



Financial Statements and Supplementary Information

for

CITY OF INDIAN HILLS, KENTUCKY

*Year Ended June 30, 2022
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 Audit of the Financial Statements

Opinions

We have audited 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 and Supplementary Pension and OPEB Information on pages 34 to 39 be presented to supplement the basic financial statements.

To the Honorable Mayor and City Council
City of Indian Hills, Kentucky
Report of Independent Auditors, continued

Required Supplementary Information, continued

Such information is the responsibility of management and, 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.

Supplementary 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 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 September 21, 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
September 21, 2022

CITY OF INDIAN HILLS, KENTUCKY

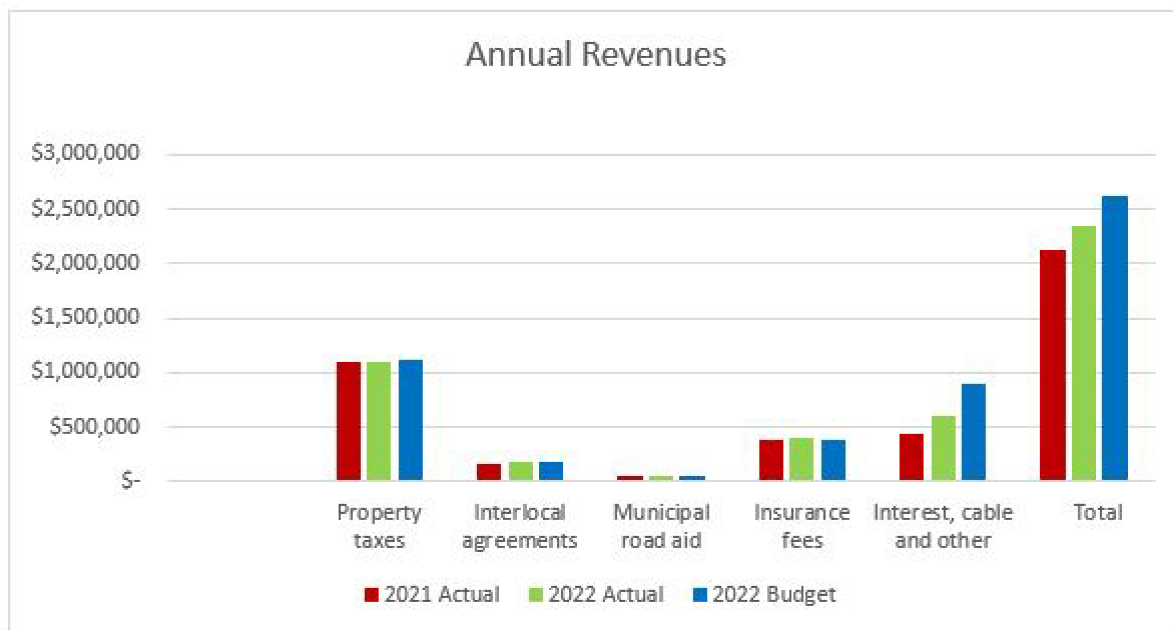
Management's Discussion and Analysis

Year Ended June 30, 2022

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, 2022 balance of cash, cash equivalents and investments for the City was \$2,638,861. This reflects a \$477,411 increase in cash and investments during the year. Total revenues for the year ended June 30, 2022 were \$2,335,688 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, 2022.

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2022

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 2022 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, 2022. 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

