

**CITY OF INDIAN HILLS, KENTUCKY**

**Financial Statements and Supplementary  
Information**

*Year Ended June 30, 2018  
with Report of Independent Auditors*

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## 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, 2018, 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, 2018, the respective changes in financial position and the 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, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)". Our opinions are 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, the Schedule of the City's Proportionate Share of the Net Pension Liability on page 32, the Schedule of the City Pension Contributions on page 33, the Schedule of the City's Proportionate Share of the OPEB Liability on page 34, and the Schedule of City OPEB Contributions on page 35 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 38 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

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

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018 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 the effectiveness of the City's 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 20, 2018  
Louisville, Kentucky

CITY OF INDIAN HILLS, KENTUCKY

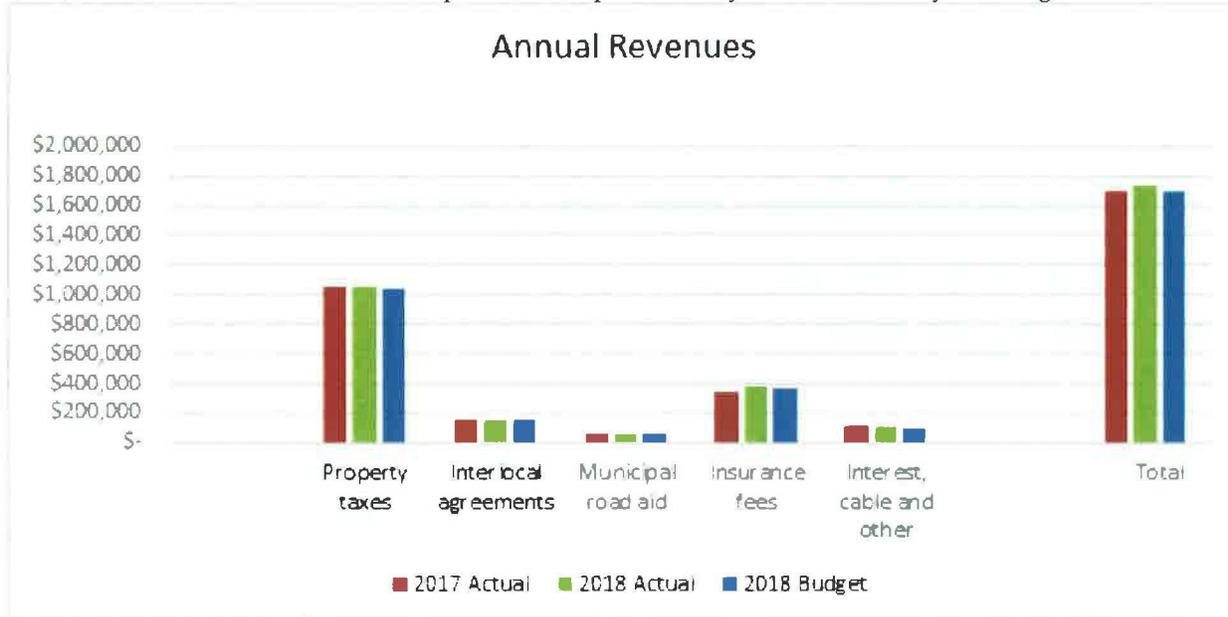
Management's Discussion and Analysis

Year Ended June 30, 2018

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 9.

**Financial Highlights**

The June 30, 2018 balance of cash, cash equivalents and investments for the City was \$1,893,301. This reflects a \$478,871 decrease in cash and investments during the year, primarily due to the purchase and renovation of our new City administrative offices during the fiscal year. Total revenues for the year ended June 30, 2018 was \$1,736,842 and is shown below as compared to the prior fiscal year and current year budget:



**Using This Annual Report**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements included in this report provide insight into the financial status of the City as of the year ended June 30, 2018.

## CITY OF INDIAN HILLS, KENTUCKY

### Management's Discussion and Analysis, (continued)

Year Ended June 30, 2018

#### 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 2018 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, 2018. 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 and other postemployment benefits (OPEB), 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 and OPEBs, should be considered in order to assess thoroughly the overall financial condition of the City.

