

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2016

CITY OF PARK HILLS, KENTUCKY

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For the Year Ended June 30, 2016

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CITY OF PARK HILLS, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2016

List of City Officials

Matt Mattone, Mayor

Greg Claypole

Steve Elkins

Monty O'Hara

Pamela Spoor

Kathy Zembrodt

Administration and Departments

Julie Alig, Clerk/Treasurer

Cody Stanley, Police Chief

John Scott Rigney, Fire Chief

Jay Bayer, City Engineer

Dan VonHandorf, Public Works

Todd McMurtry, Attorney



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

INDEPENDENT AUDITOR'S REPORT

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

**To the Honorable Mayor and
Members of the Council
City of Park Hills, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Park Hills, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Park Hills, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Park Hills, Kentucky as of June 30, 2016 and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–5, the budgetary comparison schedules on pages 27–28 and the pension disclosure on page 29–30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The combining non-major funds financial statements on pages 31–32 are supplementary information and are presented for purposes of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of the City of Park Hills, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Park Hills, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.

Erlanger, Kentucky

January 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) is required supplementary information per the Government Accounting Standards Board (GASB) that provides management with the opportunity to provide both short and long term analysis of the City of Park Hills' financial activities. The MD&A should be read in conjunction with the City's basic financial statements, which begin on page 6.

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The City's fund financial statement provides more detail on the operations of the City than the government wide statements.

REPORTING ON THE CITY AS A WHOLE

The Statement of Net Position and Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting and report the City's net position and changes in them. The City's basic services are considered to be governmental activities and include general government, public safety and public works. Property taxes, insurance premium taxes and payroll taxes/gross receipts license fees finance most of these services. The assets of the City exceeded its liabilities at June 30, 2016 by \$4,680,529.

	2016	2015
Assets		
Current and other assets	\$ 1,256,613	\$ 630,931
Capital assets	4,665,614	4,449,783
Restricted assets	2,048,532	368,870
Total Assets	7,970,759	5,449,584
Deferred Outflows of Resources	200,519	138,616
Total Assets and Deferred Outflows	8,171,278	5,588,200
Liabilities		
Current liabilities	405,809	143,740
Long term liabilities	3,045,937	886,089
Total Liabilities	3,451,746	1,029,829
Deferred Inflows of Resources	39,003	73,773
Total Liabilities and Deferred Inflows	3,490,749	1,103,602
Net Position		
Net investment in capital assets	2,177,252	4,281,794
Designated future expenditures	2,577,378	436,597
Unrestricted	(74,101)	(233,793)
Total Net Position	\$ 4,680,529	\$ 4,484,598

One of the most important questions asked about the City's finances is whether the financial position has improved or deteriorated as a result of the year's operations. In fiscal year 2016, governmental activities increased the City's net position by \$248,502, compared to an increase of \$476,506 in 2015. The 2016 increase in net position includes a non-cash depreciation expense of \$372,546.

These amounts are detailed in the Statement of Activities as follows:

General Revenues	2016	2015
Property taxes	\$ 472,566	\$ 465,243
Insurance premium taxes	459,474	490,188
Road tax revenues	298,793	286,354
Payroll/gross receipts taxes	296,626	281,954
Licenses and permits fees	108,023	84,469
Other revenues	123,109	19,893
Total General Revenues	<u>1,758,591</u>	<u>1,628,101</u>
Expenses, net of program revenues		
General and administrative	187,590	333,242
Public safety	703,303	703,265
Public works	187,316	(306,635)
Building and utilities	49,111	52,754
Contracted services	370,262	364,334
Interest expense	12,507	4,635
Total Expenditures, net	<u>1,510,089</u>	<u>1,151,595</u>
Increase in Net Position	<u>\$ 248,502</u>	<u>\$ 476,506</u>

THE CITY'S FUNDS

The City maintains its budget and daily operations on a current financial resources focus, known as "fund accounting". The City's funds consist of the general fund, the road tax fund, and ten special revenue funds. The Statement of Revenues, Expenditures and Changes in Fund Balances reflects an excess of fund revenues and other financing sources over fund expenditures and other financing uses in the amount of \$450,913. This excess includes \$588,377 in capital outlays, of which \$550,229 were outlays for road replacement. The Administration, Police and Public Works Reserve funds are committed to special purpose expenditures for each of these governmental functions.

