

**CITY OF HILLVIEW, KENTUCKY**  
**AUDITED FINANCIAL STATEMENTS**

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**JUNE 30, 2021**

**KERBAUGH, RODES & BUTLER, PLLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**DANVILLE, KENTUCKY**

**CITY OF HILLVIEW, KENTUCKY  
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## Independent Auditor's Report

The Mayor and Members of the  
City Council  
City of Hillview, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hillview, Kentucky (the City) as of and for the year ended June 30, 2021, 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, the business-type activities, and each major fund of the City as of June 30, 2021, 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*

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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 28 and 29, and the historical pension and OPEB information on pages 30 through 35, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
February 28, 2022

## **BASIC FINANCIAL STATEMENTS**

**CITY OF HILLVIEW, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,946,872	\$	\$ 4,946,872
Investments (certificates of deposit)	253,890		253,890
Receivables, net of allowance	7,793		7,793
Prepaid insurance	188,539		188,539
Restricted assets:			
Cash and cash equivalents	217,400		217,400
Capital assets not being depreciated:			
Land	192,089		192,089
Capital assets, net of accumulated depreciation	<u>2,973,467</u>	<u>924,375</u>	<u>3,897,842</u>
Total assets	<u>8,780,050</u>	<u>924,375</u>	<u>9,704,425</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,785,785</u>	<u>-</u>	<u>2,785,785</u>
<b>LIABILITIES</b>			
Accounts payable	76,958		76,958
Accrued expenses	71,853		71,853
Security deposit	1,000		1,000
Unearned revenue	28,070		28,070
Noncurrent liabilities:			
Due within one year	257,771	120,000	377,771
Due in more than one year	6,689,038	125,000	6,814,038
Net pension liability	6,138,237		6,138,237
Net OPEB liability	1,892,855		1,892,855
Total liabilities	<u>15,155,782</u>	<u>245,000</u>	<u>15,400,782</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>372,294</u>	<u>-</u>	<u>372,294</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,488,747	679,375	2,168,122
Restricted for:			
Debt service	217,400		217,400
Municipal Aid	218,004		218,004
Unrestricted (deficit)	<u>(5,886,392)</u>		<u>(5,886,392)</u>
Total net position	<u>\$ (3,962,241)</u>	<u>\$ 679,375</u>	<u>\$ (3,282,866)</u>

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities</b>							
General government	\$ (1,039,353)	\$	\$	\$	\$ (1,039,353)		\$ (1,039,353)
Police services	(3,410,722)		991,186		(2,419,536)		(2,419,536)
Health & safety	(6,253)				(6,253)		(6,253)
Public works	(937,170)	5,500	172,961		(758,709)		(758,709)
Community center & recreation	(336,955)	116,650			(220,305)		(220,305)
Code enforcement	(85,334)				(85,334)		(85,334)
Total governmental activities	(5,815,787)	122,150	1,164,147	-	(4,529,490)		(4,529,490)
<b>Business-type activities:</b>							
Sewer system	(55,974)					(55,974)	(55,974)
Total business-type activities	(55,974)	-	-	-	-	(55,974)	(55,974)
<b>Total primary government</b>	<b>(5,871,761)</b>	<b>122,150</b>	<b>1,164,147</b>	<b>-</b>	<b>(4,529,490)</b>	<b>(55,974)</b>	<b>(4,585,464)</b>
<b>General revenues:</b>							
Property taxes					1,369,542		1,369,542
Occupational taxes					2,533,278		2,533,278
Tangible personal property taxes					48,034		48,034
Motor vehicle taxes					95,911		95,911
Franchise fees					57,922		57,922
Insurance premium licenses					1,045,748		1,045,748
Other licenses and fees, levied for general purposes					127,420		127,420
Interest and investment earnings					8,058		8,058
Gain (loss) on sale of capital assets					2,014		2,014
Insurance proceeds					37,624		37,624
Other					92,200		92,200
Transfers in (out)					(133,474)	133,474	-
Total general revenues, extraordinary items, special items, and transfers					5,284,277	133,474	5,417,751
Change in net position					754,787	77,500	832,287
Net position - beginning of year					(4,717,028)	601,875	(4,115,153)
Net position - end of year					\$ (3,962,241)	\$ 679,375	\$ (3,282,866)