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

1. Investment in capital assets
2. 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, 2018 decreased the City's net position by \$237,060 and resulted in a net position of \$2,188,893 at June 30, 2018.

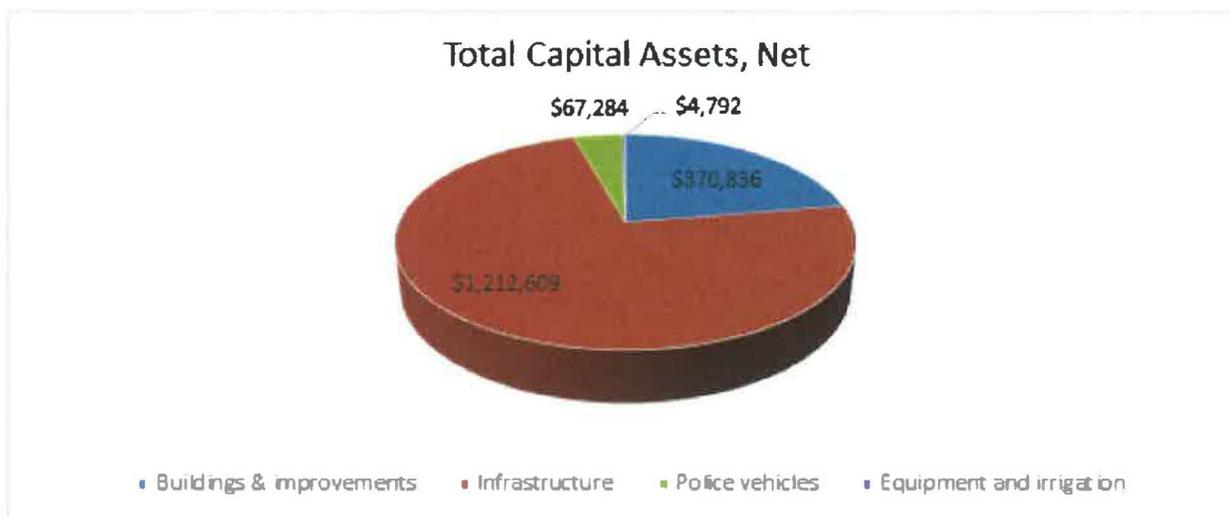
In August 2017, the City Council approved the acquisition of a residence within its City limits in order to consolidate police and administrative operations under one roof. This property was purchased and converted for City operations at the beginning of 2018. Until this move, the police station had been located outside of the City limits on property donated with restricted usage as a police headquarters. The property reverted back to the donor when the Police Department moved its headquarters. An \$112,467 loss from disposal of asset was recorded in the fiscal year reflecting the estimated fair market value of the property on the date of donation less depreciation. Although this loss was recognized in the current fiscal year, the City feels that the combination of police and administrative operations into a single location within its City limits is a cost effective long term investment strategy.

## CITY OF INDIAN HILLS, KENTUCKY

### Management's Discussion and Analysis, (continued)

Year Ended June 30, 2018

The largest portion of the City's net position reflects its investment in capital assets, with 73% of net capital assets invested in road infrastructure. The City depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of \$593,853 as of June 30, 2018. Depreciation expense for the year ended June 30, 2018 was \$114,555. The City's capital assets at cost less depreciation on June 30, 2018 are summarized as follows:



The City participates in cost-sharing plans with numerous other governmental agencies that are administered by the Kentucky Retirement System and covers the pension and OPEB of all participating employees. The cost-sharing plans are significantly under-funded resulting in a net liability for the plans. The City records 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 City's net pension liability was \$1,162,603 and \$1,031,077 at June 30, 2018 and 2017, respectively. The increase in the net pension liability is a result of changes in certain actuarial assumptions, differences between expected and actual experience, and changes in the City's proportionate share.

