

CITY OF HILLVIEW, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2020

CITY OF HILLVIEW

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INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and City Council
City of Hillview, Kentucky

We have audited the accompanying financial statements of the primary government activities and each major fund of the City of Hillview ("City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's primary government 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. 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 each major fund of the City as of June 30, 2020, and the respective changes in financial position for the year then ended in conformity 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 budgetary comparison information and pension schedules on pages 32 through 37 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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's internal control over financial reporting and compliance.

Kelly King & Co.

Kelly King & Co.

Crestwood, Kentucky

November 15, 2021

City Of Hillview
Government-Wide Statement Of Net Position
June 30, 2020

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|-----------------------|
| ASSETS | | | |
| Cash And Cash Equivalents | \$ 3,523,915 | \$ - | \$ 3,523,915 |
| Property Taxes Receivable | 4,000 | - | 4,000 |
| Accrued Interest | 9,678 | - | 9,678 |
| Escrow Bond | 217,400 | - | 217,400 |
| Capital Assets, Net Of Depreciation | 2,931,256 | 966,875 | 3,898,131 |
| Total Assets | <u>6,686,249</u> | <u>966,875</u> | <u>7,653,124</u> |
| Deferred Inflow Of Resources Related To: | | | |
| Pensions | 1,578,871 | - | 1,578,871 |
| OPEB | 598,438 | - | 598,438 |
| | <u>2,177,309</u> | <u>-</u> | <u>2,177,309</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | 26,339 | - | 26,339 |
| Accrued Expenses | 66,918 | - | 66,918 |
| Deferred inflow of resources | 42,421 | - | 42,421 |
| Security Deposit | 1,000 | - | 1,000 |
| Current Portion Of Bond Payable | 166,667 | 120,000 | 286,667 |
| Capital Lease Liability | 80,892 | - | 80,892 |
| Net Pension Liability | 4,877,467 | - | 4,877,467 |
| Net OPEB Liability | 1,271,418 | - | 1,271,418 |
| Total Current Liabilities | <u>6,533,122</u> | <u>120,000</u> | <u>6,653,122</u> |
| Noncurrent Liabilities-Bond Payable | <u>6,628,751</u> | <u>245,000</u> | <u>6,873,751</u> |
| Total Liabilities | <u>13,161,873</u> | <u>365,000</u> | <u>13,526,873</u> |
| Deferred Inflow Of Resources related to: | | | |
| Pensions | 76,519 | - | 76,519 |
| OPEB | 342,194 | - | 342,194 |
| | <u>418,713</u> | <u>-</u> | <u>418,713</u> |
| NET POSITION | | | |
| Net Position: | | | |
| Net Investment In Capital Assets | 1,379,114 | 601,875 | 1,980,989 |
| Unrestricted | (6,697,125) | - | (6,697,125) |
| Restricted | 600,983 | - | 600,983 |
| Total Net Position | <u>\$ (4,717,028)</u> | <u>\$ 601,875</u> | <u>\$ (4,115,153)</u> |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
Government-Wide Statement Of Activities
For The Year Ended June 30, 2020

| Program Activities: | Program Revenues | | | | Net(Expenses) Revenues And Changes In Net Assets | | |
|---|---------------------|-------------------------------------|--|--|--|-----------------------------|-----------------------|
| | Expenses | Fees And Charges For Services | Operating Grants And Contributions | Capital Grants And Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Police Department | \$ 1,945,724 | \$ 3,890 | \$ 116,762 | \$ - | \$ (1,825,072) | \$ - | \$ (1,825,072) |
| Public Works | 929,559 | 2,500 | 123,353 | - | (803,706) | - | (803,706) |
| Health And Safety | 54,004 | - | - | - | (54,004) | - | (54,004) |
| Administration | 1,118,559 | 46,202 | - | - | (1,072,357) | - | (1,072,357) |
| Community Center And Recreation | 309,083 | 83,054 | - | - | (226,029) | - | (226,029) |
| Total Governmental Activities | <u>4,356,929</u> | <u>135,646</u> | <u>240,115</u> | <u>-</u> | <u>(3,981,168)</u> | <u>-</u> | <u>(3,981,168)</u> |
| Business-type Activities: | | | | | | | |
| Sewer Plant | 56,856 | - | - | - | - | (56,856) | (56,856) |
| Total Government | <u>\$ 4,413,785</u> | <u>\$ 135,646</u> | <u>\$ 240,115</u> | <u>\$ -</u> | <u>\$ (3,981,168)</u> | <u>\$ (56,856)</u> | <u>\$ (4,038,024)</u> |
| General Revenues: | | | | | | | |
| Property Taxes | | | | | 760,312 | - | 760,312 |
| Occupational Taxes | | | | | 2,509,005 | - | 2,509,005 |
| Tangible Personal Property Taxes | | | | | 262,731 | - | 262,731 |
| Motor Vehicle Taxes | | | | | 67,376 | - | 67,376 |
| Franchise Taxes | | | | | 56,983 | - | 56,983 |
| Insurance Premium Taxes | | | | | 917,495 | - | 917,495 |
| Interest Income | | | | | 38,806 | - | 38,806 |
| Other Income | | | | | 61,253 | - | 61,253 |
| Transfers | | | | | (124,356) | 124,356 | - |
| Total General Revenues And Transfers | | | | | <u>4,549,605</u> | <u>124,356</u> | <u>4,673,961</u> |
| Extra Ordinary Item | | | | | | | |
| Current year adjustment related to net: | | | | | | | |
| Pension Liability | | | | | (704,885) | - | (704,885) |
| OPEB Liability | | | | | (170,609) | - | (170,609) |
| Total Extra Ordinary Item | | | | | <u>(875,494)</u> | <u>-</u> | <u>(875,494)</u> |
| Change In Net Position | | | | | (307,057) | 67,500 | (239,557) |
| Net Position At Beginning Of Year | | | | | <u>(4,409,971)</u> | <u>534,375</u> | <u>(3,875,596)</u> |
| Net Position At End Of Year | | | | | <u>\$ (4,717,028)</u> | <u>\$ 601,875</u> | <u>\$ (4,115,153)</u> |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
Balance Sheet
Governmental Funds
June 30, 2020