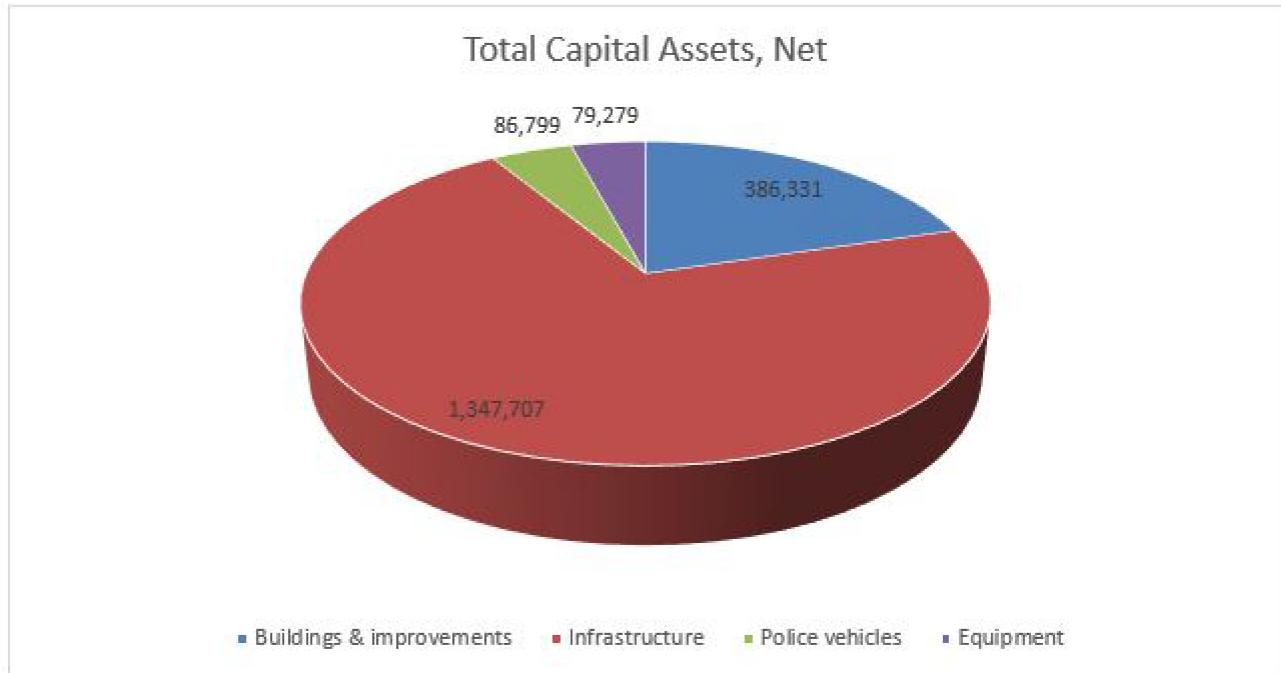
The Statement of Activities reflects the City's revenues and expenses, as well as other transactions that increase or decrease net position. The City's operations for the year ended June 30, 2022 increased the City's net position by \$20,793 and resulted in a net position of \$2,772,423 at June 30, 2022.

The largest portion of the City's net position reflects its investment in capital assets, with 71% 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 \$912,547 as of June 30, 2022. Depreciation expense for the year ended June 30, 2022 was \$165,175. The City's capital assets at cost less depreciation on June 30, 2022 are summarized as follows:

CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2022



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 City's allocation were determined by CERS. The City's net pension liability was \$720,647 and \$835,404 at June 30, 2022 and 2021, 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 \$218,877 and \$255,968 at June 30, 2022 and 2021, respectively. The combined pension and OPEB liability as of the most recent measurement date is over 120% 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)