The City's General Fund received \$155,663 more revenue than was budgeted, and expended \$16,300 more than was budgeted. The City's Road Tax Fund received \$17,754 more revenue than was budgeted, and expended \$217,390 less than was budgeted.

GASB 68 PENSION LIABILITY RECOGNITION

As of June 30, 2016, the City is required, by Governmental Accounting Standards Board Statement No. 68, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. Due to this requirement, the 2015 Statement of Net Position above was restated by (\$52,571) to include the beginning balance of the net pension liability at June 30, 2015. The net pension liability, \$879,370, the deferred outflow of resources, \$200,519, and the deferred inflow of resources, \$39,003, on the Statement of Net Position at June 30, 2016 are a function of this required reporting. Detailed information on this pension recognition can be found in Note F in the Notes to the Financial Statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Julie Alig, the City's Treasurer at The City of Park Hills, 1106 Amsterdam Road, Park Hills, Kentucky, or (859) 431-6252.

CITY OF PARK HILLS, KENTUCKY STATEMENT OF NET POSITION June 30, 2016

	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 1,126,501
Taxes receivable	118,074
Other accounts receivable	12,038
Total Current Assets	<u>1,256,613</u>
Capital Assets	
Land and construction in progress	113,676
Assets being depreciated	15,522,628
Less: accumulated depreciation	<u>(10,970,690)</u>
Net Capital Assets	<u>4,665,614</u>
Restricted Assets	
Creighton Fund	53,750
Special Revenue Funds cash	90,993
Assets held in trust	<u>1,903,789</u>
Total Restricted Assets	<u>2,048,532</u>
Total Assests	<u>7,970,759</u>
Deferred Outflow of Resources	
Deferred outflows related to pensions	<u>200,519</u>
Total Assets and Deferred Outflow of Resources	<u>8,171,278</u>
Liabilities	
Current Liabilities	
Accounts payable	62,289
Accrued salaries and benefits	5,158
Current portion of debt	<u>338,362</u>
Total Current Liabilities	<u>405,809</u>
Long Term Liabilities	
Compensated absences	16,567
Capital leases payable	2,150,000
Net pension liability	<u>879,370</u>
Total Long Term Liabilites	<u>3,045,937</u>
Total Liabilities	<u>3,451,746</u>
Deferred Inflows of Resources	
Deferred inflow related to pensions	<u>39,003</u>
Total Liabilities and Deferred Inflows of Resources	<u>3,490,749</u>
Net Position	
Net investment in capital assets	2,177,252
Restricted for:	
Assets held in trust	1,903,789
Road funds	529,145
Department funds	90,694
Creighton fund	53,750
Unrestricted	<u>(74,101)</u>
Total Net Position	<u>\$ 4,680,529</u>

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

CITY OF PARK HILLS, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental Activities					
General administrative	\$ 204,590	\$ 17,000	\$ -	\$ -	\$ (187,590)
Public safety	882,944	109,279	70,362	-	(703,303)
Public works	457,218	169,003	53,571	47,328	(187,316)
Building and utilities	49,111	-	-	-	(49,111)
Contracted services	370,262	-	-	-	(370,262)
Interest expense	12,507	-	-	-	(12,507)
Total Governmental Activities	<u>\$ 1,976,632</u>	<u>\$ 295,282</u>	<u>\$ 123,933</u>	<u>\$ 47,328</u>	<u>(1,510,089)</u>
General Revenues					
Taxes					
Property taxes					472,566
Insurance premium taxes					459,474
Road tax revenues					298,793
Payroll/gross receipts taxes					296,626
Licenses and permit fees					
Franchise fees					53,837
Vehicle sticker license					19,958
Licenses					34,228
Miscellaneous					121,215
Investment earnings					1,894
Total general revenues and special items					<u>1,758,591</u>
Change in net position					248,502
Net position, beginning					4,484,598
Prior period adjustment					(52,571)
Net position, end					<u>\$ 4,680,529</u>