| | <u>General</u> | <u>Special Revenue</u> | <u>Totals</u> |
|-------------------------------------|---------------------|----------------------------|---------------------|
| ASSETS | | | |
| Cash And Cash Equivalents | \$ 3,140,332 | 383,583 | \$ 3,523,915 |
| Property Taxes Receivable | 4,000 | - | 4,000 |
| Due From Municipal Aid Fund | 299,756 | - | 299,756 |
| Accrued Interest | 9,678 | - | 9,678 |
| Escrow, Bond | 217,400 | - | 217,400 |
| Total Assets | <u>\$ 3,671,166</u> | <u>\$ 383,583</u> | <u>\$ 4,054,749</u> |
| LIABILITIES | | | |
| Accounts Payable | 26,339 | - | 26,339 |
| Accrued Expenses | 66,918 | - | 66,918 |
| Deferred Inflow Of Resources | 42,421 | - | 42,421 |
| Due To General fund | - | 299,756 | 299,756 |
| Security Deposit | 1,000 | - | 1,000 |
| Total Liabilities | <u>136,678</u> | <u>299,756</u> | <u>436,434</u> |
| FUND BALANCES | | | |
| Unassigned | 3,317,088 | - | 3,317,088 |
| Restricted | 217,400 | 83,827 | 301,227 |
| Total Fund Balances | <u>3,534,488</u> | <u>83,827</u> | <u>3,618,315</u> |
| Total Liabilities And Fund Balances | <u>\$ 3,671,166</u> | <u>\$ 383,583</u> | <u>\$ 4,054,749</u> |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
 Reconciliation Of The Governmental Funds Balance Sheet
 To The Statement Of Net Position
 June 30, 2020

| | | |
|--|----|---------------------------|
| Total Fund Balance-Total Governmental Funds | \$ | 3,618,315 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet | | 2,931,256 |
| Long term liabilities are not due in the current period and, therefore, are not reported in the governmental funds balance sheet | | (6,876,310) |
| Employer actuarially required contributions made subsequent to the measurement date of June 30, 2019 are not pension expense but are deferred out flows/in flows of resources related to Pensions in the Statement of Net Position | | 1,502,352 |
| Employer actuarially required contributions made subsequent to the measurement date of June 30, 2019 are not OPEB expense but are deferred out flows/in flows of resources related to Pensions in the Statement of Net Position | | 256,244 |
| Net pension liability is not included in the governmental funds | | (4,877,467) |
| Net OPEB liability is not included in the governmental funds | | <u>(1,271,418)</u> |
| Net position of governmental activities | \$ | <u><u>(4,717,028)</u></u> |

See independent auditor's report and accompanying notes to basic financial statements.

City Of Hillview
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended June 30, 2020

| | <u>General</u> | <u>Special Revenue</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|---|
| Revenues: | | | |
| Property Taxes | 760,312 | - | 760,312 |
| Occupational Taxes | 2,509,005 | - | 2,509,005 |
| Tangible Personal Property Taxes | 262,731 | - | 262,731 |
| Motor Vehicle Taxes | 67,376 | - | 67,376 |
| Franchise Taxes | 56,983 | - | 56,983 |
| Insurance Premium Taxes | 917,495 | - | 917,495 |
| Intergovernmental | | | |
| Citation Fees | 13,181 | - | 13,181 |
| Grants | 103,070 | - | 103,070 |
| Municipal Aid | 2,500 | 118,783 | 121,283 |
| L.G.E.A. | - | 7,337 | 7,337 |
| Licenses And Permits | 46,202 | - | 46,202 |
| Interest | 37,826 | 980 | 38,806 |
| Recreation | 83,054 | - | 83,054 |
| Other Income | 62,887 | - | 62,887 |
| Total Revenues | <u>4,922,622</u> | <u>127,100</u> | <u>5,049,722</u> |
| Expenditures: | | | |
| Police Department | 1,844,599 | - | 1,844,599 |
| Public Works | 703,388 | 188,460 | 891,848 |
| Health & Safety | 54,004 | - | 54,004 |
| Administration | 1,070,632 | - | 1,070,632 |
| Community Center & Recreation | 266,158 | - | 266,158 |
| Capital Outlay | 307,861 | - | 307,861 |
| Total Expenditures | <u>4,246,642</u> | <u>188,460</u> | <u>4,435,102</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>675,980</u> | <u>(61,360)</u> | <u>614,620</u> |
| Other Financing Sources (Uses): | | | |
| Transfers Out | (180,132) | - | (180,132) |
| Transfers In | - | 55,776 | 55,776 |
| Repayment Of Debt | (34,940) | - | (34,940) |
| Total Other Financing Sources (Uses) | <u>(215,072)</u> | <u>55,776</u> | <u>(159,296)</u> |
| Net Change In Fund Balance | <u>460,908</u> | <u>(5,584)</u> | <u>455,324</u> |
| Fund Balance At Beginning Of Year | <u>3,073,580</u> | <u>89,411</u> | <u>3,162,991</u> |
| Fund Balance At End Of Year | <u>\$ 3,534,488</u> | <u>\$ 83,827</u> | <u>\$ 3,618,315</u> |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
 Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances
 Of Governmental Funds To The Statement Of Activities
 For The Year Ended June 30, 2020

| | |
|--|---------------------|
| Net changes in fund balances-total governmental funds | \$ 455,324 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlay as expenditures. However, in the government-wide financial statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period | 307,861 |
| Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds | (229,688) |
| 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 governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement Of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items | 34,940 |
| Pension income (expense) related to long-term net pension liability that is not included in governmental funds | (704,885) |
| OPEB income (expense) related to long-term OPEB liability that is not included in governmental funds | <u>(170,609)</u> |
| Change in net position of governmental activities | <u>\$ (307,057)</u> |