During fiscal year 2018, the City was required to adopt a new governmental accounting standard related to the accounting for OPEB. In accordance with this new accounting standard, the City recorded a liability for its proportionate share of the net OPEB liability of the cost-sharing plan similar to the accounting for the pension liability discussed above. The net OPEB liability and the City's allocation were determined by the Kentucky Retirement System. The adoption of this new accounting standard resulted in a \$233,766 reduction in the City's beginning net position at July 1, 2017. The City's net OPEB liability at June 30, 2018 was \$429,580. This represents 0.05% of the calculated total CERS hazardous OPEB liability. The combined pension and OPEB liability as of the most recent measurement date is 343% of annual wages paid. The ongoing cost of funding pension and OPEB plans is a significant concern for the City.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

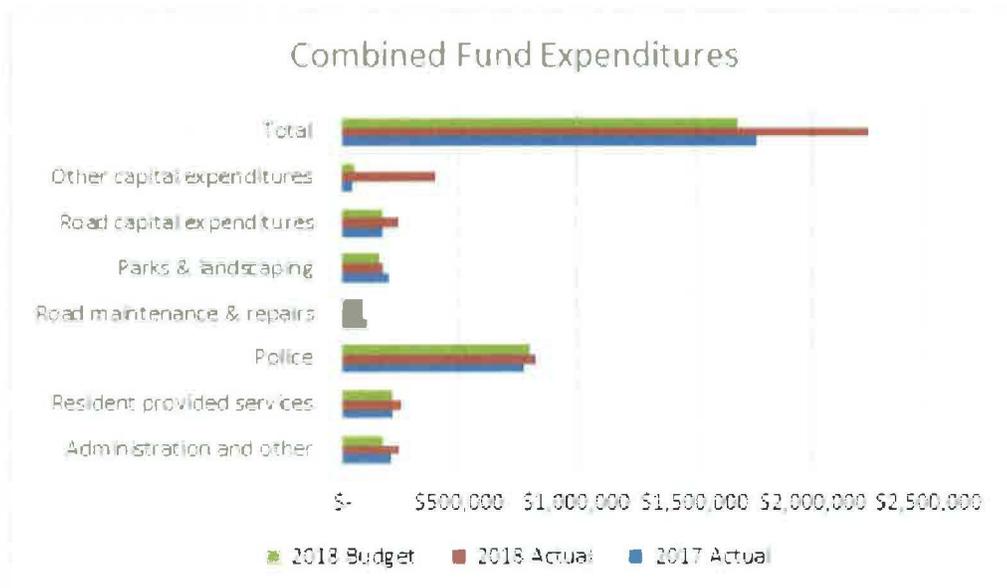
Year Ended June 30, 2018

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.

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 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 \$2,242,957, which was \$506,115 more than the total revenues of \$1,736,842 for the year ended June 30, 2018.



## CITY OF INDIAN HILLS, KENTUCKY

### Management's Discussion and Analysis, (continued)

Year Ended June 30, 2018

Revenues for the fiscal year were more than the amount budgeted by \$37,942, while total expenditures were \$557,157 more than the amounts budgeted. The expenses and capital outlay necessary to convert the property located at 3905 Brownsboro Road for City operations were the primary cause of the additional amount over budget. Capital expenditures also exceeded the amount budgeted by nearly \$75,000 due to the expanded road paving needed because of road deterioration accelerated by inclement weather.

#### 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.

#### 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, 2018, as presented in the statement of activities. In order to keep our residents and others traveling on our streets as safe as possible, the City has continued its commitment to allocate and spend the funds for road infrastructure and repairs as considered necessary. The City transferred \$270,000 to the road fund to help cover such expenditures in the year ended June 30, 2018. While continuing to set aside emergency funds, in 2015 we were proud to approve an increase in discount, from 12.5% to 20% of gross tax, for all real estate tax payments received prior to December 31. The continuation of this discount has been approved for 2018.

#### Contacting the City's Financial Management

Your City Council takes seriously the responsibility of operating within a budget while 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 Chip Hancock, City of Indian Hills, Kentucky, 3905 Brownsboro Road, Louisville, KY 40207.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF INDIAN HILLS, KENTUCKY**

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 607,926
Insurance fees receivable and other	106,708
Prepaid expenses	3,626
Investments	1,285,375
Capital assets, net	<u>1,655,521</u>
Total assets	<u>\$ 3,659,156</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount related to pension plan	\$ 341,029
Deferred amount related to OPEB	<u>177,830</u>
Total deferred outflow of resources	<u>\$ 518,859</u>
<b>Liabilities</b>	
Accounts payable	\$ 67,811
Accrued wages, taxes, vacation and sick pay	49,907
Refundable building deposits	168,650
Net pension liability	1,162,603
Net OPEB liability	<u>429,580</u>
Total liabilities	<u>\$ 1,878,551</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount related to pension plan	\$ 82,532
Deferred amount related to OPEB	<u>28,039</u>
Total deferred inflow of resources	<u>\$ 110,571</u>
<b>Net Position</b>	
Investment in capital assets	\$ 1,655,521
Unrestricted	<u>533,372</u>
Total net position	<u>\$ 2,188,893</u>

See accompanying notes.

