



Financial Statements and Supplementary Information

for

CITY OF INDIAN HILLS, KENTUCKY

*Year Ended June 30, 2021
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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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, 2021, and the respective changes in financial position and the budgetary comparison for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8, the Schedule of the City's Proportionate Share of the Net Pension Liability on page 33, the Schedule of the City Pension Contributions on page 34, the Schedule of the City's Proportionate Share of the OPEB Liability on page 35, and the Schedule of City OPEB Contributions on page 36 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 37 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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

Louisville, Kentucky
January 19, 2022

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis

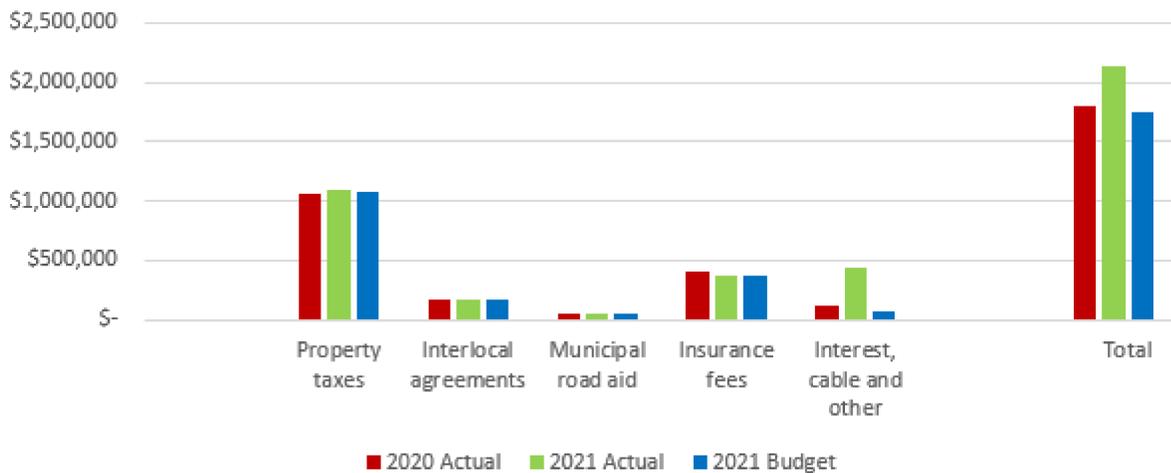
Year Ended June 30, 2021

The purpose of the management's discussion and analysis is to provide an overview of the financial activities of the City of Indian Hills (the City) 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, 2021 balance of cash, cash equivalents and investments for the City was \$2,161,450. This reflects a \$335,400 increase in cash and investments during the year. Total revenues for the year ended June 30, 2021 were \$2,131,290 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 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, 2021.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2021

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 2021 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, 2021. 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, 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 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, 2021 increased the City's net position by \$423,955 and resulted in a net position of \$2,751,630 at June 30, 2021.

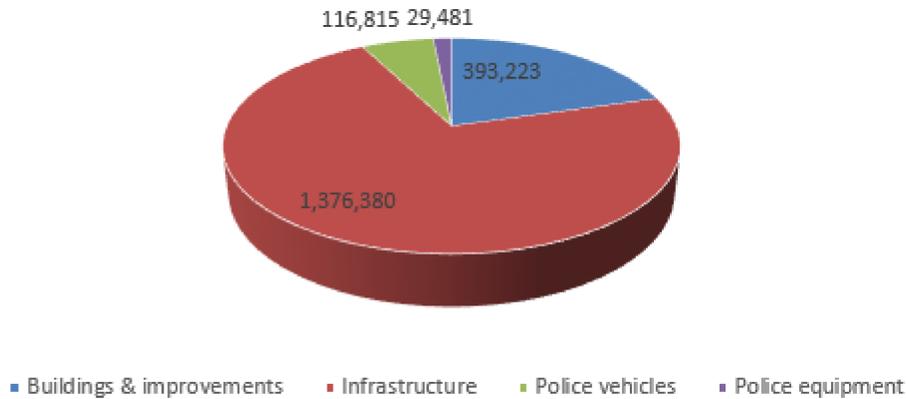
The largest portion of the City's net position reflects its investment in capital assets, with 72% of net capital assets invested in road infrastructure. The City depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of \$799,668 as of June 30, 2021. Depreciation expense for the year ended June 30, 2021 was \$145,098. The City's capital assets at cost less depreciation on June 30, 2021 are summarized as follows:

