

CITY OF HILLVIEW, KENTUCKY

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Hillview, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and the major fund information of the City of Hillview, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 5 through 12 and pages 33 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2017 on our consideration of the City of Hillview, 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 City of Hillview, Kentucky's internal control over financial reporting and compliance.



HENSON & ASSOCIATES
Certified Public Accountants

Louisville, Kentucky
January 9, 2017

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The discussion and analysis of the City of Hillview, Kentucky's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts in this discussion, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The liabilities of the City of Hillview, Kentucky exceeded its assets at the close of the fiscal year ending June 30, 2016 by \$5,141.4 thousand (net position).
- The City of Hillview, Kentucky's total net position decreased by \$6,280.2 thousand for the year ended June 30, 2016. The decrease in net position can be attributed to the settlement of the Truck America lawsuit and an increase in unfunded future cost of post employment benefits at June 30, 2016.
- As of June 30, 2016 the City of Hillview, Kentucky's governmental funds reported combined ending fund balances of \$1,340.1 thousand, an increase of \$381.4 thousand in comparison with the prior fiscal year.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the City of Hillview, Kentucky's basic financial statements. The City of Hillview, Kentucky's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Hillview, Kentucky's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City of Hillview, Kentucky's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Hillview, Kentucky is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base, to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including the police, public works, parks and recreation, and general administration. Property taxes, occupational taxes, insurance taxes, franchise fees and inter-governmental revenues finance most of these activities.
- Business-type Activities - The City's sewer plant is reported here. The sewer plant's operations were taken over by the Bullitt County Sanitation District in a prior fiscal year. The City is responsible for repaying the debt to build the plant and for insuring the plant and equipment.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

- Governmental funds - The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Hillview, Kentucky maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Special Revenue Fund, both of which are considered to be major funds.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

- Proprietary fund - The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund (a component of the proprietary fund) is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

The City as a Whole - Government-wide Financial Analysis

The City's combined net position was \$(5,141.4) thousand as of June 30, 2016. Analyzing the net position and net expenses of governmental and business-type activities separately, the business-type activities net position is \$341.9 thousand. This analysis focuses on the net position (table 1) and changes in general revenues (table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net position (\$921.9 thousand) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Table 1
Summary of Net Position
At June 30, 2016 and 2015
(Amounts Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Current and other assets	1,483	1,130	-	-	1,483	1,130
Capital assets	1,709	2,575	1,137	1,179	2,846	3,754
Deferred outflow of resources related to pensions	370	262	-	-	370	262
Total	<u>3,562</u>	<u>3,967</u>	<u>1,137</u>	<u>1,179</u>	<u>4,699</u>	<u>5,146</u>
Long-term liabilities	8,650	2,788	690	795	9,340	3,583
Deferred inflows	122	17	-	-	122	17
Other liabilities	273	303	105	105	378	408
Total	<u>9,045</u>	<u>3,108</u>	<u>795</u>	<u>900</u>	<u>9,840</u>	<u>4,008</u>
Net position						
Invested in capital assets, net of related debt	578	1,328	342	279	920	1,607
Restricted	536	380	-	-	536	380
Unrestricted	(6,600)	(849)	-	-	(6,600)	(849)
Total net position	<u>(5,483)</u>	<u>859</u>	<u>342</u>	<u>279</u>	<u>(5,141)</u>	<u>1,138</u>

Governmental and Business-type activities along with extraordinary items and prior year adjustment relating to the lawsuit settlement decreased the City's net position by \$6,252.6 thousand. The key elements of this decrease are as follows:

Total revenues	\$ 3,441.4 thousand
Total expenses	(2,816.6) thousand
Extraordinary items	(6,004.9) thousand
Prior period adjustment relating to lawsuit settlement	<u>(900.0) thousand</u>
	<u><u>(6,280.1)</u></u>

Total revenues increased by \$73.0 thousand over the year ended June 30, 2015, with tax revenue increasing by \$71.3 thousand; insurance premiums increasing by \$81.8; and other revenue decreasing by \$80.1 thousand. Total expenses decreased by \$316.9 thousand.

Table 2
General Revenues
(Amounts Expressed in Dollars)

Governmental Activities

The City's general revenues increased when compared to the prior year by \$163.2 thousand. Overall tax revenue increased \$71.3 thousand. Property tax revenue increased due to increased property valuations and the 4% increase allowed by law. Other miscellaneous revenues increased by \$91.9 thousand.