**CITY OF INDIAN HILLS, KENTUCKY**

Statement of Activities

Year Ended June 30, 2018

	<u>Governmental Activities</u>
Expenses:	
Administration	\$ 240,590
Resident provided services	251,036
Police	978,696
Public works	272,128
Net unrealized investment loss	4,430
Depreciation expense	114,555
Loss related to disposal of asset	<u>112,467</u>
Total expenses	1,973,902
General revenues:	
Property taxes	1,047,496
Interlocal agreements	148,700
Municipal road aid	57,854
Interest income	20,665
Insurance and cable fees	388,911
Other income	<u>73,216</u>
Total general revenues	<u>1,736,842</u>
Change in net position	(237,060)
Net position, beginning of year, as previously reported	2,659,719
Adjustment applicable to prior years resulting from the retroactive change in accounting for OPEB upon adoption of new accounting standard (Note 1)	<u>(233,766)</u>
Net position, beginning of year, as adjusted	<u>2,425,953</u>
Net position, end of year	<u>\$ 2,188,893</u>

See accompanying notes.

**FUND FINANCIAL STATEMENTS**

**CITY OF INDIAN HILLS, KENTUCKY**

Balance Sheet - Governmental Funds

June 30, 2018

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 601,868	\$ 6,058	\$ 607,926
Insurance fees receivable and other	106,708	-	106,708
Prepaid expenses	3,626	-	3,626
Investments	<u>1,285,375</u>	<u>-</u>	<u>1,285,375</u>
Total assets	<u>1,997,577</u>	<u>6,058</u>	<u>2,003,635</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	67,705	106	67,811
Accrued wages, taxes, vacation and sick pay	49,907	-	49,907
Refundable building deposits	<u>168,650</u>	<u>-</u>	<u>168,650</u>
Total liabilities	286,262	106	286,368
Fund balances:			
Nonspendable	3,626	-	3,626
Assigned - Road Fund	-	5,952	5,952
Unassigned	<u>1,707,689</u>	<u>-</u>	<u>1,707,689</u>
Total fund balances	<u>1,711,315</u>	<u>5,952</u>	<u>1,717,267</u>
Total liabilities and fund balances	\$ <u>1,997,577</u>	\$ <u>6,058</u>	\$ <u>2,003,635</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	\$	1,717,267
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 governmental funds.		1,655,521
Long-term liabilities and deferred inflows and outflows of resources related to pensions 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 governmental funds.		(904,106)
Long-term liabilities and deferred inflows and outflows of resources related to OPEB are not financial resources or current liabilities, and therefore, the net impact of the OPEB-related liabilities and deferred inflows and outflows of resources are not reported in the governmental funds.		<u>(279,789)</u>
Total net position of governmental activities	\$	<u>2,188,893</u>

See accompanying notes.