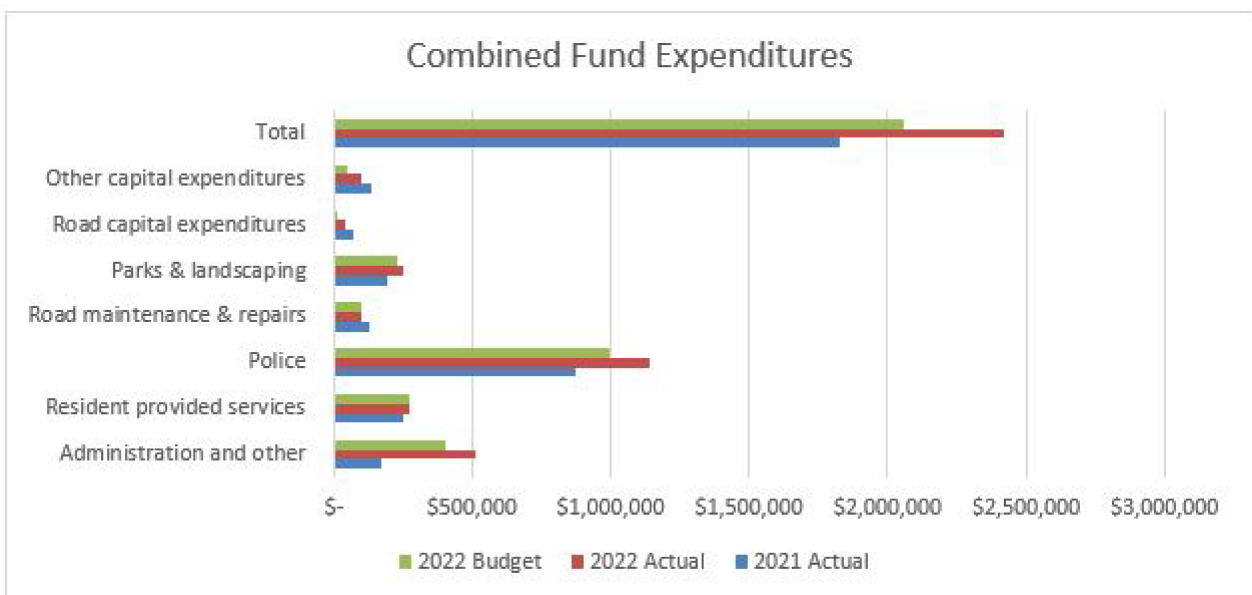
Year Ended June 30, 2022

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 \$2,423,015 which was \$87,327 more than the total revenues of \$2,335,688 for the year ended June 30, 2022.



CITY OF INDIAN HILLS, KENTUCKY

Management's Discussion and Analysis, (continued)

Year Ended June 30, 2022

Revenues for the fiscal year were more than the amount budgeted by \$277,386 and total expenditures were \$364,713 more than the amounts budgeted. American Rescue Plan Act of 2021 funds of approximately \$782,000 were received during 2022 and are included in the budget only to the extent they were spent in 2022.

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 slightly less than half of our total expenses for the year ended June 30, 2022, 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 \$90,000 to the road fund to help cover such expenditures in the year ended June 30, 2022. 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 2022.

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, 2022

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,630,732
Insurance fees receivable and other	109,121
Investments	1,008,129
Capital assets, net	<u>1,900,016</u>
Total assets	<u>\$ 4,647,998</u>
Deferred Outflows of Resources	
Deferred amount related to pension plan	\$ 99,683
Deferred amount related to OPEB	<u>85,183</u>
Total deferred outflow of resources	<u>\$ 184,866</u>
Liabilities	
Accounts payable	\$ 85,051
Unearned revenue	559,667
Accrued wages, taxes, vacation and sick pay	73,002
Refundable building deposits	56,150
Net pension liability	720,647
Net OPEB liability	<u>218,877</u>
Total liabilities	<u>\$ 1,713,394</u>
Deferred Inflows of Resources	
Deferred amount related to pension plan	\$ 218,408
Deferred amount related to OPEB	<u>128,639</u>
Total deferred inflow of resources	<u>\$ 347,047</u>
Net Position	
Investment in capital assets	\$ 1,900,016
Unrestricted	<u>872,407</u>
Total net position	<u>\$ 2,772,423</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

Statement of Activities

Year Ended June 30, 2022

	<u>Governmental Activities</u>
Expenses:	
Administration	\$ 402,477
Resident provided services	271,008
Police	1,017,810
Public works	352,005
Net unrealized investment loss	106,420
Depreciation expense	<u>165,175</u>
Total expenses	2,314,895
General revenues:	
Property taxes	1,105,069
Interlocal agreements	174,264
Municipal road aid	58,644
Interest income	17,527
Intergovernmental programs	244,589
Insurance and cable fees	410,548
Other income	<u>325,047</u>
Total general revenues	<u>2,335,688</u>
Change in net position	20,793
Net position, beginning of year	<u>2,751,630</u>
Net position, end of year	<u>\$ 2,772,423</u>