	2016	2015	Increase (Decrease)
Taxes	2,615,719	2,544,495	71,264
Other	<u>462,932</u>	<u>371,007</u>	<u>91,925</u>
Total general revenues	<u><u>3,078,692</u></u>	<u><u>2,915,502</u></u>	<u><u>163,189</u></u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Table 3
Changes in Net Position
(Amounts Expressed in Dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues						
Charges for services	130,976	129,241			130,976	129,241
Operating grants and contributions	231,705	323,583			231,705	323,583
General revenues						
Taxes	2,615,759	2,544,495			2,615,759	2,544,495
Other	<u>462,932</u>	<u>371,007</u>	<u>-</u>	<u>-</u>	<u>462,932</u>	<u>371,007</u>
Total Revenues	<u>3,441,372</u>	<u>3,368,326</u>	<u>-</u>	<u>-</u>	<u>3,441,372</u>	<u>3,368,326</u>
Expenses						
General government	631,208	627,034			631,208	627,034
Public safety	1,310,985	1,078,775			1,310,985	1,078,775
Public works	626,812	557,117			626,812	557,117
Health and safety	13,381	13,813			13,381	13,813
Community center and recreation	162,936	151,537			162,936	151,537
Sewer plant	<u>-</u>	<u>-</u>	<u>71,273</u>	<u>71,437</u>	<u>71,273</u>	<u>71,437</u>
Total expenses	<u>2,745,322</u>	<u>2,428,276</u>	<u>71,273</u>	<u>71,437</u>	<u>2,816,595</u>	<u>2,499,713</u>
Increase (Decrease) in Net Position	696,050	940,050	(71,273)	(71,437)	624,777	868,613
Transfers In (Out)	(133,773)	(146,080)	133,773	146,080	-	-
Extraordinary Items						
Net Pension Liability	(574,544)				(574,544)	-
Truck America lawsuit settlement costs	(5,430,391)				(5,430,391)	-
Prior Year Adjustment Related to Net Pension Liability		(1,689,000)			-	(1,689,000)
Lawsuit Settlement	(900,000)				(900,000)	-
Net Position, July 1,	<u>859,331</u>	<u>1,754,361</u>	<u>279,375</u>	<u>204,732</u>	<u>1,138,706</u>	<u>1,959,094</u>
Net Position, June 30	<u>(5,483,327)</u>	<u>859,331</u>	<u>341,875</u>	<u>279,375</u>	<u>(5,141,451)</u>	<u>1,138,707</u>

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The most significant current governmental expense for the City was in providing for public safety through its police department which incurred expenses of \$1,311.0 thousand. Other significant governmental expenses for the City include public works at \$626.8 thousand and administration at \$631.2 thousand.

Business-type Activities

Revenues of the City's business-type activities were \$.0 thousand for the fiscal year ending June 30, 2016. Expenses for the City's business-type activities were \$71.3 thousand for the year, resulting in a net loss of \$71.3 thousand. The net loss is the result of several factors, including the following:

- Interest on the debt of \$22,235 is the largest outlay. Included in the total operating expenses is \$42,500 in depreciation which is not a cash expenditure. The City had to transfer funds in the amount of \$133.8 from the general fund to cover operating losses and debt service. The operations of the sewer plant were taken over by the Bullitt County Sanitation District in April of 2010 which have resulted in lower overall expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2016, the City had \$2,846,272 invested in a broad range of capital assets, including equipment, buildings, land and sewer plant. This amount represents a net decrease (including additions and deletions) of \$908,346 over the prior fiscal year mainly due to the net cost of the assets retired and no longer in service and a prior period adjustment to recognize the land cost of \$900,000.00 that was part of the lawsuit settlement.

Debt

At year end, the City had \$7,230 thousand in General Obligation Bonds outstanding as compared to \$2,020 thousand at the end of the prior fiscal year, an increase of \$5,210 thousand.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Table 4
Outstanding Debt
(Amounts Expressed in Dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds (backed by the City)	6,435,000	1,120,000	795,000	900,000	7,230,000	2,020,000
Capital leases	<u>129,420</u>	<u>127,506</u>	<u>0</u>	<u>0</u>	<u>129,420</u>	<u>127,506</u>
Totals	<u>6,564,420</u>	<u>1,247,506</u>	<u>795,000</u>	<u>900,000</u>	<u>7,359,420</u>	<u>2,147,506</u>

The City's Funds

At the close of the City's fiscal year on June 30, 2016, the governmental funds of the City reported a combined fund balance of \$1,340.1 thousand. Revenues for the year exceeded expenses by \$459,233. The City has to monitor expenditures closely in order to prevent a deficit.

General Fund Budgetary Highlights

During fiscal year 2015-2016, there was a budget amendment for the Governmental Funds.

For fiscal year 2015-2016, actual expenditures (net of transfers) on a budgetary basis were \$8,239.4 thousand compared to the final budget amount (net of transfers) of \$3,033.9 thousand. The \$5,205.4 thousand negative variance was primarily due to a \$255.7 thousand negative variance in general government expenditures and a \$5,430.3 thousand lawsuit settlement.

For fiscal year 2015-2016, actual revenues (net of transfers) on a budgetary basis were \$3,271.5 thousand while the final budget was \$3,116.4 thousand. This created a positive variance of \$155.1 thousand. The primary revenue overages were: insurance premium taxes (\$38.7 thousand) and inter-governmental revenue (\$16.9 thousand). These overages were offset by two shortfalls: licenses and permits (\$17.8 thousand); and occupational taxes (\$20.6 thousand).

At June 30, 2016 the City of Hillview General Fund had an actual balance of \$1,021.3 thousand compared with a budgeted fund balance of \$585.5 thousand. The difference between actual and budgeted balances at June 30, 2016 is attributable to the variances in revenues and expenditures mentioned above.

CITY OF HILLVIEW, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Economic Factors and Next Year's Budget and Rates

The largest single factor is the ability of the City to generate sufficient revenues to fund the basic cost of the services the City provides. The increased cost of salaries and the cost of providing police protection are significant, plus the resources needed to fund the future costs of post-retirement benefits.