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

CITY OF PARK HILLS, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2016
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	General Fund	Road Tax Fund	Non-Major Funds	Total Governmental Funds
Assets				
Cash	\$ 588,940	\$ 207,185	\$ 330,376	\$ 1,126,501
Receivables				
Accounts	7,302	-	-	7,302
Taxes	118,074	-	-	118,074
Waste	654	-	-	654
Intergovernmental	4,082	-	-	4,082
Due from other funds	500	2,147	-	2,647
Restricted assets				
Special revenue funds cash	-	-	90,993	90,993
Creighton fund	53,750	-	-	53,750
Total Assests	<u>\$ 773,302</u>	<u>\$ 209,332</u>	<u>\$ 421,369</u>	<u>\$ 1,404,003</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 51,927	\$ 7,815	\$ 2,547	\$ 62,289
Accrued salaries and benefits	5,158	-	-	5,158
Due to other funds	2,147	500	-	2,647
Total Liabilities	<u>59,232</u>	<u>8,315</u>	<u>2,547</u>	<u>70,094</u>
Fund Balances				
Restricted	53,750	201,017	328,128	582,895
Committed	-	-	90,694	90,694
Unassigned	660,320	-	-	660,320
Total Fund Balances	<u>714,070</u>	<u>201,017</u>	<u>418,822</u>	<u>1,333,909</u>
Total Liabilities and Fund Balances	<u>\$ 773,302</u>	<u>\$ 209,332</u>	<u>\$ 421,369</u>	<u>\$ 1,404,003</u>

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

<p>CITY OF PARK HILLS, KENTUCKY RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2016</p>
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Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 1,333,909
Capital assets of \$15,636,304, less accumulated depreciation of (\$10,970,690), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,665,614
Assets held in trust are a note the City is responsible for repaying, but the note's funds have not yet been drawn by the City.	1,903,789
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds:	
Deferred outflows of resources	200,519
Deferred inflow of resources	(39,003)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(16,567)
Capital leases payable	(2,488,362)
Net pension liability	<u>(879,370)</u>
Net position of governmental activities	<u>\$ 4,680,529</u>

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

CITY OF PARK HILLS, KENTUCKY Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2016

	General	Road Tax	Non-Major	Total
	Fund	Fund	Funds	Governmental
				Funds
Revenues				
Taxes	\$ 1,228,666	\$ 298,793	\$ -	\$ 1,527,459
Licenses and permits	88,065	-	19,958	108,023
Charges for services	295,282	-	-	295,282
Intergovernmental	70,362	47,328	53,571	171,261
Interest income	1,056	235	603	1,894
Other revenues	114,648	-	6,567	121,215
Transfers from other funds	500	-	35,963	36,463
Total Revenues	<u>1,798,579</u>	<u>346,356</u>	<u>116,662</u>	<u>2,261,597</u>
Expenditures				
Current				
General administrative	163,228	11,000	16,479	190,707
Police department	662,844	-	-	662,844
Fire/rescue department	119,414	-	-	119,414
Public works	87,230	60,666	21,547	169,443
Building and utilities	49,111	-	-	49,111
Creighton fund	28,141	-	-	28,141
Contracted services	370,262	-	-	370,262
Capital outlay	15,290	573,087	-	588,377
Debt service	34,184	157,950	-	192,134
Transfers to other funds	35,962	500	-	36,462
Total Expenditures	<u>1,565,666</u>	<u>803,203</u>	<u>38,026</u>	<u>2,406,895</u>
Excess of Revenues				
Over (Under) Expenditures	232,913	(456,847)	78,636	(145,298)
Other Financing Sources				
Proceeds from loan	-	596,211	-	596,211
Total Other Financing Sources	<u>-</u>	<u>596,211</u>	<u>-</u>	<u>596,211</u>
Excess of Revenues and Other				
Financing Sources Over (Under)				
Expenditures and Other Financing Uses	232,913	139,364	78,636	450,913
Fund Balances, Beginning of Year	481,157	61,653	340,186	882,996
Prior Period Adjustment	-	-	-	-
Fund Balances, End of Year	<u>\$ 714,070</u>	<u>\$ 201,017</u>	<u>\$ 418,822</u>	<u>\$ 1,333,909</u>