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF INDIAN HILLS, KENTUCKY

Balance Sheet - Governmental Funds

June 30, 2022

	General Fund	Road Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,610,954	\$ 19,778	\$ 1,630,732
Insurance fees receivable and other	109,121	-	109,121
Investments	<u>1,008,129</u>	<u>-</u>	<u>1,008,129</u>
Total assets	<u>\$ 2,728,204</u>	<u>\$ 19,778</u>	<u>\$ 2,747,982</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 85,051	\$ -	\$ 85,051
Unearned revenue	559,667	-	559,667
Accrued wages, taxes, vacation and sick pay	73,002	-	73,002
Refundable building deposits	<u>56,150</u>	<u>-</u>	<u>56,150</u>
Total liabilities	773,870	-	773,870
Fund balances:			
Assigned - Road Fund	-	19,778	19,778
Unassigned	<u>1,954,334</u>	<u>-</u>	<u>1,954,334</u>
Total fund balances	<u>1,954,334</u>	<u>19,778</u>	<u>1,974,112</u>
Total liabilities and fund balances	<u>\$ 2,728,204</u>	<u>\$ 19,778</u>	<u>\$ 2,747,982</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

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

June 30, 2022

Total fund balances for governmental funds	\$ 1,974,112
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.	1,900,016
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.	(839,372)
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>(262,333)</u>
Total net position of governmental activities	\$ <u>2,772,423</u>

See accompanying notes.

CITY OF INDIAN HILLS, KENTUCKY

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

Year Ended June 30, 2022

		Actual			
	Total Budget	General Fund	Road Fund	Total Governmental Funds	Over (Under) Budget
Revenues:					
Property taxes	\$ 1,108,000	\$ 1,105,069	\$ -	\$ 1,105,069	\$ (2,931)
Interlocal agreements	174,268	174,264	-	174,264	(4)
Municipal road aid	58,000	-	58,644	58,644	644
Interest income	9,000	17,527	-	17,527	8,527
Insurance fees	380,000	394,021	-	394,021	14,021
Cable fees	15,000	16,527	-	16,527	1,527
Intergovernmental programs	782,020	244,589	-	244,589	(537,431)
Other income	<u>91,680</u>	<u>325,047</u>	<u>-</u>	<u>325,047</u>	<u>233,367</u>
Total revenues	2,617,968	2,277,044	58,644	2,335,688	(282,280)
Expenditures:					
Administration	400,802	402,477	-	402,477	1,675
Resident provided services	272,000	271,008	-	271,008	(992)
Police	993,000	1,141,813	-	1,141,813	148,813
Public works:					
Road maintenance and repairs	102,000	-	102,907	102,907	907
Parks and landscaping	232,500	249,098	-	249,098	16,598
Capital expenditures	58,000	103,792	45,500	149,292	91,292
Net unrealized investment loss	<u>-</u>	<u>106,420</u>	<u>-</u>	<u>106,420</u>	<u>106,420</u>
Total expenditures	<u>2,058,302</u>	<u>2,274,608</u>	<u>148,407</u>	<u>2,423,015</u>	<u>364,713</u>
Excess (deficiency) of revenues over expenditures	559,666	2,436	(89,763)	(87,327)	(646,993)
Transfers:					
Transfers (from) to other funds	<u>-</u>	<u>(90,215)</u>	<u>90,215</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ 559,666</u>	<u>(87,779)</u>	<u>452</u>	<u>(87,327)</u>	<u>\$ (646,993)</u>
Fund balances, beginning of year		<u>2,042,113</u>	<u>19,326</u>	<u>2,061,439</u>	
Fund balances, end of year		<u>\$ 1,954,334</u>	<u>\$ 19,778</u>	<u>\$ 1,974,112</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, 2022

Net change in fund balances - total governmental funds	\$ (87,327)
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 \$149,292 was less than depreciation of \$165,175.	
	(15,883)
Net difference between pension and OPEB plan contributions of \$115,100 reported as expense in governmental funds and the pension and OPEB decrease in expense of \$8,903 recorded in the statement of activities.	<u>124,003</u>
Change in net position of governmental activities	\$ <u><u>20,793</u></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.

