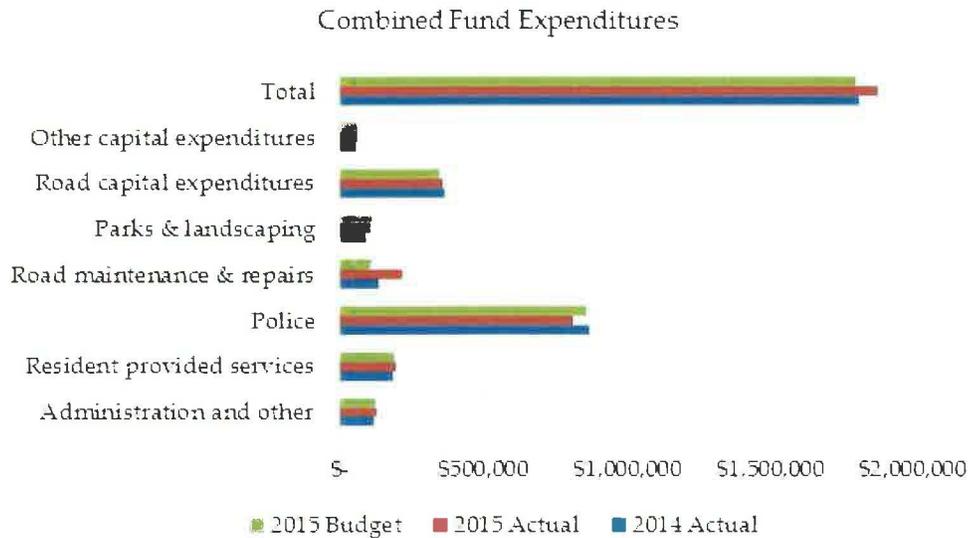
CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2015

These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with the governmental activity in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term funding decisions. Along with the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, the combined fund financial statements include a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City's governmental funds are split between road fund and general fund. Total expenditures for all governmental funds were \$1,880,089, which was \$167,717 more than the total revenues of \$1,712,372 for the year ended June 30, 2015.



Revenue for the fiscal year exceeded the amount budgeted by \$32,972, however total expenditures were \$78,689 more than the amounts budgeted.

Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the financial statements and focus on the primary activities of the City.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2015

Operations

The largest expense for the City continued to be the police department which represented approximately 50% of our total expenses for the year ended June 30, 2015, as presented in the statement of activities. In the fall of 2014, the road fund spent \$358,523 for road repaving. Due to unusually inclement weather, the road fund incurred costs of \$219,629 for road maintenance and repairs during the year ended June 30, 2015, for which only \$104,000 was budgeted. The City approved transfers of \$500,000 from the general fund to the road fund to help cover these expenditures. The City utilized "rainy day funds" (net unrestricted position) that we refer to as, "for future operations" to meet these needs. While continuing to set aside emergency funds, we are proud to approve an increase in discount, from 12.5% to 20% of gross tax, for all 2015 real estate tax payments received prior to December 31.

Contacting the City's Financial Management

Your City Council takes seriously the responsibility of operating within a budget and maintaining our City to be the place that we can all be proud to call home. The financial report is designed to provide our citizens with a general overview of the City's financial position and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Mayor Thomas O. Eifler, Sr., City of Indian Hills, Kentucky, P. O. Box 6289, Louisville, KY 40206-0289.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF INDIAN HILLS, KENTUCKY

Statement of Net Position

June 30, 2015

	<u>Governmental Activity</u>
Assets	
Cash and cash equivalents	\$ 940,887
Insurance fees receivable and other	84,596
Prepaid expenses	2,653
Investments	1,188,054
Capital assets, net	<u>1,084,561</u>
Total assets	<u>\$ 3,300,751</u>
Deferred Outflows of Resources	
Deferred amount on pension plan contributions	<u>\$ 106,260</u>
Liabilities	
Account payable	\$ 37,230
Accrued wages, taxes, vacation and sick pay	67,731
Refundable building deposits	76,550
Net pension liability	<u>706,000</u>
Total liabilities	<u>\$ 887,511</u>
Deferred Inflows of Resources	
Deferred amount related to pension plan	<u>\$ 69,000</u>
Net Position	
Investment in capital assets	\$ 960,718
Restricted capital assets for the use of the police department	123,843
Unrestricted	<u>1,365,939</u>
Total net position	<u>\$ 2,450,500</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Statement of Activities