See independent auditor's report and accompanying notes to basic financial statements.

City Of Hillview
Statement Of Net Position
Proprietary Fund
June 30, 2020

| | Business-Type Activities |
|-------------------------------------|-------------------------------------|
| ASSETS | |
| Cash And Cash Equivalents | \$ - |
| Capital Assets, Net Of Depreciation | 966,875 |
| Total Assets | 966,875 |
| LIABILITIES | |
| Current Portion Of Bond Payable | 120,000 |
| Total Current Liabilities | 120,000 |
| Non Current Portion Of Bond Payable | 245,000 |
| Total Current Liabilities | 245,000 |
| NET POSITION | |
| Net Position: | |
| Invested In Capital Assets | 966,875 |
| Restricted | - |
| Unrestricted | - |
| Total Net Position | \$ 966,875 |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
Statement Of Activities
Proprietary Fund
For The Year Ended June 30, 2020

| | Business-Type Activities Rental Fund |
|--|---|
| Operating Revenues: | |
| Cell Tower - Rental Income | \$ - |
| Total Operating Revenues | - |
| Operating Expenses: | |
| Insurance | 2,173 |
| Depreciation | 42,500 |
| Miscellaneous | 21 |
| Total Operating Expenses | 44,694 |
| Net Operating Loss | (44,694) |
| Non-operating Revenues (Expenses) | |
| Interest Expense | 12,163 |
| Total Non-operating Expenses | 12,163 |
| Loss Before Operating Transfers | (56,856) |
| Operating Transfers In (Out) | 124,356 |
| Increase (Decrease) In Net Assets | 67,500 |
| Net Position-Beginning Of Year | 534,375 |
| Net Position-End Of Year | \$ 601,875 |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
Statement Of Cash Flows
Proprietary Fund
For The Year Ended June 30, 2020

| | Business-Type Activities Rental Fund |
|--|---|
| Cash Flows From Operating Activities: | |
| Cash Payments to Suppliers | \$ (2,194) |
| Net Cash Provided (Used) By Operating Activities | (2,194) |
| Cash Flows From Noncapital Financing Activities: | |
| Transfers From Other Funds | 124,356 |
| Cash Flows From Capital And Related Financing Activities: | |
| Principal Paid On Capital Debt | (110,000) |
| Interest Paid On Capital Debt | (12,163) |
| Net Cash Provided (Used) By Capital And Related Financing Activities | (122,163) |
| Net Increase (Decrease) In Cash | (0) |
| Cash Beginning Of Year (Rounding) | - |
| Cash End Of Year | \$ (0) |
| Reconciliation Of Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities: | |
| Operating Income (Loss) | \$ (44,694) |
| Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities: | |
| Cash Flows Reported In Other Categories: | |
| Depreciation Expense | 42,500 |
| Net Cash Provided (Used) By Operating Activities | \$ (2,194) |

See independent auditor's report and accompanying
notes to basic financial statements.

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

Note A – Summary Of Significant Accounting Policies

The accounting policies of the City of Hillview (“City”) 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.

1. General Statement

The financial statements and notes are representations of the City’s management who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America (“GAAP”) and have been consistently applied in the preparation of the financial statements. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those reported.

2. Financial Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City’s financial statements. The City is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Based on the aforementioned criteria, the City of Hillview has no component units.

3. Basis Of Presentation

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. Fiduciary funds are also excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

General Fund

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.

Special Revenue 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.

Proprietary Fund Financial Statements:

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. The following proprietary funds have been reported by the City:

Sewer Fund

The Sewer Fund accounts for the operation of the City's wastewater 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.

4. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

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 another 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.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which the governmental fund financial statements are prepared. Governmental fund financial statements do not include the effect of capital assets. Therefore, governmental fund financial statements have been reconciled with government-wide financial statements.

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.

5. Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

6. Receivables

Property tax receivables are recorded in the General Fund. At the fiscal year-end, the receivables represent taxes assessed but not yet received by the City. The City assesses the collectability of all receivables on an ongoing basis by considering its historical credit loss experience, current economic conditions, and other relevant factors. For the year ended June 30, 2020, the City considered accounts receivable to be fully collectible and, accordingly, no allowance for doubtful accounts has been recorded.

7. Capital Assets And Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Generally capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds. However, assets are only to be capitalized in government-wide financial statements and are not to be intermingled with fund financial statements.

City of Hillview
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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 cost 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 does not have a formal capitalization policy but has historically used \$2,000 as the capitalization threshold.

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

| | |
|----------------------------|---------|
| Buildings and improvements | 10 – 40 |
| Sewer plant | 40 |
| Machinery and equipment | 5 – 15 |

8. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

Payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources.

9. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

10. 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.