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.

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.

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

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 7.

Fund Financial Statements

The City uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

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

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

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.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

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

Measurement Focus and Basis of Accounting, continued

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.

Adoption of New Accounting Standard

Effective July 1, 2021, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The adoption of this new standard had no significant impact on the financial statements of the City and there was no adjustment necessary to the opening balance of net position or fund balance as a result of the implementation of GASB Statement No. 87, *Leases*.

Cash and Cash Equivalents

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

Investments

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

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

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

Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment, are reported in the governmental activities 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, 2022.

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, 2022.

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, 2022.

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

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, 2022.

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 \$19,778 for road improvements as of June 30, 2022.

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 21, 2022, 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

Investments

At June 30, 2022, the City's investment balances were as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>
Kentucky League of Cities Investment Pool:		
Dividend Focus Equity Pool	\$ 335,129	\$ 310,113
Government Bond Fund	165,473	154,611
Corporate Bond Fund	223,682	204,752
Equity S&P 500 Index Fund	<u>388,067</u>	<u>338,653</u>
Total	<u>\$ 1,112,351</u>	<u>\$ 1,008,129</u>

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

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

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

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the City will not be able to recover the value of its investments held in the possession of an outside party. As of June 30, 2022, approximately \$880,000 of deposits were not 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, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and improvements	\$ 414,900	\$ -	\$ -	\$ 414,900
Infrastructure	1,825,880	45,500	-	1,871,380
Police vehicles	416,136	46,443	(52,294)	410,285
Equipment and irrigation	<u>58,649</u>	<u>57,349</u>	<u>-</u>	<u>115,998</u>
Total capital assets	2,715,565	149,292	(52,294)	2,812,563
Less accumulated depreciation:				
Buildings and improvements	(21,677)	(6,892)	-	(28,569)
Infrastructure	(449,500)	(74,173)	-	(523,673)
Police vehicles	(299,321)	(76,559)	52,294	(323,586)
Equipment and irrigation	<u>(29,168)</u>	<u>(7,551)</u>	<u>-</u>	<u>(36,719)</u>
Total accumulated depreciation	<u>(799,666)</u>	<u>(165,175)</u>	<u>52,294</u>	<u>(912,547)</u>
Capital assets, net	<u>\$ 1,915,899</u>	<u>\$ (15,883)</u>	<u>\$ -</u>	<u>\$ 1,900,016</u>

4. American Rescue Plan Act Funds

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law. As a result of ARPA, the U.S. Department of Treasury provided funding to all of the States to help local, county and State governments recover from the impacts of the Coronavirus pandemic. Funds received were provided to assist with Coronavirus-related matters 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 the Coronavirus pandemic, and replace lost tax revenue. During the current fiscal year, the City received \$782,022 in ARPA funding from the U.S. Department of Treasury through the Commonwealth of Kentucky. Upon receipt of these funds the City recorded unearned revenue until the funds are expended for their intended purpose, at which point the corresponding revenue is recorded. As of June 30, 2022, the City has recorded revenue of \$222,355 for the amounts expended for premium pay for its police officers. The remaining \$559,667 is reported as unearned revenue in the accompanying financial statements. The City expects to utilize these funds within the next fiscal year.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

5. 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.

6. 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, 2021, the taxable value of real and certain personal property, as assessed by the PVA, was \$710,140,640. The City currently levies a property tax rate of \$.191 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 \$1,105,069 for the year ended June 30, 2022.

7. Retirement Plan

General

The County Employees Retirement System (CERS) is governed by a 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 is the Kentucky Public Pensions Authority (KPPA). It is governed by a third 8-member board composed of trustees from CERS and the 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.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

CERS Plan

Plan description and benefits provided – 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 actuarially determined, per KRS Section 78.454(33), each year. 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).