Year Ended June 30, 2015

	<u>Governmental Activity</u>
Expenses:	
Administration	\$ 126,271
Resident provided services	195,979
Police	762,785
Public works	323,710
Net unrealized investment loss	1,797
Depreciation expense	<u>103,443</u>
Total expenses	1,513,985
General revenues:	
Property taxes	966,608
Interlocal agreements	228,360
Municipal road aid	68,456
Interest income	14,619
Insurance and cable fees	368,850
Other income	<u>65,479</u>
Total general revenues	<u>1,712,372</u>
Change in net position	198,387
Net position, beginning of year, as previously reported	2,972,113
Adjustment applicable to prior years resulting from the retroactive change in accounting for pensions upon adoption of a new accounting standard (Note 1)	<u>(720,000)</u>
Net position, beginning of year, as adjusted	<u>2,252,113</u>
Net position, end of year	<u>\$ 2,450,500</u>

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF INDIAN HILLS, KENTUCKY

Balance Sheet - Governmental Funds

June 30, 2015

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 937,184	\$ 3,703	\$ 940,887
Insurance fees receivable and other	84,596	-	84,596
Prepaid expenses	2,653	-	2,653
Investments	<u>1,188,054</u>	<u>-</u>	<u>1,188,054</u>
Total assets	<u>\$ 2,212,487</u>	<u>\$ 3,703</u>	<u>\$ 2,216,190</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 37,230	\$ -	\$ 37,230
Accrued wages, taxes, vacation and sick pay	67,731	-	67,731
Refundable building deposits	<u>76,550</u>	<u>-</u>	<u>76,550</u>
Total liabilities	181,511	-	181,511
Fund balances:			
Nonspendable	2,653	-	2,653
Assigned - Road Fund	-	3,703	3,703
Unassigned	<u>2,028,323</u>	<u>-</u>	<u>2,028,323</u>
Total fund balances	<u>2,030,976</u>	<u>3,703</u>	<u>2,034,679</u>
Total liabilities and fund balances	<u>\$ 2,212,487</u>	<u>\$ 3,703</u>	<u>\$ 2,216,190</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

Total fund balances for governmental funds	\$	2,034,679
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources, and therefore, not reported in the general fund.		1,084,561
Long-term liabilities and deferred inflows and outflows of resources are not financial resources or current liabilities, and therefore, the net impact of the pension-related liabilities and deferred inflows and outflows of resources are not reported in the general fund.		<u>(668,740)</u>
Total net position of governmental funds	\$	<u>2,450,500</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2015

	Actual				Over (Under) Budget
	Total Budget	General Fund	Road Fund	Total Governmental Funds	
Revenues:					
Property taxes	\$ 950,000	\$ 966,608	\$ -	\$ 966,608	\$ 16,608
Interlocal agreements	228,360	228,360	-	228,360	-
Municipal road aid	67,000	-	68,456	68,456	1,456
Interest income	9,500	14,619	-	14,619	5,119
Insurance fees	350,000	353,091	-	353,091	3,091
Cable fees	15,700	15,759	-	15,759	59
Other income	58,840	65,479	-	65,479	6,639
Total revenues	1,679,400	1,643,916	68,456	1,712,372	32,972
Expenditures:					
Administration	122,000	126,225	46	126,271	4,271
Resident provided services	192,700	195,979	-	195,979	3,279
Police	858,700	814,045	-	814,045	(44,655)
Public works:					
Road maintenance and repairs	104,000	-	219,629	219,629	115,629
Parks and landscaping	114,000	104,081	-	104,081	(9,919)
Capital expenditures	410,000	59,764	358,523	418,287	8,287
Net unrealized investment loss	-	1,797	-	1,797	1,797
Total expenditures	1,801,400	1,301,891	578,198	1,880,089	78,689
Excess (deficiency) of revenues over expenditures	(122,000)	342,025	(509,742)	(167,717)	(45,717)
Transfers:					
Transfers (from) to other funds	-	(500,000)	500,000	-	-
Net change in fund balances	\$ (122,000)	(157,975)	(9,742)	(167,717)	\$ (45,717)
Fund balances, beginning of year		2,188,951	13,445	2,202,396	
Fund balances, end of year		\$ 2,030,976	\$ 3,703	\$ 2,034,679	

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Net change in fund balances - total governmental funds	\$ (167,717)
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 and reported as depreciation expense. This is the amount by which capital outlays of \$418,287 exceeded depreciation of \$103,443 in the current period.	314,844
Net difference between pension plan contributions of \$123,039 reported as expense in governmental funds and the pension expense of \$71,779 recorded in the statement of activities.	<u>51,260</u>
Change in net position of governmental activities	<u>\$ 198,387</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The accompanying basic financial statements include the City of Indian Hills, Kentucky and its Police Department. The Mayor and City Council serve as the governing board for both the City of Indian Hills, Kentucky and the Police Department (collectively the City) and are elected by City residents.