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2021

Total Capital Assets, Net



The City participates in the County Employees Retirement System (CERS) cost-sharing pension plan with numerous other governmental agencies that is part of the Kentucky Public Pensions Authority (formerly, Kentucky Retirement System). 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 District's allocation were determined by CERS. The City's net pension liability was \$835,404 and \$1,024,314 at June 30, 2021 and 2020, respectively. The change 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.

The City also participates in the CERS cost-sharing plan with numerous other governmental agencies related to other postemployment benefits (OPEB). Similar to the pension plan, the City recorded a liability for its proportionate share of the postemployment benefits other than the pensions of the cost-sharing plan. The net OPEB liability and the City's allocation were determined by CERS. The City's net OPEB liability was \$255,968 and \$274,296 at June 30, 2021 and 2020, respectively. The combined pension and OPEB liability as of the most recent measurement date is over 180% of annual wages paid. The ongoing cost of funding these pension and OPEB plans is a significant concern for the City.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

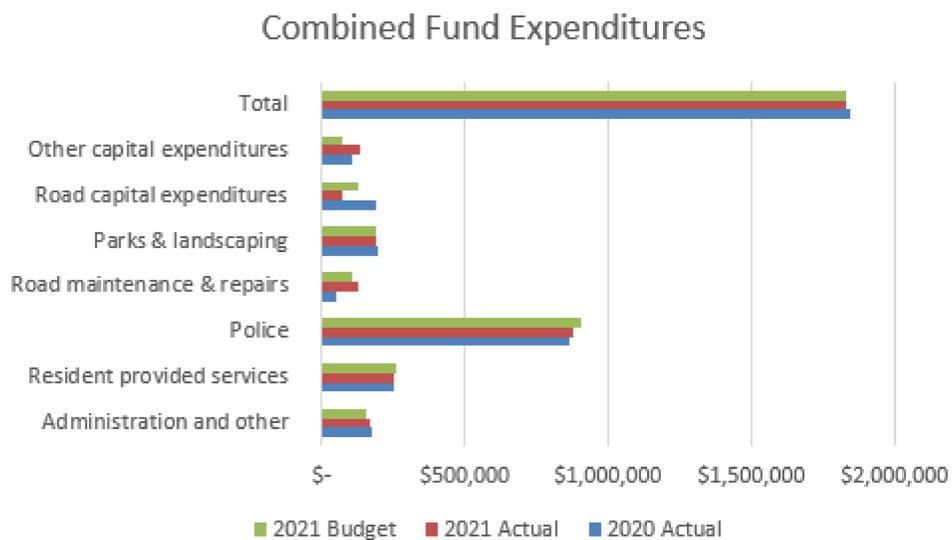
Year Ended June 30, 2021

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 combined fund financial statements include a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Statement of Revenues, Expenditures and Changes in Fund Balances-Government Funds reflects the City's governmental funds as they are split between road fund and general fund. Total expenditures for all governmental funds were \$1,829,869 which was \$301,421 less than the total revenues of \$2,131,290 for the year ended June 30, 2021.



CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2021

Revenues for the fiscal year were more than the amount budgeted by \$329,679 while total expenditures were \$1,161 less than the amounts budgeted. Federal Coronavirus Relief Funds of approximately \$280,000 were received during 2021 but not included in the budget.

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 half of our total expenses for the year ended June 30, 2021, 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 approximately \$150,000 to the road fund to help cover such expenditures in the year ended June 30, 2021. 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 2021.