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:

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

CERS Plan, continued

Years of service	% Paid by Insurance	
	Fund	% Paid by Member
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 be allocated as follows: 5.00% to the member's account and 1.00% to the Insurance Fund. The City's contribution rate for non-hazardous employees was 26.95%, 24.06% and 24.06% for the years ended June 30, 2022, 2021 and 2020, 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% to the member's account and 1.00% to the Insurance Fund. The City's contribution rate for hazardous employees was 44.33%, 39.58%, and 39.58% for the years ended June 30, 2022, 2021 and 2020, respectively.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

CERS Plan, continued

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, 2022, the City reported a liability of \$720,647 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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

7. Retirement Plan, continued

Pension Plan, continued

For the year ended June 30, 2022, the City recognized a decrease to expenses of \$22,244 related to the pension plan. At June 30, 2022, 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	\$ -	\$ 77,361
Difference between expected and actual experience	19,873	-
Change of assumptions	9,001	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	141,047
City's contributions subsequent to the measurement date of June 30, 2021	<u>70,809</u>	<u>-</u>
Total	\$ <u>99,683</u>	\$ <u>218,408</u>

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, 2023. The deferred inflows 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 outflows of resources and deferred inflows 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 3.07 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:	
2023	\$ (64,153)
2024	(64,168)
2025	(36,423)
2026	<u>(24,790)</u>
Total	\$ <u>(189,534)</u>

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

Pension Plan, continued

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2021 was performed by Gabriel, Roeder, Smith & Company (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ended June 30, 2021, using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions. 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 19.05%, 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 Plan, and the Pub-2010 Public Safety Mortality table for the Hazardous Plan, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled 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 2019. 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.

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:

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

Pension Plan, continued

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Asset Class:		
Growth:		
US Equity	21.75 %	5.70%
Non-US Equity	21.75 %	6.35%
Private Equity	10.00 %	9.70%
Specialty Credit/High Yield	15.00 %	2.80%
Liquidity:		
Core Bonds	10.00 %	0.00%
Cash	1.50 %	(0.60)%
Diversifying Strategies:		
Real Estate	10.00 %	5.40%
Real Return	<u>10.00 %</u>	4.55%
Total	<u><u>100.00 %</u></u>	

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 assumes that contributions from plan members and employers will be made at the required 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:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City's share of the net pension liability	\$ 918,564	\$ 720,647	\$ 559,345

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. Retirement Plan, continued

OPEB Plan

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB – At June 30, 2022, the City reported a liability of \$218,877 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021 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, 2022, the City recognized a decrease to expenses of \$7,496. At June 30, 2022, 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	\$ -	\$ 41,198
Difference between expected and actual experience	6,840	23,548
Change of assumptions	54,889	82
Change in proportion and differences between employer contributions and proportionate share of contributions	-	63,811
City's contributions subsequent to the measurement date of June 30, 2021	<u>23,454</u>	<u>-</u>
Total	<u>\$ 85,183</u>	<u>\$ 128,639</u>

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. 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, 2023. 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 5.90 years for hazardous employees and 4.92 years for non-hazardous employees. The net increase or 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:	
2023	\$ (29,118)
2024	(13,644)
2025	(12,032)
2026	(15,825)
2027	<u>3,709</u>
Total	\$ <u>(66,910)</u>

Actuarial assumptions – For financial reporting, the actuarial valuation as of June 30, 2021 was performed by GRS. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, 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.

Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions. 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, 2020 valuation process and was updated to better reflect the plans' anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. 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 19.05%, varies by service for CERS hazardous
Investment rate of return	6.25%
Healthcare trend rates:	
Pre – 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality:	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Plan, and the PUB-2010 Public Safety Mortality table for the Hazardous Plan, 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

7. Retirement Plan, continued

OPEB Plan, continued

Discount Rate – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20% for the non-hazardous fund and from 5.30% to 5.05% for the hazardous fund. The projection of cash flows used to determine the discount rate of 5.20% for non-hazardous and 5.05% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of KPPA's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of KPPA'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.