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

<p>CITY OF PARK HILLS, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016</p>
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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ 450,913
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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. In the current period these amounts are:

Capital outlays	588,377
Depreciation expense	(372,546)

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

Pension contributions	99,100
Costs of benefits earned	(101,871)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. However, the issuance and repayment of long-term debt has no effect on net position. The amounts of debt proceeds and principal payments are included in the governmental funds in the current period.

Principal payments	179,627
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Other financing sources, such as a proceeds from a loan, are considered revenues in the funds, however, they are recorded as long term debt on the Statement of Net Position.

	(596,211)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. In the current period these amounts are:

Decrease in compensated absences	1,113
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Change in net position of governmental activities	<u>\$ 248,502</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

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, 2016
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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 fee for road maintenance as stated by ordinance. The Road Tax Fund is a major fund, all others are non-major funds.

During fiscal year 2016, the City added two additional reserve funds, Historic Preservation and Communications Funds, for each of the City's major functional areas. These funds in addition to the existing Tree Board, Park and Beautification, 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, 2016

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, 2016

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, 2016. 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 - cash	\$ 588,940	\$ -	\$ -	\$ 588,940
Special revenue funds - cash	537,561	-	-	537,561
Special revenue funds - restricted cash	90,993	-	-	90,993
Creighton - restricted cash	53,750	-	-	53,750
Total	<u>\$ 1,271,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271,244</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.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

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 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, 2016, 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, 2016 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. A decrease in expenditure of \$1,113 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, 2016 the liability for compensated absences is \$16,567.

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.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

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.

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 Road Aid, Road Tax, Vehicle Fee and Creighton 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 Tree Board Reserve, Park and Beautification, Administration Reserve, Historic Preservation, Communications, 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 ordinance, prior to May 31, the Mayor submits to the City Council a proposed operating budget on the modified accrual basis of accounting 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) A public meeting is conducted to obtain citizen comment.
- 3) By July 1, the budget is legally enacted through passage of an ordinance.
- 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.

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.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2016

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

Depreciation expense was charged to government functions as follows:

Governmental Activities	
Administration	\$ 9,427
Public safety	77,896
Public works	13,742
Infrastructure	<u>271,481</u>
Total Governmental Activities Depreciation Expense	<u>\$ 372,546</u>

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

	June 30, 2015	Additions	Deletions	June 30, 2016
Land	\$ 90,818	\$ -	\$ -	\$ 90,818
Construction in progress	-	22,858	-	22,858
Buildings and improvements	249,622	3,254	-	252,876
Infrastructure	13,054,882	550,229	-	13,605,111
Vehicles	993,013	-	-	993,013
Machinery and equipment	659,592	12,036	-	671,628
Subtotal	15,047,927	588,377	-	15,636,304
Accumulated depreciation	<u>(10,598,144)</u>	<u>(372,546)</u>	-	<u>(10,970,690)</u>
Total assets, net	<u>\$ 4,449,783</u>	<u>\$ 215,831</u>	<u>\$ -</u>	<u>\$ 4,665,614</u>

NOTE E – GENERAL LONG TERM DEBT

Capital Lease – Building Improvements/Equipment

In July 2000, the City executed a lease-purchase agreement for the purchase of equipment and renovations to the City Building at a total cost of \$150,000 with terms of 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 with terms of 10 years at an annual interest rate of 4.5%. In March 2012, the May 2005 lease was refinanced at the Bank of Kentucky for \$172,638 with an annual interest rate of 2.87% and terms of 5 years with a balloon payment in March of 2017. The balance at June 30, 2016 was \$129,849.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2016

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 129,849	\$ 2,857	\$ 132,706
Totals	<u>\$ 129,849</u>	<u>\$ 2,857</u>	<u>\$ 132,706</u>

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, 2016 was \$8,513.

