

CITY OF PARK HILLS, KENTUCKY <i>Notes to Financial Statements</i> June 30, 2015
--

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Park Hills, Kentucky (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Park Hills operates under a Mayor and Council form of government. The government is governed by an elected mayor and six council members. As required by generally accepted accounting principles these financial statements represent the primary government. The City has no component units or entities for which the government is considered to be financially accountable.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements.

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

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

Fund Financial Statements

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

CITY OF PARK HILLS, KENTUCKY <i>Notes to Financial Statements</i> June 30, 2015
--

Funds Types

The City reports the following governmental funds:

General Fund

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

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains special revenue funds for Municipal Aid Road Funds, Road Tax Funds, and Vehicle Fee Funds. These funds are used to account for the receipt and disbursement of funds in accordance with Kentucky Revised Statutes for Kentucky Municipal Road Aid Fund and to account for the use of a vehicle sticker license for road maintenance as stated by ordinance. The Road Tax Fund is a major fund, all others are non-major funds.

During fiscal year 2013, the City added four reserve funds for each of the City's major functional areas. The Administration, Police, Fire, and Public Works Reserve Funds will serve to hold funds allocated to those purposes from excess City funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due. Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

If applicable, operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are taxes, interest and charges for services. Fines and licenses and permits are not susceptible to accrual because generally, they are not measurable until received in cash.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental funds. All annual appropriations continue in effect until a new budget is adopted.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2015

Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term certificates of deposit with an initial maturity date within three months of the date acquired. The City maintains no other investments.

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Banker's acceptances.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2015. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department agent but not in the entity's name.

Fund	Category			Fair Value
	1	2	3	
General Fund	\$ 502,552	\$ -	\$ -	\$ 502,552
Special Revenue	368,870	-	-	368,870
Total	<u>\$ 871,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 871,422</u>

Interest Rate Risk – In accordance with City policy, interest rate risk is limited by investing in only certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio.

Credit Risk – The City limits its investments to certificates of deposit issued by banks within the Commonwealth of Kentucky; these certificates have no credit rating applied.

Concentration of Credit Risk – The City has no policy which limits the concentration of credit risk.

Custodial Credit Risk – For deposits, this is the risk that, in the event of a bank failure, the City's deposits will not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository has pledged

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

securities, in conjunction with the FDIC insurance, in an amount at least equal to the amount of City funds on deposit at all times. As of June 30, 2015, the City's deposits are entirely insured with FDIC insurance and/or collateralized with securities held by the financial institutions on the City's behalf.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. An increase in expenditure of \$6,356 is recorded in the government-wide financial statements for this liability. No liability is recorded for non-vested accumulating rights to receive sick pay benefits. At June 30, 2015 the liability for compensated absences is \$17,679.

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Fund Equity

Net position is the difference between assets and liabilities. Net position invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

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

CITY OF PARK HILLS, KENTUCKY
Notes to Financial Statements
June 30, 2015

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as state government restrictions or the funds restricted by the will of the City's voters. These include residual balances from the Kentucky Municipal Aid Road, Road Tax, Vehicle Fee Funds.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. The residual balances of the Administration Reserve, Police Reserve, Fire Reserve, and Public Works Reserve funds are considered committed funds.

Assigned fund balances consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. The City has no balances that are considered to be *assigned*.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

Inter-fund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year. The City had one budget amendment during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the council.

NOTE C – RECEIVABLES

Property values are assessed as of January 1. Taxes are levied on July 1 and are due and payable on or before September 30. The City bills and collects its own property taxes. An adjustment is made at June 30 to recognize property taxes levied during the year which are still receivable at year end. A deferred revenue account is established for delinquent taxes to the extent that their collectability is improbable.