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 (4.05% hazardous) (4.20% non-hazardous)	Current Discount Rate (5.05% hazardous) (5.20% non-hazardous)	1% Increase (6.05% hazardous) (6.20% non-hazardous)
City's share of the net OPEB liability	\$ 317,330	\$ 218,877	\$ 139,776

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	\$ 143,420	\$ 218,877	\$ 311,294

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Financial Statements, continued

7. 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.

8. Recent Accounting Pronouncements

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 ending June 30, 2023. The City is evaluating the impact of this statement on the financial statements.

In May 2020, the GASB issued Statement No. 96 "*Subscription-Based Information Technology Arrangements*" (SBITA) requiring all SBITAs to be recognized as a right-to-use subscription intangible asset and a corresponding subscription liability, unless the SBITA is a short-term agreement (generally an agreement with a term of twelve months or less). At the commencement date of the agreement, the City will recognize: 1) a subscription liability for the City's obligation to make payments under the SBITA, measured on a present value basis; and 2) a right-to-use subscription asset that represents the City's right to use, or control the use of, the specified asset for the SBITA term. Over the term of the SBITA, the City will report amortization expense for using the subscription asset, interest expense on the lease liability, and note disclosures about the City's SBITAs. This statement becomes effective for the fiscal year ending June 30, 2023. The City is evaluating the impact of this statement on the financial statements.

In June 2022, the GASB issued Statement No. 101 "*Compensated Absences*" requiring the City to recognize liabilities for compensated absences for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement becomes effective for the fiscal year ending June 30, 2025. The City is evaluating the impact of this statement on the financial statements.

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

	2022	2021	2020	2019	2018	2017	2016	2015
City's proportionate percentage of the net pension liability	0.03 %	0.03 %	0.04 %	0.04 %	0.05 %	0.06 %	0.06 %	0.06 %
City's proportionate share of the net pension liability	\$720,647	\$835,404	\$ 1,024,314	\$968,157	\$162,603	\$ 1,031,077	\$908,649	\$706,000
City's covered-employee payroll*	\$161,867	\$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	445.21 %	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	55.95 %	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.

See Report of Independent Auditors and Notes to the Supplemental Schedules.

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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 70,809	\$ 48,657	\$ 48,662	\$ 52,510	\$ 49,506	\$ 61,928	\$ 63,290	\$ 62,764
Contributions in relation to the contractually required contribution	\$ 70,809	\$ 48,657	\$ 48,662	\$ 52,510	\$ 49,506	\$ 61,928	\$ 63,290	\$ 62,764
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$209,123	\$161,867	\$161,882	\$211,185	\$222,999	\$285,262	\$312,393	\$302,771
Contributions as a percentage of covered employee payroll	33.86 %	30.06 %	30.06 %	24.86 %	22.20 %	21.71 %	20.26 %	20.73 %

See Report of Independent Auditors and Notes to the Supplemental Schedules.

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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
City's proportionate percentage of the net OPEB liability	0.03 %	0.03 %	0.04 %	0.04 %	0.05 %
City's proportionate share of the net OPEB liability	\$ 218,877	\$ 255,968	\$ 274,296	\$ 285,426	\$ 429,580
City's covered-employee payroll*	\$ 161,867	\$ 161,882	\$ 211,185	\$ 222,999	\$ 285,262
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	135.22 %	158.12 %	129.88 %	127.99 %	150.59 %
Plan fiduciary net position as a percentage of the total OPEB liability	66.81 %	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.

See Report of Independent Auditors and Notes to the Supplemental Schedules.