**CITY OF INDIAN HILLS, KENTUCKY**

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

Year Ended June 30, 2018

	Actual				Over (Under) Budget
	Total Budget	General Fund	Road Fund	Total Governmental Funds	
<b>Revenues:</b>					
Property taxes	\$ 1,040,000	\$ 1,047,496	\$ -	\$ 1,047,496	\$ 7,496
Interlocal agreements	148,700	148,700	-	148,700	-
Municipal road aid	57,000	-	57,854	57,854	854
Interest income	12,000	20,665	-	20,665	8,665
Insurance fees	360,000	373,142	-	373,142	13,142
Cable fees	15,700	15,769	-	15,769	69
Other income	<u>65,500</u>	<u>73,216</u>	<u>-</u>	<u>73,216</u>	<u>7,716</u>
<b>Total revenues</b>	<b>1,698,900</b>	<b>1,678,988</b>	<b>57,854</b>	<b>1,736,842</b>	<b>37,942</b>
<b>Expenditures:</b>					
Administration	181,500	240,550	40	240,590	59,090
Resident provided services	218,800	251,036	-	251,036	32,236
Police	800,500	822,058	-	822,058	21,558
<b>Public works:</b>					
Road maintenance and repairs	93,000	-	96,801	96,801	3,801
Parks and landscaping	162,000	175,327	-	175,327	13,327
Capital expenditures	230,000	403,280	249,435	652,715	422,715
Net unrealized investment loss	<u>-</u>	<u>4,430</u>	<u>-</u>	<u>4,430</u>	<u>4,430</u>
<b>Total expenditures</b>	<b><u>1,685,800</u></b>	<b><u>1,896,681</u></b>	<b><u>346,276</u></b>	<b><u>2,242,957</u></b>	<b><u>557,157</u></b>
Excess (deficiency) of revenues over expenditures	13,100	(217,693)	(288,422)	(506,115)	(519,215)
<b>Transfers:</b>					
Transfers (from) to other funds	<u>-</u>	<u>(270,000)</u>	<u>270,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ 13,100</u>	<u>(487,693)</u>	<u>(18,422)</u>	<u>(506,115)</u>	<u>\$ (519,215)</u>
Fund balances, beginning of year		<u>2,199,008</u>	<u>24,374</u>	<u>2,223,382</u>	
Fund balances, end of year		<u>\$ 1,711,315</u>	<u>\$ 5,952</u>	<u>\$ 1,717,267</u>	

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	\$ (506,115)
The change in net position reported for governmental activities in the statement of activities is 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 and reported as depreciation expense. This is the amount by which capital outlays of \$652,715 exceeded depreciation of \$114,555 in the current period and loss related to disposal of asset of \$112,467.	425,693
Net difference between pension and OPEB plan contributions of \$70,129 reported as expense in governmental funds and the pension and OPEB expense of \$226,767 recorded in the statement of activities.	<u>(156,638)</u>
Change in net position of governmental activities	\$ <u>(237,060)</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, 2017, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)" (Statement 75). Statement 75 replaced the requirements of GASB Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". Statement 75 is applicable for government agencies that provide defined benefit OPEB to recognize their long-term obligation for OPEB as a liability to more comprehensively and comparably measure the annual cost. The City participates in the County Employees Retirement System (CERS) OPEB plan administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit OPEB plan, which covers all eligible full-time employees and provides health insurance benefits.

Statement 75 required retrospective application. Since the City only presents one year of financial information, the beginning net position for the year ended June 30, 2018 was adjusted to reflect the retrospective application. The adjustment resulted in a \$233,766 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 financial 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

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

##### Government-Wide Financial Statements, continued

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

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

In accordance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and Statement 75, cost-sharing governmental employers, such as the City, are required to report a net pension and OPEB liability, pension and OPEB expense and pension and OPEB 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 and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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. The CERS financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. 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.

## 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

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:

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 and OPEB 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.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

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

**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. Investments in certificates of deposit are stated at cost plus accrued interest, which approximates fair value.

**Capital Assets**

Capital assets, including land, buildings, improvements, infrastructure, and equipment, are reported in the governmental activities column 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 years
Equipment and irrigation	5 to 10 years

**Net Position/Fund Balances**

In the statement of net position, the components of net position are as follows:

***Investment 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 report 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. The City had no restricted amounts as of June 30, 2018.

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

## 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

In the balance sheet of governmental funds, 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, 2018 consisted of prepaid expenses.

*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, 2018.

*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, 2018.

*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 \$5,952 for road improvements as of June 30, 2018.

*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.

##### Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 20, 2018, the date that the financial statements were available to be issued.