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, Kentucky 40207.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF INDIAN HILLS, KENTUCKY

Statement of Net Position

June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,809,340
Insurance fees receivable and other	133,831
Investments	352,110
Capital assets, net	<u>1,915,899</u>
Total assets	<u>\$ 4,211,180</u>
Deferred Outflows of Resources	
Deferred amount related to pension plan	\$ 125,069
Deferred amount related to OPEB	<u>78,518</u>
Total deferred outflow of resources	<u>\$ 203,587</u>
Liabilities	
Accounts payable	\$ 101,273
Accrued wages, taxes, vacation and sick pay	80,769
Refundable building deposits	51,800
Net pension liability	835,404
Net OPEB liability	<u>255,968</u>
Total liabilities	<u>\$ 1,325,214</u>
Deferred Inflows of Resources	
Deferred amount related to pension plan	\$ 222,092
Deferred amount related to OPEB	<u>115,831</u>
Total deferred inflow of resources	<u>\$ 337,923</u>
Net Position	
Investment in capital assets	\$ 1,915,899
Unrestricted	<u>835,731</u>
Total net position	<u>\$ 2,751,630</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Statement of Activities

Year Ended June 30, 2021

	<u>Governmental Activities</u>
Expenses:	
Administration	\$ 166,380
Resident provided services	254,756
Police	815,811
Public works	322,028
Net unrealized investment loss	3,262
Depreciation expense	<u>145,098</u>
Total expenses	1,707,335
General revenues:	
Property taxes	1,091,605
Interlocal agreements	170,424
Municipal road aid	55,744
Interest income	7,306
Insurance and cable fees	395,933
Other income	<u>410,278</u>
Total general revenues	<u>2,131,290</u>
Change in net position	423,955
Net position, beginning of year	<u>2,327,675</u>
Net position, end of year	<u>\$ 2,751,630</u>

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF INDIAN HILLS, KENTUCKY

Balance Sheet - Governmental Funds

June 30, 2021

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,790,014	\$ 19,326	\$ 1,809,340
Insurance fees receivable and other	133,831	-	133,831
Investments	<u>352,110</u>	<u>-</u>	<u>352,110</u>
Total assets	<u>\$ 2,275,955</u>	<u>\$ 19,326</u>	<u>\$ 2,295,281</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 101,273	\$ -	\$ 101,273
Accrued wages, taxes, vacation and sick pay	80,769	-	80,769
Refundable building deposits	<u>51,800</u>	<u>-</u>	<u>51,800</u>
Total liabilities	233,842	-	233,842
Fund balances:			
Assigned - Road Fund	-	19,326	19,326
Unassigned	<u>2,042,113</u>	<u>-</u>	<u>2,042,113</u>
Total fund balances	<u>2,042,113</u>	<u>19,326</u>	<u>2,061,439</u>
Total liabilities and fund balances	<u>\$ 2,275,955</u>	<u>\$ 19,326</u>	<u>\$ 2,295,281</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

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

June 30, 2021

Total fund balances for governmental funds	\$ 2,061,439
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.	1,915,899
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.	(932,427)
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>(293,281)</u>
Total net position of governmental activities	\$ <u>2,751,630</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