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Note B – Net Position And Fund Balances

In the Statement Of Net Position, the difference between the City’s assets and liabilities is recorded as net position. The three components of net position are as follows:

- Net Investment In Capital Assets – records capital assets net of accumulated depreciation and related liabilities.
- Restricted – Net position that is restricted by external sources or by law are reported separately as restricted net position.
- Unrestricted – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets”.

The City has implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2020 by the City are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balances are reported pursuant to ordinances passed by the City Council, the City’s highest level of decision-making authority.
- Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balances.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In the Construction Fund, the unassigned classification is only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When resources are available from multiple classifications, the City spends the funds in the following order: restricted, committed, assigned, unassigned.

Note C – Cash And Cash Equivalents And Investments

The City’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City’s agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Interest Rate Risk

The City does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Hillview
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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of June 30, 2020, the City's investment has not been rated for credit risk.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that, in the event of a bank failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City maintains its deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank pledges securities, along with FDIC insurance, at least equal to the amount on deposit.

| Fund | Financial Institution | Balance | Insured | Collateralized |
|---------------|-----------------------------|---------------------|---------|----------------|
| General | Limestone Bank | \$ 1,871,790 | FDIC | \$ 1,621,790 |
| General | Limestone Bank | 19,687 | FDIC | |
| General | First Harrison Bank | 252,135 | FDIC | 2,135 |
| General | WesBanco | 529,974 | FDIC | 279,974 |
| General | PNC Bank | 44,644 | FDIC | |
| General | Park Federal Credit Union | 16,957 | FDIC | |
| General | Park Federal Credit Union | 27,276 | FDIC | |
| General | Park Federal Credit Union | 33,819 | FDIC | |
| General | Park Federal Credit Union | 1,006 | FDIC | |
| General | Park Federal Credit Union | 121,859 | FDIC | |
| General | BB&T Certificate of Deposit | 253,658 | FDIC | 3,658 |
| Municipal Aid | PNC Bank | 25,607 | FDIC | |
| Municipal Aid | Park Federal Credit Union | 27,276 | FDIC | |
| Municipal Aid | Limestone Bank | 62,778 | FDIC | |
| LGEA | Limestone Bank | <u>267,921</u> | FDIC | \$ 17,921 |
| | | <u>\$ 3,556,387</u> | | |

Note D – Property Taxes Receivable And Property Tax Calendar

Property taxes receivable are recorded in the General Fund, if applicable. The City levies property taxes on qualifying property assessed as of January 1 each year. The real property tax revenues are recognized when levied. Any real property tax unpaid on 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 \$547,147,768 and the tax rate was 12.14 cents per hundred dollars of assessed value. Any unpaid 2019 real property taxes were sold to a collection agency at the May 20, 2020 council meeting and payment was received in June, 2020.

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Note E – Capital Assets And Depreciation

Capital assets of all funds are stated at historical cost. Governmental fund fixed assets are recorded in the government-wide financial statements and are depreciated using the straight-line method.

A summary of capital assets net of depreciation is as follows:

| | Balance <u>7/1/2019</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>6/30/2020</u> |
|--|----------------------------|----------------------|------------------|-----------------------------|
| Governmental Activities: | | | | |
| Capital Assets: | | | | |
| Land | \$ 192,089 | \$ - | \$ - | \$ 192,089 |
| Machinery And Equipment | 2,223,875 | 187,247 | - | 2,411,122 |
| Buildings | <u>2,551,669</u> | <u>120,513</u> | - | <u>2,672,182</u> |
| Business Type Activities: | | | | |
| Sewer Plant | <u>1,700,000</u> | - | - | <u>1,700,000</u> |
| Total Capital Assets | <u>6,667,633</u> | <u>307,760</u> | <u>-</u> | <u>6,975,393</u> |
| Accumulated Depreciation: | | | | |
| Buildings | 546,421 | 61,943 | - | 608,364 |
| Machinery And Equipment | 1,568,027 | 167,746 | - | 1,735,773 |
| Sewer Plant | <u>690,625</u> | <u>42,500</u> | - | <u>733,125</u> |
| Total Accumulated Depreciation | <u>2,805,073</u> | <u>272,189</u> | <u>-</u> | <u>3,077,262</u> |
| Total Capital Assets, Net Of Accumulated Depreciation | <u>\$ 3,862,560</u> | <u>\$ 35,571</u> | <u>\$ -</u> | <u>\$ 3,898,131</u> |

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

| | |
|-----------------------------|-------------------|
| Administration | \$ 47,928 |
| Public Safety | 101,125 |
| Public Works | 37,711 |
| Community Center/Recreation | 42,925 |
| Sewer Plant | <u>42,500</u> |
| | <u>\$ 272,189</u> |

Additional information is included on capital assets and depreciation in Note A.

City of Hillview
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Note F – 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 on June 30, 2020 was \$365,000.00. Interest paid during the current fiscal year was \$13,675.

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

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------|------------------|
| June 30, 2021 | \$ 120,000 | \$ 10,650 |
| June 30, 2022 | 120,000 | 7,350 |
| June 30, 2023 | <u>125,000</u> | <u>3,750</u> |
| | <u>\$ 365,000</u> | <u>\$ 21,750</u> |

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 was \$1,785,000. The bond proceeds, after deducting issuance costs of \$56,474, were \$1,733,832. The proceeds were used to pay off a lease obligation of \$495,000, purchase the land and building to be used for the government center for \$1,000,000 and the remaining amount of \$238,832 will be used to renovate the government center building. Interest rates vary from 1% to 4% over the term of the loan.