As mentioned in Notes 4 and 6 of Notes to Financial Statements; the City was determined by a jury trial to be in breach of contract and damages of \$11.4 million dollars were assessed against the City. This lawsuit was settled during the current year and the Chapter 9 bankruptcy was dismissed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors 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 questions about this report or need additional financial information, contact the City Clerk, at the City of Hillview, Kentucky, 283 Crestwood Lane, Hillview, KY 40229.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	1,122,540.53		1,122,540.53
Due from other governments	29,247.49		29,247.49
Prepaid expenses	113,630.68		113,630.68
Escrow, bond	217,400.00		217,400.00
Capital assets, net of accumulated depreciation:			
Buildings	1,047,379.37		1,047,379.37
Equipment	469,929.07		469,929.07
Sewer Plant		1,136,875.00	1,136,875.00
Capital asset, non depreciable			
Land	<u>192,089.04</u>		<u>192,089.04</u>
Total Assets	<u>3,192,216.18</u>	<u>1,136,875.00</u>	<u>4,329,091.18</u>
Deferred out flow of resources related to pensions	<u>370,217.00</u>		<u>370,217.00</u>
<u>LIABILITIES</u>			
Accounts payable	91,674.48		91,674.48
Accrued expenses	29,873.17		29,873.17
Deferred inflow of resources	20,187.24		20,187.24
Security deposit	1,000.00		1,000.00
Bonds payable - current	120,000.00	105,000.00	225,000.00
- long term	6,315,000.00	690,000.00	7,005,000.00
Notes payable - current	30,342.06		30,342.06
- long term	99,077.53		99,077.53
Net pension liability	<u>2,236,005.00</u>		<u>2,236,005.00</u>
Total Liabilities	8,943,159.48	795,000.00	9,738,159.48
Deferred in flow of resources related to pensions	102,600.00		102,600.00
<u>NET POSITION</u>			
Invested in capital assets	579,977.89	341,875.00	921,852.89
Unrestricted (deficit)	(6,599,507.31)	.00	(6,599,507.31)
Restricted	<u>536,203.12</u>	<u>.00</u>	<u>536,203.12</u>
Total Net Position	<u>(5,483,326.30)</u>	<u>341,875.00</u>	<u>(5,141,451.30)</u>

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expenses) and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>FUNCTIONS/ACTIVITIES</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
Police department	1,310,985.13	3,480.93	70,685.40	(1,236,818.80)		(1,236,818.80)
Public works	626,811.98	2,500.00	161,019.69	(463,292.29)		(463,292.29)
Health and safety	13,381.08	57.00		(13,324.08)		(13,324.08)
Administration	631,208.29	35,127.38		(596,080.91)		(596,080.91)
Community center and recreation	<u>162,935.61</u>	<u>89,810.87</u>		<u>(73,124.74)</u>		<u>(73,124.74)</u>
Total Governmental Activities	2,745,322.09	130,976.18	231,705.09	(2,382,640.82)		(2,382,640.82)
<u>BUSINESS-TYPE ACTIVITIES</u>						
Sewer Plant	<u>71,272.61</u>				<u>(71,272.61)</u>	<u>(71,272.61)</u>
Total Activities	2,816,594.70	130,976.18	231,705.09	(2,382,640.82)	(71,272.61)	(2,453,913.43)
<u>GENERAL REVENUES</u>						
Taxes						
Real Property				797,827.90		797,827.90
Occupational				1,673,306.08		1,673,306.08
Tangible Personal Property				11,042.10		11,042.10
Motor Vehicle				68,549.21		68,549.21
Franchise				65,034.06		65,034.06
Insurance Premium				381,184.98		381,184.98
Interest				567.32		567.32
Other				<u>81,179.45</u>		<u>81,179.45</u>
Total General Revenues				3,078,691.10		3,078,691.10
<u>TRANSFERS IN (OUT)</u>				(133,772.61)	133,772.61	
<u>EXTRA ORDINARY ITEMS</u>						
Current year adjustment related to net pension liability				(547,544.00)		(574,544.00)
Truck America lawsuit settlement costs				<u>(5,430,391.37)</u>		<u>(5,430,391.37)</u>
<u>CHANGE IN NET POSITION</u>				(5,442,657.70)	62,500.00	(5,380,157.70)
<u>PRIOR YEAR ADJUSTMENT RELATED TO LAW SUIT SETTLEMENT</u>				(900,000.00)		(900,000.00)
<u>NET POSITION AT BEGINNING OF YEAR</u>				<u>859,331.40</u>	<u>279,375.00</u>	<u>1,138,706.40</u>
<u>NET POSITION AT END OF YEAR</u>				<u>(5,483,326.30)</u>	<u>341,875.00</u>	<u>(5,141,451.30)</u>

See Notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash	818,687.96	303,852.57	1,122,540.53
Receivables (net, where applicable of allowances for uncollectibles)			
Intergovernmental	14,296.94	14,950.55	29,247.49
Due from municipal aid fund	48,278.80		48,278.80
Prepaid expense	113,630.68		113,630.68
Escrow, bond	<u>217,400.00</u>		<u>217,400.00</u>
TOTAL ASSETS	<u>1,212,294.38</u>	<u>318,803.12</u>	<u>1,531,097.50</u>
<u>LIABILITIES</u>			
Accounts payable	91,674.48		91,674.48
Accrued expenses	29,873.17		29,873.17
Deferred inflow	20,187.24		20,187.24
Due to general fund		48,278.80	48,278.80
Security deposit	<u>1,000.00</u>		<u>1,000.00</u>
TOTAL LIABILITIES	142,734.89	48,278.80	191,013.69
<u>FUND BALANCE</u>			
Nonspendable			
Prepaid expenses	113,630.68		113,630.68
Unassigned	738,528.81		738,528.81
Restricted			
Road work		270,524.32	270,524.32
Escrow, bond	<u>217,400.00</u>		<u>217,400.00</u>
Total Fund Balance	<u>1,069,559.49</u>	<u>270,524.32</u>	<u>1,340,083.81</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>1,212,294.38</u>	<u>318,803.12</u>	<u>1,531,097.50</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2016

Fund Balances of Governmental Funds	1,340,083.81
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	1,709,397.48
Long-term loans payable are not a current financial obligation. Therefore, they are not included in the governmental funds.	(6,564,419.59)
Employer actuarially required contributions made subsequent to the measurement date of June 30, 2015 are not pension expense but are deferred out flows/in flows of resources related to pensions in the Statement of Net Position.	267,617.00
Net pension liability is not included in the governmental funds.	<u>(2,236,005.00)</u>
Net Position of Governmental Activities	<u>(5,483,326.30)</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	889,929.67		889,929.67
Insurance tax	381,184.98		381,184.98
Intergovernmental			
Citation fees	15,113.32		15,113.32
Grants	54,240.14		54,240.14
Municipal aid	2,500.00	162,351.63	164,851.63
L.G.E.A.	2,208.58	6,146.63	8,355.21
Licenses and permits	35,127.38		35,127.38
Franchise taxes	65,034.06		65,034.06
Interest	502.37	1,388.23	1,890.60
Occupational tax	1,673,306.08		1,673,306.08
Recreation	91,326.62		91,326.62
Miscellaneous	<u>61,012.68</u>		<u>61,012.68</u>
Total Revenues	3,271,485.88	169,886.49	3,441,372.37
<u>EXPENDITURES</u>			
Current			
Police department	1,277,301.08		1,277,301.08
Public works	412,422.98	193,562.00	605,984.98
Health and safety	13,381.08		13,381.08
Administration	583,973.29		583,973.29
Community center and recreation	155,479.61		155,479.61
Capital outlay			
Public works	16,128.00	27,895.00	44,023.00
Police department	87,942.63		87,942.63
Recreation	23,923.63		23,923.63
Administration	20,736.88		20,736.88
Debt repayment			
Police department	47,566.10		47,566.10
Administration	120,000.00		120,000.00
Recreation	<u>1,827.36</u>		<u>1,827.36</u>
Total Expenditures	<u>2,760,682.64</u>	<u>221,457.00</u>	<u>2,982,139.64</u>
<u>EXCESS OF REVENUES (EXPENDITURES)</u>			
<u>OVER EXPENDITURES (REVENUES)</u>	510,803.24	(51,570.51)	459,232.73
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(133,772.61)		(133,772.61)
Transfers In	5,486,307.00		5,486,307.00
Lawsuit Settlement	<u>(5,430,391.37)</u>		<u>(5,430,391.37)</u>
<u>CHANGE IN FUND BALANCES</u>	432,946.26	(51,570.51)	381,375.75
<u>FUND BALANCES AT BEGINNING OF YEAR</u>	<u>636,613.23</u>	<u>322,094.83</u>	<u>958,708.06</u>
<u>FUND BALANCES AT END OF YEAR</u>	<u>1,069,559.49</u>	<u>270,524.32</u>	<u>1,340,083.81</u>

See notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds 381,375.75

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	176,626.14
Depreciation/amortization expense	(136,989.00)
Book value of assets removed from service	(5,483.00)

Long-term loans are reported as other financing sources when made and as expenditures when repaid in the governmental funds. This amount represents the change in the long-term loans payable. (5,316,913.54)

Employer actuarially required contributions made subsequent to the measurement date of June 30, 2014 are pension expense in the Statement of Net Activities. (261,886.05)

Net Change in net pension liability (574,544.00)

Employer actuarially required contributions made subsequent to the measurement date of June 30, 2015 are not pension expense in the Statement of Net Activities 295,156.00

Change in Net Position of Governmental Activities (5,442,657.70)

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

Business-type Activities
Enterprise Fund

Sewer

ASSETS

Current Assets	.00
Total Current Assets	.00
Non-Current Assets	
Capital Assets	
Sewer system	1,700,000.00
Accumulated depreciation	<u>(563,125.00)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>1,136,875.00</u>
Total Non-Current Assets	<u>1,136,875.00</u>
Total Assets	<u><u>1,136,875.00</u></u>

LIABILITIES

Current Liabilities Payable from Unrestricted Asset	
Bonds payable - current	<u>105,000.00</u>
Total Current Liabilities Payable from Unrestricted Assets	105,000.00
Non-Current Liabilities	
Bonds, payable from unrestricted assets	<u>690,000.00</u>
Total Non-Current Liabilities	<u>690,000.00</u>
Total Liabilities	795,000.00

NET POSITION

Invested in capital assets, net of related debt	341,875.00
Unrestricted	<u>.00</u>
Total Net Position	<u>341,875.00</u>
Total Liabilities and Net Position	<u><u>1,136,875.00</u></u>