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

Year Ended June 30, 2021

		Actual			
	Total Budget	General Fund	Road Fund	Total Governmental Funds	Over (Under) Budget
Revenues:					
Property taxes	\$ 1,082,000	\$ 1,091,605	\$ -	\$ 1,091,605	\$ 9,605
Interlocal agreements	170,431	170,424	-	170,424	(7)
Municipal road aid	58,000	-	55,744	55,744	(2,256)
Interest income	18,000	6,955	351	7,306	(10,694)
Insurance fees	380,000	379,553	-	379,553	(447)
Cable fees	15,000	16,380	-	16,380	1,380
Other income	<u>78,180</u>	<u>410,278</u>	<u>-</u>	<u>410,278</u>	<u>332,098</u>
Total revenues	1,801,611	2,075,195	56,095	2,131,290	329,679
Expenditures:					
Administration	158,800	166,034	346	166,380	7,580
Resident provided services	262,000	254,756	-	254,756	(7,244)
Police	905,230	876,175	-	876,175	(29,055)
Public works:					
Road maintenance and repairs	111,000	-	128,508	128,508	17,508
Parks and landscaping	192,000	193,520	-	193,520	1,520
Capital expenditures	202,000	136,268	71,000	207,268	5,268
Net unrealized investment loss	<u>-</u>	<u>3,262</u>	<u>-</u>	<u>3,262</u>	<u>3,262</u>
Total expenditures	<u>1,831,030</u>	<u>1,630,015</u>	<u>199,854</u>	<u>1,829,869</u>	<u>(1,161)</u>
Excess (deficiency) of revenues over expenditures	(29,419)	445,180	(143,759)	301,421	330,840
Transfers:					
Transfers (from) to other funds	<u>-</u>	<u>(153,839)</u>	<u>153,839</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(29,419)</u>	291,341	10,080	301,421	\$ <u>330,840</u>
Fund balances, beginning of year		<u>1,750,772</u>	<u>9,246</u>	<u>1,760,018</u>	
Fund balances, end of year		\$ <u>2,042,113</u>	\$ <u>19,326</u>	\$ <u>2,061,439</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

Year Ended June 30, 2021

Net change in fund balances - total governmental funds	\$ 301,421
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 \$207,268 exceeded depreciation of \$145,098.	62,170
Net difference between pension and OPEB plan contributions of \$78,288 reported as expense in governmental funds and the pension and OPEB expense of \$17,924 recorded in the statement of activities.	<u>60,364</u>
Change in net position of governmental activities	\$ <u>423,955</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.

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.

COVID-19 Impact

During March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The City is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. During fiscal year 2021, the City applied for and received \$281,451 of Coronavirus, Aid, Relief, and Economic Security (CARES) funding through the Coronavirus Relief Fund grants. These grants were provided from the U.S. Department of Treasury through the Commonwealth of Kentucky. These funds were included in revenues in fiscal year 2021 and were used to cover payroll expenses for public safety, public health, human service and similar employees whose services were substantially dedicated to mitigating or responding to the COVID-19 public health emergency. In accordance with the grant requirements, these were necessary expenditures incurred during the period from March 1, 2020 through December 31, 2020 and not accounting for in the previously approved budget.

As of June 30, 2021 and as of the date that the financial statements were issued, the City has not experienced significant disruption in its operations; however, the continued spread of the disease represents a significant risk that the City's operations could be disrupted in the near future. Since the situation surrounding the COVID-19 pandemic remains fluid, the long-term duration, nature, and extent of the effects on the City cannot be reasonably estimated at this time.

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.

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

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.

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 Other Post-Employment Benefits (OPEB) – The City participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of CERS. 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.

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 deferred inflows and deferred outflows of resources 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 and OPEB 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.

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 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. The City had no restricted amounts as of June 30, 2021.

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, 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 had no nonspendable funds as of June 30, 2021.

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, 2021.

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, 2021.

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 \$19,326 for road improvements as of June 30, 2021.

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 January 19, 2022, the date that the financial statements were available to be issued. Except as disclosed in Note 8, there were no events occurring during the evaluation period that require recognition or disclosure in the combined financial statements.

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, 2021 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, 2021, the City's investment balances were as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>
U.S. Treasury obligation:		
Interest rate of 8.00%, maturing 11/15/2021	\$ 50,375	\$ 51,422
Kentucky League of Cities Investment Pool:		
Dividend Focus Equity Pool	90,021	90,205
Government Bond Fund	45,002	45,251
Corporate Bond Fund	60,003	60,390
Equity S&P 500 Index Fund	<u>105,009</u>	<u>104,842</u>
Total	<u>\$ 350,410</u>	<u>\$ 352,110</u>

Upon maturity of the U.S. Treasury obligation, the City did not renew the obligation and cashed out the funds.