NOTE D – FIXED ASSETS

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position. All fixed assets are valued at historical cost or historical estimated cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The City has elected to capitalize assets with a cost of \$1,000 or more. Capital assets are depreciated using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40 years
Building improvements	10-20 years
Infrastructure	25-40 years
Vehicles	5-10 years
Machinery and equipment	3-5 years

CITY OF PARK HILLS, KENTUCKY
Notes to Financial Statements
June 30, 2015

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 9,273
Public safety	76,005
Public works	13,743
Infrastructure	243,969
Total Governmental Activities Depreciation Expense	<u>\$ 342,990</u>

The following is a summary of the changes in fixed assets during the fiscal year:

	June 30, 2014	Additions	Deletions	June 30, 2015
Land and improvements	\$ 90,818	\$ -	\$ -	\$ 90,818
Buildings and improvements	249,622	-	-	249,622
Infrastructure	12,377,076	677,806	-	13,054,882
Vehicles	921,437	96,576	(25,000)	993,013
Machinery and equipment	659,592	-	-	659,592
Subtotal	14,298,545	774,382	(25,000)	15,047,927
Accumulated depreciation	(10,280,154)	(342,990)	25,000	(10,598,144)
Total assets, net	<u>\$ 4,018,391</u>	<u>\$ 431,392</u>	<u>\$ -</u>	<u>\$ 4,449,783</u>

NOTE E – GENERAL LONG TERM DEBT

Capital Lease – Building Improvements/Equipment

The City executed a lease-purchase agreement in July 2000 for the purchase of equipment and renovations to the City Building at a total cost of \$150,000. Terms of the lease-purchase agreement are 10 years at an interest rate of 5.95%. This lease was refinanced in April 2002 at a 4.57% interest rate. The City executed a lease agreement in May of 2005 for the refinancing of the April 2002 obligation and for the purchase of real property in the City of Park Hills at a total cost of \$250,000. Terms of the lease-purchase agreement are 10 years at an annual interest rate of 4.5%. The maturity date of this lease is December 15, 2015. In March 2012, this lease was refunded at the Bank of Kentucky for \$172,638 with annual interest rate of 2.87% with a term of 5 years with a balloon payment in March of 2017. The balance at June 30, 2015 was \$141,301.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 10,232	\$ 3,988	\$ 14,220
2017	131,069	2,822	133,891
Totals	<u>\$ 141,301</u>	<u>\$ 6,810</u>	<u>\$ 148,111</u>

CITY OF PARK HILLS, KENTUCKY**Notes to Financial Statements****June 30, 2015***Cruiser Lease Payable*

On February 28, 2015 the City entered into a 24 month capital lease for the purchase of a police cruiser at a total cost of \$34,669. Terms of the lease agreement are 2 years at an interest rate of 3.0% with a monthly payment in the amount of \$1,444. The balance at June 30, 2015 was \$26,687.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 16,704	\$ 628	\$ 17,332
2017	9,983	217	10,200
Totals	<u>\$ 26,687</u>	<u>\$ 845</u>	<u>\$ 27,532</u>

Summary of General Long-Term Debt

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Principal Payments	Balance June 30, 2015
BB&T Building Lease	\$ 151,292	\$ -	\$ (9,991)	\$ 141,301
BB&T Cruiser Loan	-	33,503	(6,816)	26,687
	<u>\$ 151,292</u>	<u>\$ 33,503</u>	<u>\$ (16,807)</u>	<u>\$ 167,988</u>

Of the \$167,988 General Long-Term Debt Account Group balance at June 30, 2015, \$26,935 is a current liability due within one year of June 30, 2015 and \$141,053 is a long-term liability, due in more than one year from the date of these financial statements.

NOTE F – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky (Plan). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2015

Contributions

The City contributed 17.67% (34.31% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2015.