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 on June 30, 2020 was \$690,000 at June 30, 2020. Interest paid during the current fiscal year was \$27,656. The following is a schedule of principal and interest requirements for the term of the bonds:

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------|-------------------|
| June 30, 2021 | \$ 62,083 | \$ 25,856 |
| June 30, 2022 | 65,000 | 23,926 |
| June 30, 2023 | 65,000 | 21,780 |
| June 30, 2024 | 67,083 | 19,552 |
| June 30, 2025 | 70,000 | 16,131 |
| Thereafter | <u>360,834</u> | <u>41,700</u> |
| | <u>\$ 690,000</u> | <u>\$ 148,945</u> |

City of Hillview
Notes To Basic Financial Statements
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Truck America Lawsuit Settlement

During a previous fiscal year, the City entered into an agreed 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 escrow account. The City closed on Kentucky Bond Corporation Financing Program Revenue Bonds 2016 Series B on June 1, 2016 to be repaid over 26 years with the last payment due on February 1, 2042. The bonds are general obligation bonds and are backed by the full faith, credit and taxing power of the City. The balance on the bonds on June 30, 2020 was \$5,324,167. Interest paid during the current fiscal year was \$168,439. The interest rate on the bonds is variable 3.0% to 3.375% and the current rate is 3%.

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|---------------------|
| June 30, 2021 | \$ 54,167 | \$ 167,114 |
| June 30, 2022 | 60,000 | 165,489 |
| June 30, 2023 | 110,000 | 163,689 |
| June 30, 2024 | 182,083 | 160,389 |
| June 30, 2025 | 187,083 | 154,926 |
| Thereafter | <u>4,730,834</u> | <u>1,466,044</u> |
| | <u>\$ 5,324,167</u> | <u>\$ 2,277,651</u> |

The settlement agreement also provides for a direct payment of 8.3% of eligible revenue to be paid annually on July 15 of each year, for a 20-year period, commencing July 15, 2017. Eligible revenue shall be gross general fund revenue received by the City in the immediately preceding fiscal year reduced by an applicable deduction of \$540,000 as per the terms of the settlement agreement. The direct payment amount due July 15, 2019 was \$354,927 and the direct payment amount due July 15, 2020 was \$377,326.

Jesse Schmott Memorial Gym Bond

On October 15, 2018, the City passed an ordinance authorizing the issuance of general obligation bonds in the amount of \$835,000.00. The proceeds of the bonds are to be used to construct a new gym. General obligation bonds are backed by the full faith, credit and taxing power of the City. The debt has varying maturity dates from 2/1/2019 to 1/1/2034 with interest rates ranging from 3.0% to 4.0%. The balance due on the bond issue on June 30, 2019, was \$781,250. Interest paid during the current fiscal year was \$27,783.

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------|-------------------|
| June 30, 2021 | \$ 45,000 | \$ 167,114 |
| June 30, 2022 | 47,083 | 165,489 |
| June 30, 2023 | 50,000 | 163,689 |
| June 30, 2024 | 50,000 | 160,389 |
| June 30, 2025 | 52,083 | 154,926 |
| Thereafter | <u>537,084</u> | <u>97,315</u> |
| | <u>\$ 781,250</u> | <u>\$ 213,587</u> |

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Note G – Retirement Plan

The City of Hillview 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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems' website.

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.

Contributions – For the year ended June 30, 2020, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2020, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 8. Plan members contributed 19.33% to the pension trust for nonhazardous job classifications and 30.06% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

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For the year ended June 30, 2020, the City contributed \$70,351 or 100% of the required contribution for non-hazardous job classifications, and \$188,086, for the year ended June 30, 2020, or 100% of the required contribution for hazardous job classifications, to the same pension trust.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' 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 or 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 to 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 to 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 years' 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 of 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 of 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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability as follows:

| Total Net Pension Liability | Non-hazardous | Hazardous |
|--|----------------------|---------------------|
| <u>\$ 4,877,467</u> | <u>\$ 1,209,332</u> | <u>\$ 3,668,135</u> |

City of Hillview
Notes To Basic Financial Statements
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The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward using generally accepted actuarial procedures. 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. The City's proportionate share at June 30, 2019, was as follows:

| Non-hazardous | Hazardous |
|----------------------|------------------|
| .017195% | .132793% |

The proportionate share at June 30, 2019 decreased .002293% for non-hazardous and decreased .020156% for hazardous compared to the proportionate share as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$1,159,569. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual results | \$ 186,728 | \$ 5,110 |
| Changes of assumptions | 478,461 | - |
| Net difference between projected and actual earnings on Plan investments | - | 71,409 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 436,428 | - |
| City contributions subsequent to the measurement date | <u>477,254</u> | <u>-</u> |
| Total | <u>\$ 1,578,871</u> | <u>\$ 76,519</u> |

The \$1,208,147 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Contributions exclude \$30,171 of contributions for employees that previously retired and were subsequently re-employed. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year ending June 30, | |
|-----------------------------|------------|
| 2021 | \$ 595,488 |
| 2022 | \$ 311,368 |
| 2023 | \$ 113,554 |
| 2024 | \$ 4,688 |

City of Hillview
Notes To Basic Financial Statements
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Actuarial Assumptions – The total pension liability reported at June 30, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.55 to 19.05%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

City of Hillview
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| Asset Class | Target Allocation | Long-Term Expected Real Rate Of Return |
|--------------------------------|----------------------|--|
| Growth | 62.50% | |
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Special credit/high yield | 15.00% | 2.60% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Diversifying Strategies | 23.00% | |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| Total | 100.00% | 6.25% |

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

– The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

| | Non-hazardous | | Hazardous | |
|-----------------------|---------------|--|---------------|--|
| | Discount Rate | City's proportionate share of net pension liability | Discount Rate | City's proportionate share of net pension liability |
| 1% decrease | 5.25% | \$ 1,512,531 | 5.25% | \$ 4,585,992 |
| Current discount rate | 6.25% | \$ 1,209,332 | 6.25% | \$ 3,668,135 |
| 1% increase | 7.25% | \$ 956,618 | 7.25% | \$ 2,915,625 |

City of Hillview
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Payable to the Pension Plan – At June 30, 2020, the City reported a payable of \$67,098 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.