#### 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.

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**2. Deposit and Investments, continued**

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, 2018 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Investments**

At June 30, 2018, the City's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
U.S. Treasury obligation:			
Interest rate of 8.00%	11/15/2021	\$ 50,375	\$ 58,559
Certificates of deposit:			
Interest rate of 1.00%	12/20/2019	255,008	256,268
Interest rate of 1.00%	12/20/2019	255,006	256,266
Interest rate of 1.50%	5/15/2019	545,811	546,507
Interest rate of 1.50%	5/15/2019	167,561	167,775
Total		\$ 1,273,761	\$ 1,285,375

*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, 2018, 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, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and improvements	\$ 179,292	\$ 373,426	\$ (179,292)	\$ 373,426
Infrastructure	1,216,303	249,435	-	1,465,738
Police vehicles	369,049	29,854	(23,561)	375,342
Equipment and irrigation	<u>38,562</u>	<u>-</u>	<u>(3,694)</u>	<u>34,868</u>
Total capital assets	1,803,206	652,715	(206,547)	2,249,374
Less accumulated depreciation				
Buildings and improvements	(60,681)	(8,734)	66,825	(2,590)
Infrastructure	(197,429)	(55,700)	-	(253,129)
Police vehicles	(283,849)	(47,770)	23,561	(308,058)
Equipment and irrigation	<u>(31,419)</u>	<u>(2,351)</u>	<u>3,694</u>	<u>(30,076)</u>
Total accumulated depreciation	<u>(573,378)</u>	<u>(114,555)</u>	<u>94,080</u>	<u>(593,853)</u>
Capital assets, net	<u>\$ 1,229,828</u>	<u>\$ 538,160</u>	<u>\$ (112,467)</u>	<u>\$ 1,655,521</u>

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. During the year ended June 30, 2018, the Police Department moved its headquarters and is no longer utilizing the donated property. Thus, the City recorded a loss of disposal of asset for its carrying value of \$112,467 during the year ended June 30, 2018. The net book value of the property, including capital improvements, was previously classified as restricted net position.

**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.

## CITY OF INDIAN HILLS, KENTUCKY

### Notes to the Financial Statements, continued

#### 5. Property Taxes

Property taxes are levied in November of each year based upon 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, 2017, the taxable value of real and certain personal property, as assessed by the PVA, was \$647,694,030. 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 1.5% per month compounded monthly. Additionally, the City charges a 25% attorney fee for delinquent taxes. Taxpayers receive a 20% discount if property taxes are paid prior to January 1. Property tax revenues, after applicable discounts, were \$1,047,496 for the year ended June 30, 2018.

#### 6. Retirement Plan

##### CERS Plan

*Plan description and benefits provided* – Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). These are cost-sharing, multiple employer defined benefit pension and insurance plans. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630. The City has elected to participate in CERS pursuant to KRS Section 78.530. Under the provisions of KRS Section 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems' Insurance Fund (Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) KERS; (2) CERS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.

The CERS Pension Fund and CERS Insurance Fund cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. 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.

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**6. Retirement Plan, continued**

**CERS Plan, continued**

Non-hazardous employees can retire with full retirement benefits after 27 years of service or age 65. Non-hazardous 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. Retirement benefits are determined based upon a maximum of 2.2 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the five highest fiscal years (or last five fiscal years for employees who begin participation on or after September 1, 2008) of salary prior to attainment of CERS specified age (or age and service combinations).

Hazardous employees can retire with full retirement benefits after 20 years of service or age 55. Hazardous employees who begin participation on or after September 1, 2008 must have 25 years of service or the member is age 60, with a minimum of 60 months of service credit. Retirement benefits are determined based upon a maximum of 2.5 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the three highest fiscal years of salary prior to attainment of CERS specified age (or age and service combinations).

CERS allows non-hazardous and hazardous employees to retire prior to meeting the requirements above and receive partial benefits, providing they meet certain age and service related criteria.

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.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of service	% Paid by Insurance Fund	% Paid by Member through Payroll Deductions
20 or more	100%	0%
15 - 19	75%	25%
14 - 10	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

## CITY OF INDIAN HILLS, KENTUCKY

### Notes to the Financial Statements, continued

#### 6. Retirement Plan, continued

##### CERS Plan, continued

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

*Contributions* – Benefit and contribution rates are established by state statute. Non-hazardous covered employees are required to contribute 5.00% of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to the plan. The City's contribution rate for non-hazardous employees was 19.18%, 18.68%, and 17.06% for the years ended June 30, 2018, 2017 and 2016, respectively.