The City of Park Hills' made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2015 in the amount of \$138,616.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2015 the City reported a liability of \$727,356, its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's employer allocation proportion was 0.005199% of the total CERS non-hazardous duty employees and 0.046487% of the total CERS hazardous duty employees. For the year ended June 30, 2015, the City's funds recognized pension expense of \$138,616. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	73,773
Changes of assumptions	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	138,616	-
Total	\$ 138,616	\$ 73,773

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

The \$138,616 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2016	\$ 14,754
2017	14,754
2018	14,755
2019	14,755
2020	14,755
	<u>\$ 73,773</u>

Actuarial Assumptions

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the

CITY OF PARK HILLS, KENTUCKY
Notes to Financial Statements
June 30, 2015

following table:

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of 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 7.75 %, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$ 952,809
Current discount rate	7.75%	727,356
1% increase	8.75%	534,093

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

NOTE G – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE H – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has effectively managed risk through various employee education and prevention programs.

As of June 30, 2014, the City was involved in litigation with its former police chief, who was claiming unlawful sexual harassment, unlawful sex discrimination, and the failure to provide a statutory pre-termination due process hearing. This suit was settled in August 2014. As part of the settlement, the City paid the former chief \$150,000 and all claims have been released.

In 2014, the City was notified that it was a defendant in a wrongful termination suit involving a former City employee. The suit is in discovery stage as of the date of these financial statements. The City's insurance carrier will cover this claim and is vigorously defending this charge.

NOTE I – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 67 – *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* – This statement is not currently applicable to the City of Park Hills, Kentucky.

Statement No. 68 – *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* – Requires the City to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on the City's Statement of Net Position. This statement is effect for the fiscal period June 30, 2015. This statement adds a liability that was booked as a prior period adjustment at June 30, 2014 in the net amount of \$708,175 as the City's share of the CERS unfunded liability to the City's Statement of Net Position.

Statement No. 69 – *Government Combinations and Disposals of Government Operations* – This statement is not currently applicable to the City of Park Hills, Kentucky.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This statement is not currently applicable to the City of Park Hills, Kentucky.

NOTE J – FUTURE ACCOUNTING STANDARDS

Statement No. 77 – *Tax Abatement Disclosures*

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2015

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

Statement No. 72 – *Fair Value Measurement and Application*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

NOTE K – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$708,175) at June 30, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

The City has recorded an adjustment to the Beginning Net Position of (\$7,090) at June 30, 2014. This adjustment is to gross the net position of the Road Tax Fund from the prior year audited balance to the actual balance per the City's accountant.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated events through January 6, 2015, the date on which the financial statements were available for issue. The City has no events subsequent to June 30, 2015 through January 6, 2016 to disclose.