Note H – Postemployment Benefits Other Than Pensions (OPEB)

Plan Description – As more fully described in Note 7, the City of Hillview participates in the County Employees’ Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2020, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2020, the City contributed \$22,814, or 100% of the required contribution for non-hazardous job classifications, and \$79,182, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

| | | |
|--------|--|---|
| Tier 1 | Participation date Insurance eligibility Benefit | Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement |
| Tier 1 | Participation date Insurance eligibility Benefit | Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually |

City of Hillview
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| | | |
|--------|--|---|
| Tier 2 | Participation date Insurance eligibility Benefit | After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |
| Tier 3 | Participation date Insurance eligibility Benefit | After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net

| Total Net OPEB Liability | Non-hazardous | Hazardous |
|-------------------------------------|----------------------|-------------------|
| \$ <u>1,271,418</u> | \$ <u>289,128</u> | \$ <u>982,290</u> |

The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2019 was as follows:

| Non-hazardous | Hazardous |
|----------------------|------------------|
| .017190% | .132767% |

The proportionate share at June 30, 2019 increased .002288% for non-hazardous and increased .020123% for hazardous compared to the proportionate share as of June 30, 2018.

For the year ended June 30, 2020, the City recognized OPEB expense of \$224,714. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual results | \$ - | \$ 269,975 |
| Changes of assumptions | \$ 382,400 | \$ 2,432 |
| Net difference between projected and actual earnings on Plan investments | \$ - | \$ 69,318 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | \$ 154,915 | \$ 469 |
| City contributions subsequent to the measurement date | <u>\$ 61,123</u> | <u>\$ -</u> |
| Total | <u>\$ 598,438</u> | <u>\$ 342,194</u> |

The \$61,123 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Contributions exclude \$7,257 of contributions for employees that previously retired and were subsequently re-employed. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

| Year ending June 30, | |
|-----------------------------|------------|
| 2021 | \$ 236,055 |
| 2022 | \$ 118,426 |
| 2023 | \$ 36,315 |
| 2024 | \$ 20,148 |

Actuarial Assumptions – The total OPEB liability reported at June 30, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30 to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Healthcare trend:

Pre – 65: Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post – 65: Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumption used in the June 30, 2018, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate Of Return |
|--------------------------------|----------------------|--|
| Growth | 62.50% | |
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Special credit/high yield | 15.00% | 2.60% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Diversifying Strategies | 23.00% | |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| Total | 100.00% | 6.25% |

Discount Rate – The discount rate used to measure the total OPEB liability was 5.68% and 5.69% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate –

The following presents the City's proportionate share of the net OPEB liability calculated using the discount rate as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | Non-hazardous | | Hazardous | |
|-----------------------|---------------|---|---------------|---|
| | Discount Rate | City's proportionate share of net OPEB liability | Discount Rate | City's proportionate share of net OPEB liability |
| 1% decrease | 4.69% | \$ 387,313 | 4.69% | \$ 1,370,492 |
| Current discount rate | 5.69% | \$ 289,128 | 5.69% | \$ 982,290 |
| 1% increase | 6.69% | \$ 208,230 | 6.69% | \$ 667,182 |

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate –

The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | Non-hazardous | | Hazardous | |
|--------------------|---|----|---|----|
| | City's proportionate share of net OPEB liability | | City's proportionate share of net OPEB liability | |
| 1% decrease | \$ 215,026 | \$ | \$ 683,492 | \$ |
| Current trend rate | \$ 289,128 | \$ | \$ 982,290 | \$ |
| 1% increase | \$ 378,986 | \$ | \$ 1,346,807 | \$ |

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

Note I – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, etc. The City has commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage.

City of Hillview
Notes To Basic Financial Statements
June 30, 2020

Note J–Covid-19 Impact

The outbreak of the coronavirus ("COVID-19") was concentrated in China in late January 2020 and spread quickly, resulting in the World Health Organization declaring a global pandemic in March 2020. COVID-19 created significant volatility in the economy and led to numerous restrictions and reduced economic activity. Since then, governments have taken extraordinary actions to contain and combat the spread of COVID-19 in regions throughout the world, including restricting non-essential travel, quarantines, "stay-at-home" orders, and similar mandates for many individuals to substantially restrict daily activities. The City has maintained its operations during the global pandemic, with additive precautionary measures implemented to protect the City's volunteers and the community at large. The extent of future impacts from COVID-19 cannot be reasonably estimated at this time due to numerous uncertainties, including the duration and severity of the pandemic. However, given that the City's revenues are based on assessed property and real estate values at a fixed amount, the global COVID-19 pandemic has not, and is not expected to, materially impact normal operations or cash flow.

Note K-Recent Pronouncements

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement were effective for fiscal years beginning after December 15, 2019 but was postponed by eighteen months because of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, issued in May 2020. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The provisions of this Statement are effective immediately. This extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018 and includes Statement No. 87 Leases, which the City has elected to postpone implementation.

The City is evaluating the impact that will result from adopting the above GASB statement and is currently unable to disclose the impact of the adoption of these standards upon the financial position and results of operations.