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, 2021, 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, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and improvements	\$ 414,900	\$ -	\$ -	\$ 414,900
Infrastructure	1,754,880	71,000	-	1,825,880
Police vehicles	400,328	102,992	(87,184)	416,136
Equipment and irrigation	<u>25,373</u>	<u>33,276</u>	<u>-</u>	<u>58,649</u>
Total capital assets	2,595,481	207,268	(87,184)	2,715,565
Less accumulated depreciation:				
Buildings and improvements	(14,785)	(6,892)	-	(21,677)
Infrastructure	(377,696)	(71,804)	-	(449,500)
Police vehicles	(323,988)	(62,517)	87,184	(299,321)
Equipment and irrigation	<u>(25,283)</u>	<u>(3,885)</u>	<u>-</u>	<u>(29,168)</u>
Total accumulated depreciation	<u>(741,752)</u>	<u>(145,098)</u>	<u>87,184</u>	<u>(799,666)</u>
Capital assets, net	<u>\$ 1,853,729</u>	<u>\$ 62,170</u>	<u>\$ -</u>	<u>\$ 1,915,899</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 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, 2020, the taxable value of real and certain personal property, as assessed by the PVA, was \$673,620,373. 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 \$1,091,605 for the year ended June 30, 2021.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan

CERS Plan

Plan description and benefits provided – House Bill 484, passed during the 2020 Regular Session of the Kentucky General Assembly, and House Bill 9, passed during the 2021 Regular Session of the General Assembly, made significant changes to the governance and administrative structure of the Kentucky Retirement Systems. Most notably, the governance of the County Employees Retirement System (CERS) has been transferred to a separate 9-member board of trustees. Another 9-member board of trustees called the Kentucky Retirement Systems oversees the Kentucky Employees Retirement Systems (KERS) and the State Police Retirement System (SPRS). The administrative entity comprising the office of counselors and professional staff that has traditionally been known as the Kentucky Retirement System has changed its name to the Kentucky Public Pensions Authority (KPPA) which is governed by a third 8-member board composed of trustees from CERS and Kentucky Retirement Systems. CERS, KERS, and SPRS are cost-sharing, multiple employer defined benefit pension and OPEB plans. The City has elected to participate in CERS pursuant to KRS Section 78.530. The Board of Trustees of the Kentucky Retirement Systems and CERS administer the Kentucky Retirement Systems' Insurance Fund (the 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: (1) KERS; (2) CERS; and (3) SPRS.

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 the Kentucky Public Pensions Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by visiting the website at www.kyret.KY.gov or by calling (502) 696-8800.

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 (member's 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 the 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 the CERS specified age (or age and service combinations).

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

CERS Plan, continued

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%

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 24.06%, 24.06%, and 21.48% for the years ended June 30, 2021, 2020 and 2019, 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 Insurance Fund. The City's contribution rate for hazardous employees was 39.58%, 39.58%, and 35.34% for the years ended June 30, 2021, 2020 and 2019, 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 and CERS 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.

Pension Plan

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2021, the City reported a liability of \$835,404 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on 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 or can be obtained as described previously.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

Pension Plan, continued

For the year ended June 30, 2021, the City recognized a decrease to expenses of \$6,858 related to the pension plan. At June 30, 2021, the City 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	\$ 18,820	\$ -
Difference between expected and actual experience	25,909	-
Change of assumptions	31,683	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	222,092
City's contributions subsequent to the measurement date of June 30, 2020	48,657	-
Total	\$ 125,069	\$ 222,092

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, 2022. 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 3.14 years for non-hazardous employees and 4.39 years for hazardous employees. The net decrease in pension expense related to the amortization of these deferred inflows and outflows of resources is as follows:

Year ending June 30:	
2022	\$ (58,321)
2023	(38,222)
2024	(38,401)
2025	(10,736)
Total	\$ (145,680)

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

Pension Plan, continued

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2020 was performed by Gabriel, Roeder, Smith & Company (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles.