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 Insurance Fund. The City's contribution rate for hazardous employees was 31.55%, 31.06%, and 32.95% for the years ended June 30, 2018, 2017 and 2016, respectively.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute 5% (non-hazardous) and 8% (hazardous) of their creditable compensation each month to their own account, and 1% to the Insurance Fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board of Trustees of the Kentucky Retirement Systems based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**6. Retirement Plan, continued**

**Pension Plan**

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* – At June 30, 2018, the City reported a liability of \$1,162,603 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 the City's actual contributions to the pension plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

For the year ended June 30, 2018, the City recognized pension expense of \$160,121. At June 30, 2018, the City reported deferred outflows 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	\$ 10,159	\$ -
Difference between expected and actual experience	42,643	-
Change of assumptions	231,913	-
Change in proportion and differences between employer contributions and proportionate share of contributions	6,808	82,532
City's contributions subsequent to the measurement date of June 30, 2017	49,506	-
Total	\$ 341,029	\$ 82,532

The deferred outflows of resources related to the City's contributions to the CERS pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The deferred outflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred inflows and outflows of resources related to pensions are amortized and recognized in pension expense over the average expected remaining service life of the entire plan membership, which is 3.41 years for non-hazardous employees and 3.23 years for hazardous employees. The net increase (decrease) in pension expense related to the amortization of these deferred inflows and outflows of resources is as follows:

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**6. Retirement Plan, continued**

**Pension Plan, continued**

Year ending June 30:			
2019	\$	89,615	
2020		99,255	
2021		32,807	
2022		<u>(12,686)</u>	
Total	\$	<u>208,991</u>	

*Actuarial assumptions* – For financial reporting the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan’s fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016, but did replicate the prior actuary’s valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS’ replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the Kentucky Retirement Systems Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board of Trustees adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017:

Inflation	2.30 percent (3.25 percent in previous measurement date)
Salary increases	4.0 percent, average, including inflation
Investment rate of return	6.25 percent (7.50 percent in previous measurement date), net of pension plan investment 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 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**6. Retirement Plan, continued**

**Pension 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
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	(.25)%
Total	100%	

*Discount rate* – The discount rate used to measure the total pension liability was 6.25 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 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:

**CITY OF INDIAN HILLS, KENTUCKY**

Notes to the Financial Statements, continued

**6. Retirement Plan, continued**

**Pension Plan, continued**

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's share of the net pension liability	\$ 1,461,761	\$ 1,162,603	\$ 915,540

**OPEB Plan**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* - At June 30, 2018, the City reported a liability of \$429,580 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, 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 the City's actual contributions to the OPEB plan relative to the actual contributions of all participating organizations.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

For the year ended June 30, 2018, the City recognized OPEB expense of \$65,399. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 26,953
Difference between expected and actual experience	-	1,001
Change of assumptions	158,454	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	85
City's contributions subsequent to the measurement date of June 30, 2017	<u>19,376</u>	<u>-</u>
Total	<u>\$ 177,830</u>	<u>\$ 28,039</u>

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

OPEB Plan, continued

The deferred outflows of resources related to the City's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. The deferred inflows of resources related to the net difference between projected and actual earnings on OPEB plan investments are amortized and recognized in OPEB expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized and recognized in OPEB expense over the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan which is determined to be approximately 4.5 years for hazardous employees and 6.25 years for non-hazardous employees. The net increase (decrease) in OPEB expense for future years related to the amortization of deferred inflows and outflows of resources is as follows:

Year ending June 30:		
2019	\$	37,716
2020		37,716
2021		37,716
2022		<u>17,267</u>
Total	\$	<u>130,415</u>

*Actuarial assumptions* - For financial reporting the actuarial valuation as of June 30, 2017, was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016, but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the Kentucky Retirement Systems Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board of Trustees adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017:

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

OPEB Plan, continued

Inflation	2.30%
Payroll growth rate	2.0% for CERS non-hazardous and hazardous
Salary increase	3.05%, average
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

*Discount Rate* - The projection of cash flows used to determine the discount rate of 5.84% for non-hazardous and 5.96% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the Kentucky Retirement System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Kentucky Retirement System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the pension section above.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

OPEB Plan, continued

*Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate - The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB 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 discount rate:*