Note L – Subsequent Events

City management has evaluated subsequent events through November 15, 2021, which is the date the financial statements were available to be issued, and have determined that no subsequent events require reporting.

City Of Hillview
Required Supplementary Information
General Fund
Statement Of Revenues, Expenditures And Changes In Fund Balances
Budget And Actual
For The Year Ended June 30, 2020

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With</u> |
|--|-------------------------|-------------------|---------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| Revenues: | | | | |
| Property Taxes | \$ 953,625 | \$ 952,125 | 760,312 | \$ (191,813) |
| Occupational Taxes | 2,405,000 | 2,505,162 | 2,509,005 | 3,843 |
| Tangible Personal Property Taxes | 29,161 | 21,347 | 262,731 | 241,384 |
| Motor Vehicle Taxes | 74,145 | 76,145 | 67,376 | (8,769) |
| Franchise Taxes | 61,687 | 61,370 | 56,983 | (4,387) |
| Insurance Premium Taxes | 830,728 | 876,828 | 917,495 | 40,667 |
| Intergovernmental | | | | |
| Citation Fees | 24,250 | 23,965 | 13,181 | (10,784) |
| Grants | 85,676 | 92,633 | 103,070 | 10,437 |
| Municipal Aid | 5,000 | 2,500 | 2,500 | - |
| L.G.E.A. | - | - | - | - |
| Licenses And Permits | 49,200 | 48,700 | 46,202 | (2,498) |
| Interest | 425 | 567 | 37,826 | 37,259 |
| Recreation | 73,958 | 53,638 | 83,054 | 29,416 |
| Other Income | 31,405 | 24,079 | 62,887 | 38,808 |
| Total Revenues | <u>4,624,260</u> | <u>4,739,059</u> | <u>4,922,622</u> | <u>183,563</u> |
| Expenditures: | | | | |
| Police Department | 2,000,911 | 1,829,550 | 1,844,599 | 15,049 |
| Public Works | 1,116,848 | 927,681 | 703,388 | (224,293) |
| Health & Safety | 68,997 | 48,977 | 54,004 | 5,027 |
| Administration | 1,215,172 | 1,247,290 | 1,070,632 | (176,658) |
| Community Center & Recreation | 344,316 | 445,560 | 266,158 | (179,402) |
| Capital Outlay | - | - | 307,861 | 307,861 |
| Total Expenditures | <u>4,746,244</u> | <u>4,499,058</u> | <u>4,246,642</u> | <u>(252,416)</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>(121,984)</u> | <u>240,001</u> | <u>675,980</u> | <u>435,979</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (163,148) | (163,148) | (180,132) | (16,984) |
| Transfers In | - | - | - | - |
| Repayment Of Debt | - | - | (34,940) | (34,940) |
| Total Other Financing Sources (Uses) | <u>(163,148)</u> | <u>(163,148)</u> | <u>(215,072)</u> | <u>(51,924)</u> |
| Net Change In Fund Balance | <u>\$ 41,164</u> | <u>\$ 403,149</u> | <u>460,908</u> | <u>\$ 487,903</u> |
| Fund Balance At Beginning Of Year | | | <u>3,073,580</u> | |
| Fund Balance At End Of Year | | | <u>\$ 3,534,488</u> | |

See independent auditor's report and accompanying
notes to basic financial statements.

City Of Hillview
Required Supplementary Information
Special Revenue Fund
Statement Of Revenues, Expenditures And Changes In Fund Balances
Budget And Actual
For The Year Ended June 30, 2020

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With</u> |
|--|-------------------------|---------------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| Revenues: | | | | |
| Property Taxes | \$ - | \$ - | - | \$ - |
| Occupational Taxes | - | - | - | - |
| Tangible Personal Property Taxes | - | - | - | - |
| Motor Vehicle Taxes | - | - | - | - |
| Franchise Taxes | - | - | - | - |
| Insurance Premium Taxes | - | - | - | - |
| Intergovernmental | | | | |
| Citation Fees | - | - | - | - |
| Grants | - | - | - | - |
| Municipal Aid | 151,096 | 151,096 | 118,783 | (32,313) |
| L.G.E.A. | 10,849 | 10,849 | 7,337 | (3,512) |
| Licenses And Permits | - | - | - | - |
| Interest | 1,203 | 1,203 | 980 | (223) |
| Recreation | - | - | - | - |
| Other Income | - | - | - | - |
| Total Revenues | <u>163,148</u> | <u>163,148</u> | <u>127,100</u> | <u>(36,048)</u> |
| Expenditures: | | | | |
| Police Department | - | - | - | - |
| Public Works | 162,288 | 162,288 | 188,460 | 26,172 |
| Health & Safety | - | - | - | - |
| Administration | - | - | - | - |
| Community Center & Recreation | - | - | - | - |
| Capital Outlay | - | - | - | - |
| Total Expenditures | <u>162,288</u> | <u>162,288</u> | <u>188,460</u> | <u>26,172</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>860</u> | <u>860</u> | <u>(61,360)</u> | <u>(62,220)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | - | - | - | - |
| Transfers In | 163,148 | 163,148 | 55,776 | (107,372) |
| Repayment Of Debt | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>163,148</u> | <u>163,148</u> | <u>55,776</u> | <u>(107,372)</u> |
| Net Change In Fund Balance | <u>\$ (162,288)</u> | <u>\$ (162,288)</u> | <u>(5,584)</u> | <u>\$ 45,152</u> |
| Fund Balance At Beginning Of Year | | | <u>89,411</u> | |
| Fund Balance At End Of Year | | | <u>\$ 83,827</u> | |