The Board of Trustees of the Kentucky Retirement Systems and CERS have not adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2020 was determined using these assumptions.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The actuarial assumptions for CERS are:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service for CERS non-hazardous 3.55% to 19.50%, varies by service for CERS hazardous
Investment rate of return	6.25%

The mortality table used for active members was a PUB-2010 General Mortality table, for the Non-Hazardous System, and the PUB-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class for CERS are summarized as follows:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
Growth:		
US Equity	18.75 %	4.50%
Non-US Equity	18.75 %	5.25%
Private Equity	10.00 %	6.65%
Specialty Credit/High Yield	15.00 %	3.90%
Liquidity:		
Core Bonds	13.50 %	(0.25)%
Cash	1.00 %	(0.75)%
Diversifying Strategies:		
Real Estate	5.00 %	5.30%
Opportunistic	3.00 %	2.25%
Real Return	15.00 %	3.95%
 Total	 100.00 %	

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.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

Pension Plan, continued

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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's share of the net pension liability	\$ 1,032,440	\$ 835,404	\$ 674,570

OPEB Plan

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB – At June 30, 2021, the City reported a liability of \$255,968 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on 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 or can be obtained as described previously.

For the year ended June 30, 2021, the City recognized OPEB expense of \$11,764. At June 30, 2021, 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	\$ 11,363	\$ -
Difference between expected and actual experience	8,784	25,561
Change of assumptions	41,758	236
Change in proportion and differences between employer contributions and proportionate share of contributions	-	90,034
City's contributions subsequent to the measurement date of June 30, 2020	16,613	-
Total	\$ 78,518	\$ 115,831

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, 2022. The deferred outflows 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 5.92 years for hazardous employees and 4.94 years for non-hazardous employees. The net 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:	
2022	\$ (20,450)
2023	(19,883)
2024	(4,294)
2025	(2,700)
2026	<u>(6,599)</u>
Total	\$ <u>(53,926)</u>

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2020 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

OPEB Plan, continued

The actuarial assumptions for CERS are:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service for CERS non-hazardous 3.55% to 19.50%, varies by service for CERS hazardous
Investment rate of return	6.25%

Healthcare trend rates:

Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Mortality:

Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

6. Retirement Plan, continued

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.

7. Recent Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87 "Leases" requiring all leases to be recognized as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the City will recognize: 1) a lease liability for the City's obligation to make payments under the lease agreement, measured on a present value basis; and 2) a right-of-use asset that represents the City's right to use, or control the use of, the specified asset for the lease term. Over the term of the lease, the City will report amortization expense for using the leased asset, interest expense on the lease liability, and note disclosures about the City's leases. Another objective of this Statement is to address government lessors recognition of a lease receivable and deferred inflow, and to report lease revenue, interest income, and note disclosures about the government's leases. This Statement becomes effective for the fiscal year June 30, 2022. The City is evaluating the impact of this Statement on the financial statements.

In May 2019, the GASB issued Statement No. 91 "*Conduit Debt Obligations*" requiring a single method of reporting conduit debt obligations by issuers and eliminating diversity in practice associated with related obligations, commitments, and footnote disclosures. This Statement becomes effective for the fiscal year June 30, 2023. The City is evaluating the impact of this Statement on the financial statements.