	1% Decrease (4.96% hazardous) (4.84% non-hazardous)	Current Discount Rate (5.96% hazardous) (5.84% non-hazardous)	1% Increase (6.96% hazardous) (6.84% non-hazardous)
City's share of the net OPEB liability	\$ 575,696	\$ 429,580	\$ 210,033

*Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the City's proportionate share of the net OPEB liability, as well as what the City's 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:*

	1% Decrease	Current Trend Rate	1% Increase
City's share of the net OPEB liability	\$ 304,093	\$ 429,580	\$ 584,889

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees Retirement System  
For the Years Ended June 30 for the Last Ten Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportionate percentage of the net pension liability	0.05 %	0.06 %	0.06 %	0.06 %
City's proportionate share of the net pension liability	\$ 1,162,603	\$ 1,031,077	\$ 908,649	\$ 706,000
City's covered-employee payroll*	\$ 285,262	\$ 312,393	\$ 302,771	\$ 344,473
City's proportionate share of the net pension liability as a percentage of its covered payroll	408 %	330 %	300 %	205 %
Plan fiduciary net position as a percentage of the total pension liability	49.78 %	53.95 %	59.35 %	65.96 %

\*The amounts presented for each fiscal year were determined as of the measurement date of the net pension liability, which is as of the City's prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*See Report of Independent Auditors.*

**Schedule of City Contributions - Pension  
County Employees Retirement System  
For the Years Ended June 30 for the Last Ten Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 49,506	\$ 61,928	\$ 63,290	\$ 62,764
Contributions in relation to the contractually required contribution	\$ 49,506	61,928	63,290	62,764
City's covered-employee payroll	\$ 222,999	\$ 285,262	\$ 312,393	\$ 302,771
Contributions as a percentage of covered employee payroll	22.20 %	21.71 %	20.26 %	20.73 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*See Report of Independent Auditors.*

**Schedule of the City's Proportionate Share of the Net OPEB Liability  
County Employees Retirement System  
For the Years Ended June 30 for the Last Ten Years**

	<u>2018</u>
City's proportionate percentage of the net OPEB liability	0.05 %
City's proportionate share of the net OPEB liability	\$ 429,580
City's covered-employee payroll*	\$ 285,262
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	151 %
Plan fiduciary net position as a percentage of the total pension liability	58.99 %

\*The amounts presented for each fiscal year were determined as of the measurement date of the net OPEB liability, which is as of the City's prior fiscal year end.

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*See Report of Independent Auditors.*

**Schedule of City OPEB Contributions  
County Employees Retirement System  
For the Years Ended June 30 for the Last Ten Years**

	<u>2018</u>
Contractually required contribution	\$ 20,850
Contributions in relation to the contractually required contribution	\$ 20,850
City's covered-employee payroll	\$ 222,999
Contributions as a percentage of covered employee payroll	9.35 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*See Report of Independent Auditors.*

**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, 2018, 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 20, 2018.

**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 20, 2018  
Louisville, Kentucky

**CITY OF INDIAN HILLS, KENTUCKY**

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

Year Ended June 30, 2018

	Budget	Actual	Over (Under) Budget
<b>Revenues:</b>			
City police allocation	\$ 665,300	\$ 665,304	\$ 4
Interlocal income - Rolling Fields	148,700	148,700	-
Other income	41,500	38,181	(3,319)
Interest income	-	596	596
Total revenues	855,500	852,781	(2,719)
<b>Expenditures:</b>			
Salaries	510,250	490,947	(19,303)
CERS contribution	85,750	70,129	(15,621)
Insurance	58,500	55,954	(2,546)
Vehicles repairs and maintenance	15,000	16,232	1,232
Payroll taxes	39,000	36,592	(2,408)
Office expenses	5,000	23,071	18,071
Professional fees	31,500	34,132	2,632
Supplies and uniforms	8,000	43,899	35,899
Vehicle fuel	24,000	27,468	3,468
Training	3,000	1,645	(1,355)
Utilities and communications	20,500	21,989	1,489
Capital expenditures	55,000	29,854	(25,146)
Total expenditures	855,500	851,912	(3,588)
Excess of revenues over expenditures	\$ -	\$ 869	\$ 869

See Report of Independent Auditors.