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Business-type Activities
Enterprise Fund

Sewer

<u>OPERATING REVENUES</u>	
Sewer service	<u>.00</u>
Total Operating Revenues	.00
<u>OPERATING EXPENSES</u>	
Insurance	6,537.61
Depreciation	<u>42,500.00</u>
Total Operating Expenses	<u>49,037.61</u>
<u>OPERATING LOSS</u>	(49,037.61)
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest expense	<u>(22,235.00)</u>
Total Nonoperating Expenses	<u>(22,235.00)</u>
Loss before operating transfers	(71,272.61)
<u>TRANSFERS IN</u>	<u>133,772.61</u>
<u>CHANGE IN NET POSITION</u>	62,500.00
<u>TOTAL NET POSITION, JULY 1</u>	<u>279,375.00</u>
<u>TOTAL NET POSITION, JUNE 30</u>	<u>341,875.00</u>

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Business-type Activities
Enterprise Fund

Sewer

Cash Flows from Operating Activities:	
Cash received from customers	.00
Cash payments to suppliers	<u>(6,537.61)</u>
Net Cash Used by Operating Activities	(6,537.61)
Cash Flows from Noncapital Financial Activities:	
Operating transfers in	<u>133,772.61</u>
Net Cash Provided by Noncapital Financing Activities	127,235.00
Cash Flows from Capital and Related Financing Activities:	
Repayment of long-term debt	(105,000.00)
Interest payment long-term debt	<u>(22,235.00)</u>
Net Cash Used by Capital and Related Financing Activities	(127,235.00)
Net Increase (Decrease) in Cash	.00
Cash, July 1	<u>.00</u>
Cash, June 30	<u>.00</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(49,037.61)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	<u>42,500.00</u>
Total Adjustments	<u>42,500.00</u>
Net Cash Used by Operating Activities	<u>(6,537.61)</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hillview conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The City has implemented GASB Statements No. 34, 54, 65, 68 and 71 and these statements are presented according to those requirements. The following is a summary of the significant policies.

Basic Financial Statements

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City as a whole, no component unit entities exist. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Net Position reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for the financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are earmarked for maintenance, rehabilitation, or improvements of public streets and public safety.

In the balance sheet of governmental funds, fund balances are segregated as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned - all other spendable amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major enterprise fund:

The Sewer Fund accounts for the operation of the City's waste water treatment facility, which renders services on a user charge basis to businesses located in Hillview. During a prior fiscal year the Bullitt County Sewer District took over operations of the facility. The City is still responsible for the payments of principal and interest of the bonds and for the insurance on the plant and equipment.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. The modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, intergovernmental revenues (including motor vehicle license fees), and municipal road aid funds.
- B. Expenditures are recorded when the related fund liability is incurred. Interest on general long-term debt is recorded as a fund liability when due.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financial source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund's financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary fund's financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Budgets

The City has ordained for itself a number of prescribed practices regarding the development of a budget, and for amending the budget once it is accepted by the governing body of the City. An annual budget is required by Kentucky Revised Statutes that, once accepted by the City's governing body, becomes the legal boundary of that government's appropriations and expenditures for that year. The City's annual budget conforms to generally accepted accounting principles. The budget was amended by an ordinance during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The City considers repaving of streets and roads to be normal maintenance and repairs and not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	10 to 40 years
Sewer plant	40 years
Machinery and equipment	5 to 7 years

The City does not have a formal capitalization policy but has historically used \$2,000.00 as the capitalization threshold.

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<u>Governmental Activities</u>				
Buildings	1,490,744.37			1,490,744.37
Machinery and equipment	1,555,513.93	176,626.14	51,812.00	1,680,328.07
Land	1,092,089.04		900,000.00	192,089.04
<u>Business Type Activities</u>				
Sewer plant	<u>1,700,000.00</u>			<u>1,700,000.00</u>
	<u>5,838,347.34</u>	<u>176,626.14</u>	<u>951,812.00</u>	<u>5,063,161.48</u>
<u>Accumulated Depreciation</u>				
Buildings	411,937.00	31,428.00		443,365.00
Machinery and Equipment	1,151,167.00	105,561.00	46,329.00	1,210,399.00
Sewer Plant	<u>520,625.00</u>	<u>42,500.00</u>		<u>563,125.00</u>
	<u>2,083,729.00</u>	<u>179,489.00</u>	<u>46,329.00</u>	<u>2,216,889.00</u>

Depreciation expense for the year was charged to functions/programs of the primary government as follows:

Administration	\$ 41,752.00
Public Safety	66,954.00
Public Works	20,827.00
Community Center/Recreation	7,456.00
Health and Safety	.00
Waste Water Treatment Facility	<u>42,500.00</u>
	<u>179,489.00</u>

Deletions of fixed assets were the result of the removal of fully depreciated items no longer on the insurance coverage list and the land on Ferguson Lane which was deeded to Truck America, Inc. as part of the lawsuit settlement agreement.

Property Tax

Property is assessed as of January 1. Taxes were levied on October 1, 2015 and are payable by December 31. City real property tax revenues are recognized when levied. Any real property tax unpaid at June 30 or 60 days thereafter is deemed uncollectible for financial reporting purposes. The City has liens on these properties to secure payment of these taxes. The assessed value of City real property was \$466,735,177 and the tax rate was 12.14 cents per hundred dollars of assessed value. Any unpaid 2015 real property taxes were sold to a collection agency at the May 16, 2016 council meeting and payment was received in June, 2016.