8. Subsequent Events

Subsequent to June 30, 2021, the City received approximately \$407,000 from the U.S. Department of Treasury through the Commonwealth of Kentucky as part of the American Rescue Plan Act. Funds received were provided to assist with COVID-19 including, but not limited to, support public health expenditures, provide premium pay for essential workers, invest in infrastructure to improve access to clean drinking water or support vital wastewater and storm water or expand access to broadband internet, address negative impacts caused by COVID-19, and replace lost tax revenue. As of January 19, 2022, the City has not determined how these funds will be spent.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INDIAN HILLS, KENTUCKY

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportionate percentage of the net pension liability	0.03 %	0.04 %	0.04 %	0.05 %	0.06 %	0.06 %	0.06 %
City's proportionate share of the net pension liability	\$835,404	\$ 1,024,314	\$968,157	\$162,603	\$ 1,031,077	\$908,649	\$706,000
City's covered-employee payroll*	\$161,882	\$ 211,185	\$222,999	\$285,262	\$ 312,393	\$302,771	\$344,473
City's proportionate share of the net pension liability as a percentage of its covered payroll	516.06 %	485.03 %	434.15 %	407.56 %	330.06 %	300.11 %	204.95 %
Plan fiduciary net position as a percentage of the total pension liability	44.11 %	46.63 %	49.26 %	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.

CITY OF INDIAN HILLS, KENTUCKY

Schedule of City Pension Contributions

County Employees Retirement System

For the Years Ended June 30 for the Last Ten Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 48,657	\$ 48,662	\$ 52,510	\$ 49,506	\$ 61,928	\$ 63,290	\$ 62,764
Contributions in relation to the contractually required contribution	\$ 48,657	\$ 48,662	\$ 52,510	\$ 49,506	\$ 61,928	\$ 63,290	\$ 62,764
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$161,867	\$161,882	\$211,185	\$222,999	\$285,262	\$312,393	\$302,771
Contributions as a percentage of covered employee payroll	30.06 %	30.06 %	24.86 %	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.

CITY OF INDIAN HILLS, KENTUCKY

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
City's proportionate percentage of the net OPEB liability	0.03 %	0.04 %	0.04 %	0.05 %
City's proportionate share of the net OPEB liability	\$ 255,968	\$ 274,296	\$ 285,426	\$ 429,580
City's covered-employee payroll*	\$ 161,882	\$ 211,185	\$ 222,999	\$ 285,262
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	158.12 %	129.88 %	127.99 %	150.59 %
Plan fiduciary net position as a percentage of the total OPEB liability	58.84 %	64.44 %	64.24 %	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.

CITY OF INDIAN HILLS, KENTUCKY

Schedule of City OPEB Contributions

County Employees Retirement System

For the Years Ended June 30 for the Last Ten Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 15,410	\$ 15,411	\$ 22,121	\$ 20,850
Contributions in relation to the contractually required contribution	\$ 15,410	\$ 15,411	\$ 22,121	\$ 20,850
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 161,867	\$ 161,882	\$ 211,185	\$ 222,999
Contributions as a percentage of covered employee payroll	9.52 %	9.52 %	10.47 %	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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF INDIAN HILLS, KENTUCKY

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

Year Ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
City police allocation	\$ 765,619	\$ 765,624	\$ 5
Interlocal income - Rolling Fields	170,431	170,424	(7)
Other income	44,180	68,234	24,054
Proceeds from sale of surplus equipment		9,000	9,000
Interest income	<u>-</u>	<u>59</u>	<u>59</u>
Total revenues	980,230	1,013,341	33,111
Expenditures:			
Salaries	611,115	597,755	(13,360)
CERS contribution	77,665	77,681	16
Insurance	63,000	68,652	5,652
Vehicles repairs and maintenance	15,000	9,099	(5,901)
Payroll taxes	46,750	44,012	(2,738)
Office expenses	6,500	4,553	(1,947)
Professional fees	20,950	15,577	(5,373)
Supplies and uniforms	9,250	5,197	(4,053)
Vehicle fuel	28,500	26,949	(1,551)
Training	5,000	450	(4,550)
Utilities and communications	21,500	26,250	4,750
Capital expenditures	<u>75,000</u>	<u>136,268</u>	<u>61,268</u>
Total expenditures	<u>980,230</u>	<u>1,012,443</u>	<u>32,213</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 898</u>	<u>\$ 898</u>

See Report of Independent Auditors.

**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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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

Louisville, Kentucky
January 19, 2022