Annual lease payment requirements to maturity are as follows

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 8,513	\$ 83	\$ 8,596
Totals	<u>\$ 8,513</u>	<u>\$ 83</u>	<u>\$ 8,596</u>

Road Construction Note

In May 2015, the City signed an open ended draw note for \$2,500,000. The proceeds of this note are to go towards road reconstruction in the City. The City began drawing on the note in October 2016 and paying principal and interest on this balance. As of June 30, 2016, \$596,211 of these funds had been drawn. The remaining balance yet to be drawn of \$1,903,789 is held on the statement of net position as an Asset Held in Trust to account for the funds which are available for City use. This debt has an interest rate of 3.2% and adjusts to 2.5% over the 5-year Treasury rate after 10 years. The note matures on May 26, 2030. The balance outstanding at June 30, 2016 is \$2,350,000. City assets serve as collateral for this debt.

Summary of General Long-Term Debt

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2016:

	June 30, 2015	Additions	Payments	June 30, 2016
BB&T Building Lease	\$ 141,301	\$ -	\$ (11,452)	\$ 129,849
BB&T Cruiser Loan	26,687	-	(18,174)	8,513
BB&T Road Construction Loan	-	2,500,000	(150,000)	2,350,000
	<u>\$ 167,988</u>	<u>\$ 2,500,000</u>	<u>\$ (179,626)</u>	<u>\$ 2,488,362</u>

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2016

Of the \$2,488,362 General Long-Term Debt Account Group balance at June 30, 2016, \$338,362 is a current liability due within one year of June 30, 2016 and \$2,150,000 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’s eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five year’s service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31,2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of year’s service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate or pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

CITY OF PARK HILLS, KENTUCKY
Notes to Financial Statements
June 30, 2016

Contributions - Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Contributions

The City contributed 17.06%, of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016. The City contributed 32.95%, of which 20.26% was for the pension fund and 12.69% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$18,624, of which \$13,559 was for the pension fund and \$5,065 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$139,120, of which \$85,541 was for the pension fund and \$53,579 was for the health insurance fund.

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

At June 30, 2016, the City reported a liability of \$879,370 (\$217,619– non-hazardous and \$661,751 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the City's non-hazardous employer allocation proportion was 0.005061% of the total CERS non-hazardous duty employees and 0.043108% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$77,525.

CITY OF PARK HILLS, KENTUCKY Notes to Financial Statements June 30, 2016

At June 30, 2016, 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	\$ 16,181	\$ -
Net difference between projected and actual earnings on plan investments	6,107	-
Changes of assumptions	79,131	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	39,003
City contributions subsequent to the measurement date	99,100	-
Total	<u>\$ 200,519</u>	<u>\$ 39,003</u>

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, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.51 years. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period.

Deferred Outflows and Inflows of Resources

In FY 2016, \$200,519 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. In FY 2016, \$39,003 was recognized as a deferred inflow of resources resulting from changes in proportion share.

The City's contributions subsequent to the measurement date of \$174,815 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2017	\$ 14,552
2018	14,552
2019	10,607
2020	22,705
2021	-
	<u>\$ 62,416</u>

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
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	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back 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.

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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.

Changes of Assumptions

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

- 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.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Hazardous & Non-Hazardous Target	Long Term Expected
	Allocation	Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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 7.5%. The long-term assumed investment rate of return 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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 1,124,883
Current discount rate	7.50%	879,370
1% increase	8.50%	674,280

CITY OF PARK HILLS, KENTUCKY

Notes to Financial Statements

June 30, 2016

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.