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 2 - SCHEDULE OF CASH

<u>Fund</u>	<u>Financial Institution</u>	<u>Balance</u>	<u>Insured</u>	<u>Collateralized</u>
General	PBI Bank	242,748.31	FDIC	
General	Park Federal Credit Union	1,003.24	FDIC	
General	PBI Bank	8,912.17	FDIC	
General	Park Federal Credit Union	17,637.93	FDIC	
General	Park Federal Credit Union	146,580.21	FDIC	
General	Park Federal Credit Union	99,694.57	FDIC	
General	BB&T	101,015.14	FDIC	
General	First Capital Bank	149,035.38	FDIC	
General	First Capital Bank	5,606.82	FDIC	
General	Park Federal Credit Union	1,000.51	FDIC	
General	PNC Bank	<u>44,653.68</u>	FDIC	
		817,887.96		
Special Revenue				
LGEA	PBI Bank	46,125.58	FDIC	
Municipal Aid	PBI Bank	205,969.97	FDIC	
Municipal Aid	PNC Bank	25,150.60	FDIC	
Municipal Aid	Park Federal Credit Union	<u>26,606.42</u>	FDIC	
		303,852.57		
Petty Cash		800.00		
		<u>1,122,540.53</u>		

The City has not adopted a formal deposit and investment policy.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The City has funds on deposit at various times during the year with one financial institution in excess of the FDIC insurance coverage.

NOTE 4 - RISK MANAGEMENT/CONTINGENCIES

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies except that the City does not insure all of its vehicles for collision/comprehensive coverage. There have been no significant reductions in insurance coverage from 2015 to 2016. Settlements, less deductibles, have not exceeded insurance coverage during the past three years. The City's attorney has advised that the City will not incur any loss in excess of insurance deductibles as a result of any covered lawsuits currently pending. The City of Hillview, as the result of a judicial ruling and a jury trial, was determined to be in breach of contract and damages of 11.4 million were assessed against the City. There was no insurance coverage available for this breach of contract lawsuit. The City settled this lawsuit during the current fiscal year.

NOTE 5 - RETIREMENT PLAN

The City of Hillview, Kentucky is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

GASB Statement No. 68, effective for the fiscal year beginning July 1, 2014, requires that a cost-sharing multiple-employer plan member present its proportionate share of the actuarially determined unfunded future cost of the post employment benefits due. This liability is \$2,236,005.00 at June 30, 2015.

Contributions - For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% for hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.67% of each non-hazardous employee's wages and 34.31% of each hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Actuarial Methods and Assumptions - The total pension liability for KRS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior 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	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

NOTE 5 - RETIREMENT PLAN (CONTINUED)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. 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 the Systems. 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 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 time frame. 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.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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 made subsequent to the measurement date. The City's contributions during the fiscal year ended June 30, 2016 were \$163,843.00 and are included in deferred outflow of resources related to pensions in the Statement of Net Position. The net pension liability as of June 30, 2015, is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to pensions are amortized over a closed five year period.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Balance carried forward	0	136,800
Difference between expected and actual experience	40,825	0
Changes in assumptions	201,551	0
Net Difference between projected and actual earnings on pension plan investment	15,591	0
Amortization of deferred outflows/inflows (5-years)	(51,593)	(34,200)
City's contribution subsequent to the measurement date	<u>163,843</u>	<u>0</u>
Total	<u>370,217</u>	<u>102,600</u>

CITY OF HILLVIEW, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,

2017	\$17,393
2018	17,393
2019	17,393
2020	51,593

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous four years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2016	\$ 343,391	100%
2015	\$ 334,344	100%
2014	\$ 331,731	100%
2013	\$ 274,049	100%
2012	\$ 223,292	100%

NOTE 6 - LONG TERM DEBT

Waste Water Treatment Facility

On January 22, 2001 the City passed an ordinance authorizing the issuance of general obligation bonds in the amount of \$1,795,000. The proceeds of the bonds are to be used to construct a waste water treatment facility. General obligation bonds are backed by the full faith, credit and taxing power of the City. The debt has varying maturity dates from 1/15/03 to 1/15/22 with interest rates ranging from 4% to 4.75%.

The City Council on June 28, 2010 passed Ordinance No. 2010-08 which provides for the refinancing of these bonds at a lower interest rate. The new payment period will be twelve years with an interest rate that varies from 1% to 3% over the term of the loan. The bonds were issued on August 31, 2010 and the original bonds were paid off and the total of the new bond issue is \$1,390,00.00. The balance due on the bond issue at June 30, 2016 was \$795,000.00 and \$900,000.00 at June 30, 2015.

The following is a schedule of principal and interest requirements for the term of the bonds:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest to Maturity</u>
6/30/17	105,000.00	21,150.00
Thereafter	<u>690,000.00</u>	<u>71,932.00</u>
	<u>795,000.00</u>	<u>93,082.00</u>

Public Safety Vehicles

- The City borrowed money to finance two police cruisers during the current fiscal year. The loan was for \$51,307.00 at 4.5% interest payable in monthly installments of \$956.77, principal and interest. The loan balance on June 30, 2016 was \$42,742.34. Interest paid during the current fiscal year was \$1,959.81.