Change in Accounting Principle

Effective July 1, 2014, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (Statement 68). Statement 68 replaced the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and Statement No. 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the City, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

Statement 68 required retrospective application. Since the City only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$720,000 reduction in beginning net position.

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires City management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Government-Wide Financial Statements

The City has presented a statement of net position and a statement of activities for the City as a whole. These statements include the primary government and its component units, if applicable. Government-wide accounting is designed to provide a more comprehensive view of the City's operations and financial position as a single economic entity.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental-type activities are those financed through property taxes, intergovernmental revenues, municipal aid, and other non-exchange revenues and are usually reported in governmental and internal service funds. The City has no business-type activities.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

Policies specific to the government-wide statements are as follows:

Capitalizing Assets – Tangible assets used in operations with an initial useful life that extends beyond one year are capitalized. Capital assets, including infrastructure, are recorded at their historical cost and are depreciated using the straight-line method of depreciation over their estimated useful lives. They are reported net of accumulated depreciation on the statement of net position. The City capitalizes general infrastructure assets acquired on or after July 1, 2003.

Pensions – The City participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members.

In accordance with Statement 68, cost-sharing governmental employers, such as the City, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. 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 CERS and additions to or deductions from CERS' fiduciary net position have been determined on the same basis 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 the benefit terms. Investments are reported at fair value.

All governments participating in the defined benefit pension plan also are required to disclose various information in the footnotes to the financial statements – see Note 6.

Fund Financial Statements

The City uses funds 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 relating to certain government functions or activities.

Funds of the City are classified as governmental. This category, in turn, is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

Governmental Funds – Governmental funds account for all or most of the City's general activities, including the collection of legally restricted monies, administrative expenses, and the acquisition or construction of capital assets. Governmental funds include:

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Fund Financial Statements, continued

Governmental Funds, continued

General Fund – The general operating fund of the City accounts for all financial resources, except those required to be accounted for in other funds.

Road Fund – Repairs and improvements to the City's road system are conducted through the Road Fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Capital assets are reported and depreciated.

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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except pension liabilities are accounted for as expenditures in the period when contributions are made. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated.

Budgetary Accounting

The budget information reflected in the financial statements is the annual budget adopted by the City in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with GAAP.

Cash and Cash Equivalents

Cash and cash equivalents include cash on-hand and highly liquid investments with an original maturity of three months or less from the date of acquisition.

Investments

Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the statement of activities and the statement of revenues, expenditures, and changes in fund balances – governmental funds.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment, are reported in the governmental activities columns in the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred.

All capital assets are depreciated using the straight-line depreciation method over the following estimated useful lives:

Buildings and improvements	20 to 50 years
Infrastructure	25 years
Police vehicles	3 to 5 years
Equipment	5 to 10 years

Net Position/Fund Balances

In the statement of net position, the difference between the City's assets and liabilities is recorded as net position. The components of net position are as follows:

Invested in Capital Assets – This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowing attributable to the acquisition, construction, or improvement of capital assets.

Restricted – Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. In 2000, land and a building were donated to the City to be used as a police headquarters. If the property is not used as a police headquarters, it reverts back to the donor. The net book value of the property, including capital improvements, is classified as restricted net position.

Unrestricted – This category represents net position not appropriated for expenditures or legally segregated for a specific future use.

In the balance sheet of governmental funds the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into the following classifications, as applicable:

Nonspendable – These resources include amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The City's nonspendable funds as of June 30, 2015 consisted of prepaid expenses.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

1. Reporting Entity and Summary of Significant Accounting Policies, continued

Net Position/Fund Balances, continued

Restricted – Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The City had no restricted funds as of June 30, 2015.

Committed – Amounts constrained for a specific purpose by the City using its highest level of decision-making authority. For resources to be considered committed, the City Council issues an ordinance that can only be changed with another corresponding ordinance. The City had no committed funds as of June 30, 2015.

Assigned – Amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the City Council or by a City official given authority to assign amounts. The City has assigned funds of \$3,703 for road improvements as of June 30, 2015.