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.

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 the discovery stage of litigation 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 – PRIOR PERIOD ADJUSTMENT

The City has recorded an adjustment to the Beginning Net Position of (\$52,571) at July 1, 2015. This adjustment, shown on page 7, accounts for the health insurance fund portion of the pension contributions at June 30, 2015 and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE J – SUBSEQUENT EVENTS

Management has considered subsequent events through January 25, 2017, which represents the date financial statements were available to be issued. The City did not have any events subsequent to June 30, 2016 through January 25, 2017 to disclose.

CITY OF PARK HILLS, KENTUCKY**BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - GENERAL FUND****For the Year Ended June 30, 2016**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ 377,757</u>	<u>\$ 103,400</u>	<u>\$ 481,157</u>	<u>\$ 481,157</u>	<u>\$ -</u>
Resources (inflows):					
Taxes					
Property taxes	448,000	4,787	452,787	452,636	(151)
Municipal insurance tax	400,000	7,875	407,875	459,474	51,599
Delinquent property taxes	4,000	1,895	5,895	5,310	(585)
Tangible property tax	13,102	1,508	14,610	14,620	10
Payroll/gross receipts taxes	230,000	63,000	293,000	296,626	3,626
Total Taxes	<u>1,095,102</u>	<u>79,065</u>	<u>1,174,167</u>	<u>1,228,666</u>	<u>54,499</u>
Licenses and Permits					
Occupational license	15,000	12,000	27,000	28,723	1,723
Franchise fees	46,394	7,606	54,000	53,837	(163)
Other fees and licenses	4,600	840	5,440	5,505	65
Total Licenses and Permits	<u>65,994</u>	<u>20,446</u>	<u>86,440</u>	<u>88,065</u>	<u>1,625</u>
Intergovernmental	<u>24,886</u>	<u>(1,602)</u>	<u>23,284</u>	<u>23,284</u>	<u>-</u>
Charges for Services					
Trash collection fees	172,883	-	172,883	169,003	(3,880)
Law enforcement fees, civic duty	11,000	(2,500)	8,500	9,279	779
Bromley contract	100,000	-	100,000	100,000	-
Vehicle Fee Administration	4,000	-	4,000	4,000	-
Municipal State Aid Administration	2,000	-	2,000	2,000	-
Fund administration	11,000	-	11,000	11,000	-
Total Charges for Services	<u>300,883</u>	<u>(2,500)</u>	<u>298,383</u>	<u>295,282</u>	<u>(3,101)</u>
Other Revenues					
Creighton revenue	37,000	10,078	47,078	47,078	-
Code enforcement board fines	2,000	(2,000)	-	-	-
Police fines	6,000	(5,825)	175	175	-
Interest income	200	800	1,000	1,056	56
Tax overpayments	3,000	8,181	11,181	11,181	-
Insurance reimbursement	5,000	(5,000)	-	1,894	1,894
Litter abatement grant	1,481	(1,481)	-	-	-
Legal fee reimbursement	-	-	-	100,000	100,000
Transfers from other funds	-	-	-	500	500
Miscellaneous	6,000	(4,792)	1,208	1,398	190
Total Other Revenues	<u>60,681</u>	<u>(39)</u>	<u>60,642</u>	<u>163,282</u>	<u>102,640</u>
Amounts available for appropriation	<u>1,925,303</u>	<u>198,770</u>	<u>2,124,073</u>	<u>2,279,736</u>	<u>155,663</u>
Charges to appropriations (outflows):					
General administration	157,625	5,223	162,848	165,856	(3,008)
Police department	685,796	(10,833)	674,963	677,883	(2,920)
Fire/rescue department	135,086	(202)	134,884	134,473	411
Public works	83,772	(6,591)	77,181	77,597	(416)
Building and utilities	47,500	5,207	52,707	49,111	3,596
Creighton fund	-	30,000	30,000	28,141	1,859
Contract services	322,575	60,305	382,880	370,262	12,618
Capital improvements	62,020	(28,117)	33,903	26,381	7,522
Transfers to other funds	-	-	-	35,962	(35,962)
Total appropriations	<u>1,494,374</u>	<u>54,992</u>	<u>1,549,366</u>	<u>1,565,666</u>	<u>(16,300)</u>
Budgetary fund balance, June 30	<u>\$ 430,929</u>	<u>\$ 143,778</u>	<u>\$ 574,707</u>	<u>\$ 714,070</u>	<u>\$ 139,363</u>