Principal maturities over the term of the loan are as follows:

6/30/17	9,754.36
6/30/18	10,202.47
6/30/19	10,671.17
6/30/20	11,161.40
6/30/21	952.94

NOTE 6 - LONG TERM DEBT (CONTINUED)

Public Safety Vehicles - Continued

2. The City borrowed money to finance two police cruisers during the fiscal year ended June 30, 2014. This loan was for \$45,453.00 at 3.99% interest payable in monthly installments of \$836.98, principal and interest, for sixty months. The principal balance at June 30, 2015 was \$35,614.06 and \$26,838.51 at June 30, 2016. The interest paid during the current fiscal year was \$1,268.21.

Principal maturities over the term of the loan are as follows:

6/30/17	9,136.65
6/30/18	9,507.94
6/30/19	8,193.92

3. The City borrowed money to finance two police cruisers during the fiscal year ended June 30, 2013. This loan was for \$44,609.40 at 3.75% interest and is repayable in monthly installments including interest of \$817.61. The loan balance on June 30, 2015 was \$20,370.35 and was paid off during the current fiscal year. Interest paid during the current fiscal year was \$90.21.

4. The City borrowed money to finance two police cruisers acquired during the fiscal year ended June 30, 2012. This loan was for \$44,585.00 at 4.99% interest payable in monthly installments of \$841.33, principal and interest, for sixty months. The principal balance at June 30, 2015 was \$25,802.58 and \$15,947.04 at June 30, 2016. Interest paid during the current fiscal year was \$240.42.

Principal maturities over the term of the loan are as follows:

6/30/17	9,545.08
6/30/18	6,401.96

Russ Hall

The City borrowed money during a previous year to increase the size of the Russ Hall building. The City borrowed \$51,102.43 at an interest rate of 6.5% repayable in 35 monthly payments of principal and interest of \$326.13 and one final installment on January 12, 2012 of the remaining balance. The balance of this loan at June 30, 2012 was \$48,941.80. The loan was refinanced during a previous fiscal year at 5.69% for 36 months at \$308.55 per month. The loan was refinanced again on January 20, 2015 at 3.99%, with a new monthly payment of \$301.95, for sixty months and a balloon payment due January 20, 2020 of \$36,878.89. Interest paid during the current fiscal was 1,796.04.

The principal balance at June 30, 2016 was \$43,891.70 and \$45,719.06 at June 30, 2015.

Principal maturities over the term of this loan are as follows:

6/30/17	1,905.97
6/30/18	1,983.43
6/30/19	2,064.03
6/30/20	37,938.27

Government Center Acquisition/Renovation and Ferguson Lane Property Refinance

The City closed on Kentucky Bond Corporation Financing Program Revenue Bonds 2010 Series A on August 25, 2010. The principal amount of the bonds were \$1,785,000.00. The bond proceeds, after deducting issuance costs of \$56,474.54, were \$1,733,832.26. The proceeds were used to pay off a lease obligation of \$495,000.00, purchase the land and building to be used for the government center for \$1,000,000.00 and the remaining amount of \$238,832.26 will be used to renovate the government center building. Interest rates vary from 1% to 4% over the term of the loan.

NOTE 6 - LONG TERM DEBT (CONTINUED)

The bonds are general obligation bonds and are backed by the full faith credit and taxing power of the City. The balance due on the bonds at June 30, 2016 was \$1,000,000.00 and \$1,120,000.00 at June 30, 2015. Interest paid during the current fiscal year was \$32,579.14.

The following is a schedule of principal and interest requirements for the term of the bonds:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest to Maturity</u>
6/30/17	120,000.00	36,493.76
Thereafter	880,000.00	187,646.73

Truck America Lawsuit Settlement

During the current fiscal year the City entered into an agreeded settlement of the Truck America Lawsuit (T.A.). The settlement required the City to make an initial payment of \$5,000,000 but had to borrow \$5,435,000 to cover financing fees and costs and fund a \$217,400.00 escrow account.

NOTE 7 - FUND DISCLOSURES

Interfund Transfers

The general fund pays for all operating expenses of the special revenue fund and is periodically (at least once a year) reimbursed based on either labor hours expended or nature of expense incurred. The general fund was due \$48,278.80 for the period ended June 30, 2016.

Expenditures in Excess of Budget

The public safety and recreation services categories of the general fund had expenditures in excess of budget as well as the public works category of the special revenue fund. The funds had adequate resources to cover the excess expenditures.