Unassigned – Amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

2. Deposits and Investments

Deposits

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by Kentucky Revised Statutes (KRS) 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Consistent with the City's deposit policy, as of June 30, 2015 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

2. Deposit and Investments, continued

Investments

At June 30, 2015, the City's investment balances were as follows:

	<u>Maturity</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
U.S. Treasury obligation:			
Interest rate of 8.00%	11/15/2021	\$ 50,375	\$ 68,227
Certificates of deposit:			
Interest rate of 0.65%	08/20/2015	216,939	218,820
Interest rate of 0.65%	08/20/2015	211,659	213,494
Interest rate of 1.29%	4/24/2018	521,791	526,021
Interest rate of 1.29%	4/25/2018	<u>160,188</u>	<u>161,492</u>
Total		<u>\$ 1,160,952</u>	<u>\$ 1,188,054</u>

Interest Rate Risk – The City does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates.

Credit Risk – Commonwealth of Kentucky law under KRS 66.480, limits investments to obligations of the United States Government, obligations backed by the full faith and credit of the United States Government, obligations of any corporation or agency of the United States Government, certificates of deposits, commercial paper, bonds or securities issued by a state or local government, and shares of mutual funds. The City has no written investment policy that would further limit its investment choices as they are defined in KRS 66.480.

Concentration of Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the City will not be able to recover the value of its investments held in the possession of an outside party. Consistent with the City's investment policy, as of June 30, 2015, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

3. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and improvements	\$ 179,292	\$ -	\$ -	\$ 179,292
Infrastructure	618,047	358,523	-	976,570
Police vehicles	393,592	59,764	(53,879)	399,477
Equipment and irrigation	<u>110,148</u>	<u>-</u>	<u>(66,904)</u>	<u>43,244</u>
Total capital assets	1,301,079	418,287	(120,783)	1,598,583
Less accumulated depreciation				
Buildings and improvements	(51,657)	(3,792)	-	(55,449)
Infrastructure	(74,040)	(35,478)	-	(109,518)
Police vehicles	(312,596)	(61,557)	53,879	(320,274)
Equipment and irrigation	<u>(93,069)</u>	<u>(2,616)</u>	<u>66,904</u>	<u>(28,781)</u>
Total accumulated depreciation	<u>(531,362)</u>	<u>(103,443)</u>	<u>120,783</u>	<u>(514,022)</u>
Capital assets, net	<u>\$ 769,717</u>	<u>\$ 314,844</u>	<u>\$ -</u>	<u>\$ 1,084,561</u>

4. Refundable Building Deposits

Builders of new homes and contractors performing home additions and renovations within city limits are required to post a deposit to be used by the City in the event that damages to adjacent properties and roadways are not repaired by the builder. These funds are deposited into an escrow account and are refunded, subject to a satisfactory inspection by the City's public works manager and a certificate of occupancy from Louisville Metro Government.

5. Property Taxes

Property taxes are levied in November of each year based upon on the taxable value as of January 1 for all real property located within the City. Taxable values are assessed periodically by the Property Valuation Administrator (PVA) of Jefferson County, Kentucky who is required by Commonwealth of Kentucky law to maintain total assessments at approximately 100% of fair market value.

As of January 1, 2014, the taxable value of real and certain personal property, as assessed by the PVA, was \$544,983,020. The City currently levies a property tax rate of \$.20 per \$100 of the taxable value of real property and certain personal property, as determined by the PVA. Property tax payments are due by February 1 of each year. After February 1, a penalty of 10% is added, plus interest at 1½% per month compounded monthly. Additionally, the City charges a 25% attorney fee for delinquent taxes. Taxpayers receive a 12.5% discount if property taxes are paid prior to January 1. Property tax revenues, after applicable discounts, were \$966,608 for the year ended June 30, 2015.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan

CERS Plan

Plan description – The Police Department has elected to participate in CERS, pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Benefits provided – CERS provides retirement, disability, and death benefits. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Each employee covered by CERS is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 5 based on date of participation) upon attainment of CERS specified age (or age and service combinations). Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service.

Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal the employee's final full-year salary.

Contributions – Benefit and contribution rates are established by state statute. Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to the plan. The nonhazardous covered employee payroll for the year ended June 30, 2015 was \$91,163 and the Police Department's contribution rate was 17.67%. The Police Department's contribution rate for nonhazardous employees was 18.89% and 19.55% for the years ended June 30, 2014 and 2013, respectively.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

CERS Plan, continued

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9.00% of their salary to be allocated as follows: 8.00% will go to the member's account and 1.00% will go to the Kentucky Retirement System insurance fund. The hazardous covered employee payroll for the year ended June 30, 2015 was \$302,771 and the Police Department's contribution rate was 34.31%. The Police Department's contribution rate for hazardous employees was 35.70% and 37.60% for the years ended June 30, 2014, and 2013, respectively.