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

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 21,895	\$ 15,410	\$ 15,411	\$ 22,121	\$ 20,850
Contributions in relation to the contractually required contribution	\$ 21,895	\$ 15,410	\$ 15,411	\$ 22,121	\$ 20,850
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 209,123	\$ 161,867	\$ 161,882	\$ 211,185	\$ 222,999
Contributions as a percentage of covered employee payroll	10.47 %	9.52 %	9.52 %	10.47 %	9.35 %

See Report of Independent Auditors and Notes to the Supplemental Schedules.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Supplemental Schedules

1. Each of the supplemental schedules is intended to show information for ten years. Additional years will be displayed as they become available.
2. The following summarizes key changes in assumptions and benefit terms from year to year.

Changes in Assumptions and Benefit Terms from 2020 to 2021: Since the prior measurement date, there have been no significant assumption changes. However, Senate Bill 249 passed during the 2020 Legislative Session and 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. Additionally, House Bill 271 passed during the 2020 Legislative Session removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to a duty-related injury upon remarriage of the spouse. It also increased benefits for a very small number of beneficiaries.

Changes in Assumptions and Benefit Terms from 2019 to 2020: Since the prior measurement date, annual salary increases were updated based on the 2018 Experience Study; annual rates of retirement, disability, withdrawal, and mortality were updated based on the 2018 Experience Study; the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous members; the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated (i.e. increased) to better reflect more current expectations relating to anticipated future increases in the medical costs for post-age 65 retirees; and the assumed impact of the Cadillac Tax was changed from a 3.6% to a 0.9% load on employer paid premiums for Non-Medicare retirees who became participants prior to July 1, 2003.

Changes in Assumptions and Benefit Terms from 2018 to 2019: Since the prior measurement date, there have been no changes in actuarial assumptions. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 was determined using these updated benefit provisions.

Changes in Assumptions and Benefit Terms from 2017 to 2018: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.50% to 6.25%, (ii) the assumed rate of inflation was reduced from 3.25% to 2.30%, and (iii) payroll growth assumption was reduced from 4.00% to 2.00%.

Changes in Assumptions and Benefit Terms from 2016 to 2017: None.

CITY OF INDIAN HILLS, KENTUCKY

Notes to the Supplemental Schedules, continued

Changes in Assumptions and Benefit Terms from 2015 to 2016: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described: (i) the assumed investment rate of return was decreased from 7.75% to 7.50%, (ii) the assumed rate of inflation was reduced from 3.50% to 3.25%, (iii) the assumed rate of wage inflation was reduced from 1.00% to 0.75%, (iv) payroll growth assumption was reduced from 4.50% to 4.00%, (v) the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted, and (vi) the assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

OTHER SUPPLEMENTARY INFORMATION

CITY OF INDIAN HILLS, KENTUCKY

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

Year Ended June 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
City police allocation	\$ 821,552	\$ 821,556	\$ 4
Interlocal income - Rolling Fields	174,268	174,264	(4)
Other income	44,180	254,201	210,021
Proceeds from sale of surplus equipment	<u>-</u>	<u>11,965</u>	<u>11,965</u>
Total revenues	1,040,000	1,261,986	221,986
Expenditures:			
Salaries	631,700	788,179	156,479
CERS contribution	93,000	115,100	22,100
Insurance	83,020	67,877	(15,143)
Vehicles repairs and maintenance	15,000	8,108	(6,892)
Payroll taxes	48,325	59,693	11,368
Office expenses	7,000	7,065	65
Professional fees	15,950	17,437	1,487
Supplies and uniforms	31,580	18,160	(13,420)
Vehicle fuel	36,000	37,159	1,159
Training	5,425	1,311	(4,114)
Utilities and communications	26,000	21,724	(4,276)
Capital expenditures	<u>47,000</u>	<u>93,269</u>	<u>46,269</u>
Total expenditures	<u>1,040,000</u>	<u>1,235,082</u>	<u>195,082</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 26,904</u>	<u>\$ 26,904</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 (*Government Auditing Standards*), 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, 2022, 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 21, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Honorable Mayor and City Council

City of Indian Hills, Kentucky

Report of Independent Auditors on Internal Control and on Compliance and Other Matters, continued

Report on 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 financial statements. 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

September 21, 2022