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2021**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,409,253	\$ 537,619	\$ 4,946,872
Certificates of deposit	253,890		253,890
Receivables (net of allowance)	7,793		7,793
Prepaid insurance	188,539		188,539
Due from other funds	319,615		319,615
Cash - restricted	217,400		217,400
	<u>5,396,490</u>	<u>537,619</u>	<u>5,934,109</u>
Total assets	<u>\$ 5,396,490</u>	<u>\$ 537,619</u>	<u>\$ 5,934,109</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 76,958	\$	\$ 76,958
Accrued expenses	71,853		71,853
Due to general fund		319,615	319,615
Security deposit	1,000		1,000
Unearned revenue	28,070		28,070
	<u>177,881</u>	<u>319,615</u>	<u>497,496</u>
Total liabilities	<u>177,881</u>	<u>319,615</u>	<u>497,496</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid expenses	188,539		188,539
Restricted:			
Municipal Road Aid		218,004	218,004
Debt Service	217,400		217,400
Unassigned	4,812,670		4,812,670
	<u>5,218,609</u>	<u>218,004</u>	<u>5,436,613</u>
Total fund balances	<u>5,218,609</u>	<u>218,004</u>	<u>5,436,613</u>
Total liabilities and fund balances	<u>\$ 5,396,490</u>	<u>\$ 537,619</u>	<u>\$ 5,934,109</u>

See accompanying notes to financial statements.



**CITY OF HILLVIEW, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
YEAR ENDED JUNE 30, 2021**

Total fund balances per fund financial statements		\$ 5,436,613
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:		
Certain items related to the City's net pension and OPEB liabilities do not affect available financial resources and therefore are not reported in the funds.		(5,617,601)
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position:		
Governmental capital assets	5,668,647	
Less: accumulated depreciation	<u>(2,503,091)</u>	3,165,556
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and notes payable) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position:		
General obligation bonds and leases		(6,632,083)
Capital leases		(314,726)
Change in net position of governmental activities		<u><u>\$ (3,962,241)</u></u>

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
<b>REVENUES:</b>			
Property taxes	\$ 1,369,542	\$	\$ 1,369,542
Occupational taxes	2,533,278		2,533,278
Tangible personal property taxes	48,034		48,034
Motor vehicle taxes	95,911		95,911
Franchise taxes	57,922		57,922
Insurance premium taxes	1,045,748		1,045,748
Licenses & fees	127,420		127,420
Intergovernmental revenues	996,686	172,961	1,169,647
Recreation	116,650		116,650
Other revenue	92,200		92,200
Interest	5,996	2,062	8,058
	<u>6,489,387</u>	<u>175,023</u>	<u>6,664,410</u>
<b>EXPENDITURES:</b>			
Current operating:			
General government	888,278		888,278
Police services	2,562,381		2,562,381
Health & safety	6,253		6,253
Public works	828,323	40,846	869,169
Community center & recreation	237,542		237,542
Code enforcement	65,869		65,869
Debt service:			
Principal	925,352		925,352
Interest	211,251		211,251
	<u>5,725,249</u>	<u>40,846</u>	<u>5,766,095</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	<u>764,138</u>	<u>134,177</u>	<u>898,315</u>
Other financing sources (uses):			
Sale of capital assets	19,801		19,801
Insurance proceeds	37,624		37,624
Debt proceeds	996,032		996,032
Transfers in (out)	(133,474)		(133,474)
	<u>919,983</u>		<u>919,983</u>
Net change in fund balances	1,684,121	134,177	1,818,298
Fund balances--beginning	3,534,488	83,827	3,618,315
Fund balances--ending	<u>\$ 5,218,609</u>	<u>\$ 218,004</u>	<u>\$ 5,436,613</u>

See accompanying 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  
YEAR ENDED JUNE 30, 2021**

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	1,818,298
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Depreciation expense		(307,673)
Capital outlay		559,760
Governmental funds report sales of capital assets as revenues while governmental activities report the sale less the undepreciated basis of the property		
		(17,787)
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 costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Debt proceeds		(996,032)
Principal payments on long-term debt		925,352
In the fund financial statements, pension and OPEB costs are recognized as payments are made to the plans; however, in the government-wide financial statements, pension and OPEB costs are recognized based on the overall changes in the net pension liability, net OPEB liability, and deferred inflows and outflows of resources.		
		(1,227,131)
Change in net assets of governmental activities	<u>\$</u>	<u>754,787</u>