See independent auditor's report and accompanying
notes to financial statements,

City Of Hillview
 Required Supplementary
 Schedule
 Proportionate Share Of The Net Pension Liability
 Last Four Fiscal Years

| Reporting Fiscal Year (Measurement Date) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) |
|--|----------------|----------------|----------------|----------------|
| City's proportion of the net pension liability - Hazardous | 0.105877% | 0.109295% | 0.112637% | 0.132793% |
| City's proportion of the net pension liability - Non-hazardous | 0.013432% | 0.013464% | 0.014902% | 0.017195% |
| City's proportionate share of the net pension liability (asset) | \$ 2,478,150 | \$ 3,233,323 | \$ 3,631,654 | \$ 4,877,467 |
| City's covered employee payroll | \$ 984,385 | \$ 1,199,226 | \$ 1,200,641 | \$ 1,472,289 |
| City's share of the net pension liability as a percentage of its covered payroll | 251.75% | 269.62% | 302.48% | 331.28% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.95% | 52.40% | 51.40% | 48.54% |

The above schedule will present 10 years of historical data, once available.

See independent auditor's report and accompanying
 notes to financial statements.

City Of Hillview
 Required Supplementary Schedule
 Of Pension Contributions
 Last Four Fiscal Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 258,437 | \$ 192,776 | \$ 175,982 | \$ 150,088 |
| Contributions in relation to the contractually required contribution | <u>258,437</u> | <u>192,776</u> | <u>175,982</u> | <u>150,088</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 1,472,289 | \$ 1,200,641 | \$ 1,189,226 | \$ 984,385 |
| Contributions as a percentage of covered employee payroll | 17.55% | 16.06% | 14.80% | 15.25% |

The above schedule will present 10 years of historical data, once available.

See independent auditor's report and accompanying
 notes to basic financial statements.

City Of Hillview
 Required Supplementary Schedule
 Proportionate Share Of The NET OPEB Liability
 Last Three Fiscal Years

| Reporting Fiscal Year (Measurement Date) | 2018 (2017) | 2019 (2018) | 2020 (2019) |
|---|----------------|----------------|----------------|
| City's proportion of the net OPEB liability - Hazardous | 0.109295% | 0.112644% | 0.132767% |
| City's proportion of the net OPEB liability - Non-hazardous | 0.013464% | 0.014902% | 0.017190% |
| City's proportionate share of the net OPEB liability (asset) | \$ 1,174,183 | \$ 1,067,688 | \$ 1,271,418 |
| City's covered employee payroll | \$ 1,199,226 | \$ 1,200,641 | \$ 1,472,289 |
| City's share of the net OPEB liability as a percentage of its covered payroll | 97.91% | 88.93% | 86.36% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 55.69% | 60.93% | 62.44% |

The above schedule will present 10 years of historical data, once available.

See independent auditor's report and accompanying
 notes to basic financial statements.

City Of Hillview
 Required Supplementary Schedule
 Of OPEB Contributions
 Last Three Fiscal Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|----------------|---------------|---------------|
| Contractually required contribution | \$ 101,996 | \$ 74,244 | \$ 89,040 |
| Contributions in relation to the contractually required contribution | <u>101,996</u> | <u>74,244</u> | <u>89,040</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 1,472,289 | \$ 1,200,641 | \$ 1,189,226 |
| Contributions as a percentage of covered employee payroll | 6.93% | 6.18% | 7.49% |

The above schedule will present 10 years of historical data, once available.

See independent auditor's report and accompanying
 notes to basic financial statements.



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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 ("City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider deficiencies 2020-2 and 2020-3 described in the accompanying schedule of findings to be material weaknesses.

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. We consider deficiency 2020-1 described in the accompany schedule of findings to be a significant deficiency.

Compliance and Other Matters

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

City Of Hillview's Response to Findings

City of Hillview, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings. The City'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 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.

Kelly King & Co.

Kelly King & Co.

Crestwood, Kentucky

November 15, 2021

City of Hillview, Kentucky
Schedule Of Findings And Responses
June 30, 2020

Finding:

2020-1

The City of Hillview, Kentucky (“City”) is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The City lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statement in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statement. Management reviewed, approved and accepted responsibility for the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response:

Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

Finding:

2020-2

The City is required to have internal controls in place that enable it to apply generally accepted accounting principles to its transactions. Specifically, this includes payments on behalf of the City, accounting for property taxes and year-end accrual transactions.

The City executes basic and routine transactions throughout the year; however, the City does not apply generally accepted accounting principles to certain non-routine transactions recorded during the year and in making its year-end accruals.

Management relied on the auditor’s year-end adjustments to bring the City’s accounting records into compliance with generally accepted accounting principles. Management reviewed, approved and accepted responsibility for the adjusting journal entries prior to the issuance of the financial statements.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to advise the City during the year concerning non-routine transactions and to assist the City with its year-end close so that the City’s accounting records will be in compliance with generally accepted accounting principles.

City of Hillview, Kentucky
Schedule Of Findings And Responses
June 30, 2020

Response:

Management has determined that it is the more cost effective to continue to rely on the auditor's adjustments to bring the City's accounting records into compliance with generally accepted accounting principles.

Finding:

2020-3

The City is required to have appropriate internal controls in place to provide for segregation of duties over its financial reporting. A fundamental concept is that no employee should have access to all phases of a transaction.

Appropriate segregation of duties is affected by limited personnel.

We recommend management continue to develop procedures to monitor the financial activities where personnel are limited.

Response:

Management will continue to monitor procedures currently in place and determine if any additional procedures should be implemented.