The Police Department contributes the full amount that is contractually required to contribute each year. The Police Department's contributions to CERS for the years ended June 30, 2015, 2014, and 2013 amounted to \$123,039, \$122,977, and \$136,685 respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2015, the City reported a liability of \$706,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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 organizations, actuarially determined. At June 30, 2015, the City's proportion of the net pension liability was 0.06 percent and the City's proportionate share of the net pension liability as a percentage of its covered employee payroll was 179%.

For the year ended June 30, 2015, the Police Department recognized pension expense of \$71,779. \$55,000 of this expense relates to the Police Department's proportionate share of the net pension liability. The remaining \$16,779 relates to contributions made to CERS for employees who retired and were rehired on September 1, 2008 or later. In accordance with KRS statutes, employees who retired and were rehired on September 1, 2008 or later are no longer making contributions to CERS, are not earning service credit during the period of reemployment and will not be eligible for any additional retirement benefits based upon the reemployment. However, because the employees have returned to work in a position that would have qualified for participation in the plan, the Police Department is required to pay contributions to CERS based on the nonhazardous rate. Because the employee will not receive any future benefit from these contributions they are not factored into the net pension liability calculation and are therefore included as an expense.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

CERS Plan, continued

At June 30, 2015, the Police Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 69,000
Police Department's contributions subsequent to the measurement date of June 30, 2014	106,260	-
Total	\$ 106,260	\$ 69,000

The deferred outflows of resources relate to the Police Department's contributions to the CERS plan subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2016	\$ 13,800
2017	13,800
2018	13,800
2019	13,800
2020	13,800
Total	\$ 69,000

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2008.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

CERS Plan, continued

The long-term expected rate of return on pension 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 pension plan 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 summarized in the following table:

Asset Class	Target Allocation	Long Term Nominal Rate of Return
Asset Class	30%	8.45%
Domestic Equity	22%	8.85%
International Equity	5%	10.50%
Emerging Market Equity	7%	11.25%
Private Equity	5%	7.00%
Real Estate	10%	5.25%
Core US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.75 percent. 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. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Police Department’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Police Department’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Police Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Police Department's share of the net pension liability	\$ 923,906	\$ 706,000	\$ 521,469

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

CERS Plan, continued

Pension plan fiduciary net position – The plan fiduciary net position as a percentage of the total pension liability for the CERS nonhazardous and hazardous pension plans were 61.79% and 58.69%, respectively at June 30, 2014. Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

Deferred Compensation Plans

The City's employees may elect to participate in two deferred compensation plans offered by the Kentucky Public Employees Deferred Compensation Authority under sections 401(k) and 457 of the Internal Revenue Code. Under the plans, employees may defer up to 100% of their compensation after deducting required contributions to the CERS plan. The City does not make matching contributions to these plans.

SUPPLEMENTARY INFORMATION

Report of Independent Auditors 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 City Council
City of Indian 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 Indian Hills, Kentucky (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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.

Dean Dotson Allen Ford, PLLC

September 17, 2015
Louisville, Kentucky

CITY OF INDIAN HILLS, KENTUCKY

Supplementary Statement of Revenues and Expenditures - Budget and Actual - Police Department

Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
City police allocation	\$ 652,440	\$ 652,440	\$ -
Interlocal income - Rolling Fields	148,740	148,740	-
Interlocal income - Mockingbird Valley	79,620	79,620	-
Other income	37,900	37,735	(165)
Proceeds from sale of surplus equipment	-	1,500	1,500
Interest income	<u>-</u>	<u>526</u>	<u>526</u>
Total revenues	918,700	920,561	1,861
Expenditures:			
Salaries	489,900	470,507	(19,393)
Pension costs	123,500	123,039	(461)
Insurance	75,800	70,721	(5,079)
Vehicles repairs and maintenance	17,000	16,099	(901)
Payroll taxes	37,500	34,098	(3,402)
Office expenses	8,000	8,075	75
Professional fees	25,550	27,568	2,018
Supplies and uniforms	13,500	12,224	(1,276)
Vehicle fuel	43,500	30,099	(13,401)
Training	3,000	2,043	(957)
Community relations	950	-	(950)
Utilities and communications	20,500	19,572	(928)
Capital expenditures	<u>60,000</u>	<u>59,763</u>	<u>(237)</u>
Total expenditures	<u>918,700</u>	<u>873,808</u>	<u>(44,892)</u>
Excess of revenues over expenditures	\$ <u>-</u>	\$ <u>46,753</u>	\$ <u>46,753</u>

See report of independent auditors.