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2021**

	<b>Sewer Fund</b>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$
Total current assets	-
Non current assets:	
Capital assets, net of accumulated depreciation	924,375
Total noncurrent assets	924,375
<b>TOTAL ASSETS</b>	<b>924,375</b>
<b>LIABILITIES</b>	
Current liabilities:	
General obligation bonds payable - current	120,000
Total current liabilities	120,000
Noncurrent liabilities:	
General obligation bonds payable	125,000
Total noncurrent liabilities	125,000
<b>TOTAL LIABILITIES</b>	<b>245,000</b>
<b>NET POSITION</b>	
Net investment in capital assets	679,375
<b>TOTAL NET POSITION</b>	<b>\$ 679,375</b>

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2021**

	<b>Sewer Fund</b>
Operating revenues:	
Charges for services	\$
Total operating revenues	-
Operating expenses:	
Insurance	4,474
Depreciation	42,500
Total operating expenses	46,974
Operating income (loss)	(46,974)
Nonoperating revenues (expenses):	
Interest expense	(9,000)
Total nonoperating revenue (expenses)	(9,000)
Income (loss) before contributions, transfers, and extraordinary items	(55,974)
Transfers in (out)	133,474
Change in net position	77,500
Total net position - beginning	601,875
Total net position - ending	\$ 679,375

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2021**

	<u>Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (4,474)
Net cash provided (used) by operating activities	<u>(4,474)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	133,474
Net cash provided (used) by noncapital financing activities	<u>133,474</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on capital debt	(120,000)
Interest paid on capital debt	(9,000)
Net cash provided (used) by capital and related financing activities	<u>(129,000)</u>
Net increase (decrease) in cash and cash equivalents	-
Cash and equivalents - beginning of year	<u>                    </u>
Cash and equivalents - end of year	<u>\$ -</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ (46,974)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	42,500
Net cash provided (used) by operating activities	<u>\$ (4,474)</u>

See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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 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. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. 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.

**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.

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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. Bullitt County Sewer District was acquired by Metro Sanitation District in 2021, which currently operates 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.

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 financing 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.



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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. Investments

Investments consist of certificates of deposit only and are valued at cost plus accrued interest, which approximates fair market value.

7. Receivables

Property tax receivables are recorded in the General Fund. At 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, 2021, the City considered accounts receivable to be fully collectible and, accordingly, no allowance for doubtful accounts has been recorded.

8. 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.

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 for depreciable assets are as follows:

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

9. 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.

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10. 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.

11. 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.

12. Pensions

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

13. Other Postemployment Benefits (OPEB)

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

14. 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** – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position** – Consists of net position with constraints placed on the use either by 1) External groups such as creditors, grantors, contributors, or laws or regulations of other governments, and 2) Law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – Consists of all other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified:

- **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, 2021 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 imposed by law through constitutional provision or enabling legislation.

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- **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. The City’s Mayor is authorized to assign the fund balance. The City has not adopted formal procedures to show that the mayor has assigned the fund balance.
- **Unassigned** – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

The City has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first. In addition, when resources are available from multiple fund balance classifications, the City spends the funds in the following order: restricted, committed, assigned, unassigned.

15. Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through February 28, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2021, have not been evaluated by the City.

**Note B – 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.

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, 2021, 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. At June 30, 2021, the carrying amount of the City’s deposits were \$5,418,162 and the bank balance was \$5,431,786. At June 30, 2021, \$1,516,848 was FDIC insured, \$3,908,764 was collateralized, and \$6,174 was uninsured and uncollateralized.

The City’s investments at June 30, 2021 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<b>Governmental Activities:</b>				
BB&T Bank				
Certificate of Deposit	<u>\$ 253,890</u>	<u>\$ 253,890</u>	0.01%	05/06/22

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**Note C – 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. City tax rates of 12.4 cents per \$100 on real property, 18 cents per \$100 on personal property, and 18 cents per \$100 on vehicles for the fiscal year ended June 30, 2021, are within permissible limits under the above legislation.