Deferred Inflows

This amount is for business license fees collected in advance of the license renewal date of July 1, 2016.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to year end through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2015	\$ 133,088.00	\$ 636,613.00	\$ 636,613.23	\$.23
Resources				
Property taxes	851,350.00	892,234.00	889,929.67	(2,304.33)
Insurance premium taxes	330,000.00	342,462.00	381,184.98	38,722.98
Licenses and permits	57,350.00	52,847.00	35,127.38	(17,719.62)
Intergovernmental	54,749.00	57,163.00	74,062.04	16,899.04
Occupational taxes	1,500,000.00	1,693,971.00	1,673,306.08	(20,664.92)
Franchise taxes	63,788.00	61,624.00	65,034.06	3,410.06
Transfers in	-	-	5,486,307.00	5,486,307.00
Other	<u>169,269.00</u>	<u>16,054.00</u>	<u>152,841.67</u>	<u>136,787.67</u>
Amounts Available for Appropriations	3,159,594.00	3,752,968.00	9,394,406.11	5,641,438.11
Charges to Appropriations (Outflows):				
General government	994,514.00	980,454.00	724,710.17	255,743.83
Public safety	1,334,959.00	1,385,308.00	1,412,809.81	(27,501.81)
Public works	527,144.00	472,542.00	428,550.98	43,991.02
Health and safety	17,754.00	14,665.00	13,381.08	1,283.92
Recreation services	140,372.00	180,970.00	181,230.60	(260.60)
Lawsuit settlement	-	-	5,430,391.37	(5,430,391.37)
Transfers out	<u>132,450.00</u>	<u>133,532.00</u>	<u>133,772.61</u>	<u>(240.61)</u>
Total Charges to Appropriations	<u>3,147,193.00</u>	<u>3,167,471.00</u>	<u>8,324,846.62</u>	<u>(5,157,375.62)</u>
Budgetary Fund Balance, June 30, 2016	<u>12,401.00</u>	<u>585,497.00</u>	<u>1,069,559.49</u>	<u>484,062.49</u>
Adjustment to reconcile to GAAP Fund Balance on page 15				
Budgetary Fund Balance per Balance Sheet - Government Funds, on page 15			<u>1,069,559.49</u>	

CITY OF HILLVIEW, KENTUCKY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2015	\$ 160,068.00	\$ 322,094.00	\$ 322,094.83	\$.83
Resources				
Intergovernmental	206,993.00	198,300.00	168,498.26	(29,801.74)
Other	<u>1,295.00</u>	<u>1,309.00</u>	<u>1,388.23</u>	<u>79.23</u>
Amounts Available for Appropriation	368,356.00	521,703.00	491,981.32	(29,721.68)
Charges to Appropriations (Outflows):				
Current:				
Public safety	22,000.00	-	-	-
Public works	220,000.00	220,000.00	221,457.00	(1,457.00)
Transfers out				
Total Charges to Appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>242,000.00</u>	<u>220,000.00</u>	<u>221,457.00</u>	<u>(1,457.00)</u>
Budgetary Fund Balance, June 30, 2016	<u>126,356.00</u>	<u>301,703.00</u>	<u>270,524.32</u>	<u>(31,178.68)</u>
Adjustment to reconcile to GAAP Fund Balance on page 15				
Budgetary Fund Balance per Balance sheet - Governmental Funds, page 15			<u>270,524.32</u>	

See Auditor's report on required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HILLVIEW, KENTUCKY
 SCHEDULE OF THE CITY'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEE SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2015</u>
City's proportion of the net pension liability (assets)	0.00038%
City's proportionate share of the net pension liability (asset)	\$ 2,236,005
City's covered-employee payroll	977,496
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	43.72%
Plan fiduciary net position as a percentage of the total pension liability	51.49%

CITY OF HILLVIEW, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS
COUNTY EMPLOYEE SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2015</u>
Statutorily required contribution	\$ 202,424
Contributions in relation to the statutorily required contribution	(202,424)
Contribution deficiency (excess)	<u>0</u>
City's covered payroll	977,496
Contributions as a percentage of covered employee payroll	20.71%

OTHER SUPPLEMENTARY INFORMATION

HENSON & ASSOCIATES

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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 City Council
City of Hillview, 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, business-type activities, and each major fund of the City of Hillview, 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 Hillview, Kentucky's basic financial statements and have issued our report thereon dated January 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hillview 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 Hillview, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hillview, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

As part of obtaining reasonable assurance about whether the City of Hillview, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described as follows:

Finding 2016-1: The City exceeded its budgeted appropriations in the general fund public safety and recreation services categories and the public works category of the of the special revenue fund.

Response: City officials acknowledge that the budget ordinance was violated and that budget ordinances in the future will be amended on a timely basis when required.

Finding 2016-2: The City is required to present a quarterly report of expenditures on a budget vs actual basis. This report was not presented.

Response: City officials acknowledge that the report was not presented and that the City's accounting software needs to be updated so that budget vs actual reports can be produced.

Finding 2016-3: The City as part of its settlement of the Truck America lawsuit was required to deed the subject property to Truck America. The City deeded the property to Truck America during the fiscal year ended June 30, 2015, however the City Council minutes did not reflect approval of this.

Response: The City agrees that the authority of the Mayor to sign a deed relinquishing the Ferguson Lane property was not reflected in the public meeting minutes. The council has retro-actively approved a correction to the minutes in a meeting dated August 1, 2016.

Finding 2016-4: The City deposited receipts of the recreation department in a non city account during the fiscal year.

Response: The City acknowledges receipts of the recreation department were deposited in a non city account and those receipts have been redeposited to a City account on August 30, 2016.

Finding 2016-5: The City failed to have a first reading of Ordinances 2016-01, 2016-2 and 2016-3.

Response: The City's minutes failed to show the first readings took place.

We noted certain other matters that we reported to management of City of Hillview, Kentucky in a separate letter dated January 9, 2017.

City of Hillview, Kentucky's Response to Findings

City of Hillview, Kentucky's response to the findings identified in our audit are described previously. City of Hillview, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.



Henson & Associates
Certified Public Accountants

Louisville, Kentucky

January 9, 2017