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, 2016

	Original Budget	Amendments	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 158,907	\$ (97,254)	\$ 61,653	\$ 61,653	\$ -
Resources (inflows):					
Road tax revenue	300,000	(3,874)	296,126	298,793	2,667
Interest income	250	(100)	150	235	85
Water/sanitation reimbursement	3,500	(3,500)	-	38,311	38,311
Dixie Highway grant	-	9,017	9,017	9,017	-
Loan Proceeds	-	599,000	599,000	596,211	(2,789)
Transfers from other funds	-	20,520	20,520	-	(20,520)
Amounts available for appropriation:	<u>462,657</u>	<u>523,809</u>	<u>986,466</u>	<u>1,004,220</u>	<u>17,754</u>
Charges to appropriations (outflows):					
Street maintenance	451,657	400,843	852,500	621,453	231,047
Payment to water district	-	-	-	3,500	(3,500)
Dixie Highway improvements	-	-	-	1,300	(1,300)
Loan Payment	-	157,093	157,093	157,950	(857)
Legal fees	-	-	-	7,500	(7,500)
Administration	11,000	-	11,000	11,000	-
Transfers to other funds	-	-	-	500	(500)
Total appropriations	<u>462,657</u>	<u>557,936</u>	<u>1,020,593</u>	<u>803,203</u>	<u>217,390</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ (34,127)</u>	<u>\$ (34,127)</u>	<u>\$ 201,017</u>	<u>\$ 235,144</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 - NON-HAZARDOUS****Last Ten Fiscal Years****Schedule of the City's Proportionate Share of the Net Pension Liability****County Employees' Retirement System (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.0051%	0.0052%								
Proportionate share of the net pension liability (asset)	\$ 217,619	\$ 168,664								
Covered employee payroll in year of measurement	110,594	101,498								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	196.77%	166.17%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								

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

(New disclosure in 2015, will display additional years as time progresses)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 13,559	\$ 14,101	\$ 13,946							
Actual contribution	13,559	14,101	13,946							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	109,168	110,594	101,498							
Contributions as a percentage of covered employee payroll	12.42%	12.75%	13.74%							

Notes to Required Supplementary Information**Last Ten Fiscal Years****Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE F in the Notes to the Financial Statements.

CITY OF PARK HILLS, KENTUCKY
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - HAZARDOUS
Last Ten Fiscal Years

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

(New disclosure in 2015, will display additional years as time progresses)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.0431%	0.0465%								
Proportionate share of the net pension liability (asset)	\$ 661,751	\$ 558,692								
Covered employee payroll in year of measurement	347,053	206,669								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	190.68%	270.33%								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

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

(New disclosure in 2015, will display additional years as time progresses)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 85,541	\$ 71,944	\$ 44,992							
Actual contribution	85,541	71,944	44,992							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	422,215	347,053	206,669							
Contributions as a percentage of covered employee payroll	20.26%	20.73%	21.77%							

Notes to Required Supplementary Information
Last Ten Fiscal Years
Changes of Assumptions

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE F in the Notes to the Financial Statements.