CITY OF PARK HILLS, KENTUCKY

Budgetary Comparison Schedule - Budget to Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 489,871	\$ 52,448	\$ 542,319	\$ 542,319	\$ -
Resources (inflows):					
TAXES					
Property taxes	465,102	7,861	472,963	465,243	(7,720)
Municipal insurance tax	350,000	120,000	470,000	490,188	20,188
Payroll/gross receipts taxes	230,000	64,555	294,555	281,954	(12,601)
TOTAL TAXES	1,045,102	192,416	1,237,518	1,237,385	(133)
LICENSES AND PERMITS					
Occupational license	15,000	-	15,000	29,055	14,055
Franchise fees	46,394	2,606	49,000	48,207	(793)
Other fees and licenses	4,600	(850)	3,750	3,790	40
TOTAL LICENSES AND PERMITS	65,994	1,756	67,750	81,052	13,302
INTERGOVERNMENTAL	17,467	4,997	22,464	22,465	1
CHARGES FOR SERVICES					
Trash collection fees	172,883	(2,883)	170,000	168,313	(1,687)
Law enforcement fees, civic duty	11,000	(1,700)	9,300	8,380	(920)
Bromley contract	100,000	-	100,000	100,000	-
Fund administration	17,000	-	17,000	20,271	3,271
TOTAL CHARGES FOR SERVICES	300,883	(4,583)	296,300	296,964	664
OTHER REVENUES					
Creighton revenue	35,000	1,062	36,062	42,987	6,925
Code enforcement board fines	2,000	(1,500)	500	500	-
Police fines	6,000	(3,500)	2,500	2,479	(21)
Interest income	300	(170)	130	132	2
Tax overpayments	3,000	354	3,354	3,354	-
Transfer from other funds	-	-	-	-	-
Insurance reimbursement	5,000	(2,128)	2,872	2,872	-
Proceeds from lease	-	-	-	33,503	33,503
Police training reimbursement	4,000	(200)	3,800	3,746	(54)
Sale of fixed assets	10,000	(10,000)	-	-	-
Legal fee reimbursement	-	600	600	600	-
Miscellaneous	2,000	(1,800)	200	200	-
TOTAL OTHER REVENUES	67,300	(17,282)	50,018	90,373	40,355
Amounts available for appropriation	1,986,617	229,752	2,216,369	2,270,558	54,189
Charges to appropriations (outflows):					
General administration expenses	154,563	13,220	167,783	322,436	(154,653)
Police department expenses	675,500	(8,680)	666,820	652,359	14,461
Fire/rescue department expenses	131,292	(8,274)	123,018	121,925	1,093
Public works expenses	82,292	(4,140)	78,152	84,708	(6,556)
Building and utilities	52,723	2,649	55,372	52,754	2,618
Creighton fund	-	110,000	110,000	108,634	1,366
Contract services	308,581	60,329	368,910	364,934	3,976
Capital improvements	58,520	210,037	268,557	81,651	186,906
Total appropriations	1,463,471	375,141	1,838,612	1,789,401	49,211
Budgetary fund balance, June 30	\$ 523,146	\$ (145,389)	\$ 377,757	\$ 481,157	\$ 103,400

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

CITY OF PARK HILLS, KENTUCKY**Budgetary Comparison Schedule - Budget to Actual - Road Tax Fund**
For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Amendments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Budgetary fund balance, July 1	\$ -	\$ 54,636	\$ 54,636	\$ 47,546	\$ (7,090)
Resources (inflows):					
Road tax revenue	300,000	(3,423)	296,577	286,354	(10,223)
Interest income	1,200	(1,160)	40	38	(2)
Water/sanitation reimbursement	-	164,911	164,911	161,411	(3,500)
Dixie Highway grant	267,345	(6,362)	260,983	260,983	-
Transfers from other funds	-	-	-	-	-
Amounts available for appropriation:	<u>568,545</u>	<u>208,602</u>	<u>777,147</u>	<u>756,332</u>	<u>(20,815)</u>
Charges to appropriations (outflows):					
Street maintenance	290,200	41,578	331,778	409,417	(77,639)
Dixie Highway improvements	267,345	8,117	275,462	274,262	1,200
Administration	11,000	-	11,000	11,000	-
Total appropriations	<u>568,545</u>	<u>49,695</u>	<u>618,240</u>	<u>694,679</u>	<u>(76,439)</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ 158,907</u>	<u>\$ 158,907</u>	<u>\$ 61,653</u>	<u>\$ (97,254)</u>

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

CITY OF PARK HILLS, KENTUCKY

Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure For the Year Ended June 30, 2015

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(New disclosure in 2015, will display additional years as time progresses)										
Proportion of net pension liability	0.0164%									
Proportionate share of the net pension liability (asset)	\$ 727,356									
Covered employee payroll in year of measurement	412,819									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	176.19%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(New disclosure in 2015, will display additional years as time progresses)										
Contractually required contribution	\$ 138,616	\$ 106,586								
Actual contribution	138,616	106,586								
Contribution deficiency (excess)	-	-								
Covered employee payroll	498,134	412,819								
Contributions as a percentage of covered employee payroll	27.83%	25.82%								

Notes to Required Supplementary Information for the Year Ended June 30, 2015

Changes of Assumptions

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization.