CITY OF PARK HILLS, KENTUCKY
COMBINING BALANCE SHEET - NON-MAJOR FUNDS
June 30, 2016

	Municipal Aid Fund	Vehicle Fee Fund	Tree Board Reserve Fund	Park & Beautification Fund	Administration Reserve Fund	Historic Preservation Fund	Communications Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	
											2016	(Memo Only) 2015
Assets												
Restricted cash	\$218,127	\$110,497	\$ 403	\$ 3,628	\$ 3,391	\$ 701	\$ 1,000	\$45,330	\$20,175	\$ 18,117	\$ 421,369	\$ 334,112
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	6,074
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	<u>\$218,127</u>	<u>\$110,497</u>	<u>\$ 403</u>	<u>\$ 3,628</u>	<u>\$ 3,391</u>	<u>\$ 701</u>	<u>\$ 1,000</u>	<u>\$45,330</u>	<u>\$20,175</u>	<u>\$ 18,117</u>	<u>\$ 421,369</u>	<u>\$ 340,186</u>
Liabilities and Fund Balances												
Liabilities												
Accounts payable	\$ 1,687	\$ 561	\$ -	\$ -	\$ -	\$ 299	\$ -	\$ -	\$ -	\$ -	\$ 2,547	\$ -
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	<u>1,687</u>	<u>561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,547</u>	<u>-</u>
Fund Balances												
Restricted	216,440	109,936	-	-	-	-	-	-	-	-	326,376	273,044
Committed	-	-	403	3,628	3,391	402	1,000	45,330	20,175	18,117	92,446	67,142
Total Fund Balances	<u>216,440</u>	<u>109,936</u>	<u>403</u>	<u>3,628</u>	<u>3,391</u>	<u>402</u>	<u>1,000</u>	<u>45,330</u>	<u>20,175</u>	<u>18,117</u>	<u>418,822</u>	<u>340,186</u>
Total Liabilities and Fund Balances	<u>\$218,127</u>	<u>\$110,497</u>	<u>\$ 403</u>	<u>\$ 3,628</u>	<u>\$ 3,391</u>	<u>\$ 701</u>	<u>\$ 1,000</u>	<u>\$45,330</u>	<u>\$20,175</u>	<u>\$ 18,117</u>	<u>\$ 421,369</u>	<u>\$ 340,186</u>

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, 2016

	Municipal Aid Fund	Vehicle Fee Fund	Tree Board Reserve Fund	Parks & Beautification Fund	Administration Reserve Fund	Historic Preservation Fund	Communications Fund	Police Reserve Fund	Fire Reserve Fund	Public Works Reserve Fund	Totals	
											2016	Restated (Memo Only) 2015
Revenues												
Taxes	\$ -	\$ 19,958	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,958	\$ 3,417
Intergovernmental	53,571	-	-	-	-	-	-	-	-	-	53,571	76,451
Sale of assets	-	-	-	-	-	-	-	-	-	-	-	3,500
Interest income	337	182	4	3	3	-	-	40	17	17	603	72
Miscellaneous	-	-	1,100	-	-	1,000	1,000	1,587	-	1,880	6,567	3,000
Transfers from other funds	-	-	2,418	1,723	-	-	-	22,650	7,700	1,472	35,963	7,459
Total Revenues	53,908	20,140	3,522	1,726	3	1,000	1,000	24,277	7,717	3,369	116,662	93,899
Expenditures												
General government	2,000	4,000	-	-	-	598	-	9,881	-	-	16,479	15,487
Public works	12,083	2,633	4,217	-	-	-	-	-	-	2,614	21,547	8,853
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	14,083	6,633	4,217	-	-	598	-	9,881	-	2,614	38,026	24,340
Excess/(Deficiency) of Revenues Over/(Under)Expenditures	39,825	13,507	(695)	1,726	3	402	1,000	14,396	7,717	755	78,636	69,559
Fund Balances Beginning of Year	176,615	96,429	1,098	1,902	3,388	-	-	30,934	12,458	17,362	340,186	270,627
Fund Balances End of Year	\$ 216,440	\$ 109,936	\$ 403	\$ 3,628	\$ 3,391	\$ 402	\$ 1,000	\$ 45,330	\$ 20,175	\$ 18,117	\$ 418,822	\$ 340,186

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

**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, 2016 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 25, 2017.

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.



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

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 25, 2017