CITY OF PARK HILLS, KENTUCKY
Combining Balance Sheet - Non-Major Funds
June 30, 2015

	Municipal Aid Fund	Vehicle Fee Fund	Tree Board Reserve Fund	Park & Beautification Fund	Administration Reserve Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	
									2015	(Memo Only) 2014
ASSETS										
Restricted cash	\$ 171,061	\$ 95,909	\$ 1,098	\$ 1,902	\$ 3,388	\$ 30,934	\$ 12,458	\$ 17,362	\$ 334,112	\$ 248,738
Accounts receivable	5,554	520	-	-	-	-	-	-	6,074	6,319
Due from other funds	-	-	-	-	-	-	-	-	-	15,570
TOTAL ASSETS	\$ 176,615	\$ 96,429	\$ 1,098	\$ 1,902	\$ 3,388	\$ 30,934	\$ 12,458	\$ 17,362	\$ 340,186	\$ 270,627
LIABILITIES AND FUND BALANCE										
LIABILITIES										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-	-	-	-	-	-
FUND BALANCE										
Restricted	176,615	96,429	-	-	-	-	-	-	273,044	207,971
Committed	-	-	1,098	1,902	3,388	30,934	12,458	17,362	67,142	62,656
TOTAL FUND BALANCE	176,615	96,429	1,098	1,902	3,388	30,934	12,458	17,362	340,186	270,627
TOTAL LIABILITIES AND FUND BALANCE	\$ 176,615	\$ 96,429	\$ 1,098	\$ 1,902	\$ 3,388	\$ 30,934	\$ 12,458	\$ 17,362	\$ 340,186	\$ 270,627

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

CITY OF PARK HILLS, KENTUCKY

Combining Statement of Revenues, Expenditures and Changes in

Fund Balances - Non-Major Funds

For the Year Ended June 30, 2015

Revenues	Municipal Aid Fund	Vehicle Fee Fund	Tree Board Reserve Fund	Parks & Beautification Fund	Administration Reserve Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	
									2015	Restated (Memo Only) 2014
Taxes	\$ -	\$ 3,417	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,417	\$ 17,425
Intergovernmental	76,451	-	-	-	-	-	-	-	76,451	71,656
Sale of assets	-	-	-	-	-	-	-	3,500	3,500	-
Interest income	34	24	-	-	1	8	1	4	72	98
Miscellaneous	-	-	1,098	1,902	-	-	-	-	3,000	-
Transfers from other funds	-	-	-	-	-	-	7,459	-	7,459	25,000
Total Revenues	76,485	3,441	1,098	1,902	1	8	7,460	3,504	93,899	114,179
Expenditures										
General government	2,000	4,000	-	-	395	9,087	5	-	15,487	7,220
Public works	8,275	578	-	-	-	-	-	-	8,853	21,386
Debt service	-	-	-	-	-	-	-	-	-	-
Transfers to other funds	-	-	-	-	-	-	-	-	-	121,459
Total Expenditures	10,275	4,578	-	-	395	9,087	5	-	24,340	150,065
Excess/(Deficiency) of Revenues Over/(Under)Expenditures	66,210	(1,137)	1,098	1,902	(394)	(9,079)	7,455	3,504	69,559	(35,886)
Fund Balances Beginning of Year	110,405	97,566	-	-	3,782	40,013	5,003	13,858	270,627	306,513
Fund Balances End of Year	\$ 176,615	\$ 96,429	\$ 1,098	\$ 1,902	\$ 3,388	\$ 30,934	\$ 12,458	\$ 17,362	\$ 340,186	\$ 270,627

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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

**To the Honorable Mayor and
Members of Council of
City of Park 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 Park Hills, Kentucky as of June 30, 2015 and the related notes to the financial statements which collectively comprise the City of Park Hills, Kentucky's financial statements, and have issued our report thereon dated January 6, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Park Hills, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Park Hills, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Park Hills, Kentucky's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 and therefore material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Lack of Segregation of Duties

Condition: We noted that, due to the size of the City and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Park Hills, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
January 6, 2016