Any unpaid 2019 real property taxes were sold at the September 21, 2020 council meeting. Any unpaid 2020 real property taxes were sold at the May 17, 2021 council meeting.

**Note D – 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 activity for the year ended June 30, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 192,089	\$ -	\$ -	\$ 192,089
Machinery and Equipment	2,411,122	518,103	(166,506)	2,762,719
Buildings	2,672,182	41,657	-	2,713,839
Total	<u>5,275,393</u>	<u>559,760</u>	<u>(166,506)</u>	<u>5,668,647</u>
Less accumulated depreciation for:				
Furniture and Equipment	(608,364)	(68,929)	148,719	(528,574)
Buildings	(1,735,773)	(238,744)	-	(1,974,517)
Total accumulated depreciation	<u>(2,344,137)</u>	<u>(307,673)</u>	<u>148,719</u>	<u>(2,503,091)</u>
Governmental activities capital assets, net	<u>\$ 2,931,256</u>	<u>\$ 252,087</u>	<u>\$ (17,787)</u>	<u>\$ 3,165,556</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Sewer Plant	\$ 1,700,000	\$ -	\$ -	\$ 1,700,000
Total	<u>1,700,000</u>	<u>-</u>	<u>-</u>	<u>1,700,000</u>
Less accumulated depreciation for:				
Sewer Plant	(733,125)	(42,500)	-	(775,625)
Total accumulated depreciation	<u>(733,125)</u>	<u>(42,500)</u>	<u>-</u>	<u>(775,625)</u>
Business-type activities capital assets, net	<u>\$ 966,875</u>	<u>\$ (42,500)</u>	<u>\$ -</u>	<u>\$ 924,375</u>

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

Governmental activities:	
General government	\$ 48,268
Police services	150,694
Public works	58,450
Community center & recreation	50,261
Total depreciation expense-governmental activities	<u>\$ 307,673</u>
Business-type activities:	
Sewer	<u>\$ 42,500</u>

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**Note E – Capital Leases**

The City has entered into lease agreements with Enterprise FM Trust for the acquisition of vehicles. These leases qualify as capital leases for accounting purposes and have therefore been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital lease are as follows:

	Governmental Activities
Asset:	
Vehicles	\$ 403,440
Less: Accumulated Depreciation	(88,714)
Net	\$ 314,726

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021 are as follows.

Year Ending June 30	Total
2022	\$ 88,071
2023	88,071
2024	88,071
2025	72,569
2026	6,743
Total Minimum Lease Payments	343,525
Less: Amount Representing Interest	(28,799)
Present Value of Future Lease Payments	\$ 314,726

**Note F – Long Term Debt**

*Wastewater 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 were used to construct a wastewater treatment facility. General obligation bonds are backed by the full faith, credit and taxing power of the City. The debt had varying maturity dates through January 15, 2022, with interest rates ranging from 4% to 4.75%.

The City Council on June 28, 2010, passed Ordinance No. 2010-08 which provided for the refinancing of these bonds at a lower interest rate. The new payment period was for 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, 2021 was \$245,000. Interest paid during the current fiscal year was \$9,000.

The following is a schedule of principal and interest requirements for the term of the bonds for business-type activities:

Year Ending June 30	Principal	Interest	Total
2022	\$ 120,000	\$ 7,350	\$ 127,350
2023	125,000	3,750	128,750
	\$ 245,000	\$ 11,100	\$ 256,100

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*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 was used to renovate the government center building. The bonds were paid in full during the year ended June 30, 2021, with the general obligation lease Series 2020D described below.

On July 30, 2020, the City closed on a general obligation lease with Kentucky Bond Corporation for the Kentucky Bond Corporation Financing Program Revenue Bonds 2020 Series D in the amount of \$680,000 to refinance the 2010 Series A Bonds. The lease bears fixed interest at rates ranging from 2% to 2.5% through maturity, which is January 1, 2030. The balance due on the general obligation lease at June 30, 2021 was \$625,833. Interest paid during the current fiscal year was \$14,471. The general obligation lease is backed by the full faith, credit and taxing power of the City.

*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 (debt service reserve). 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, 2021, was \$5,270,000. Interest paid during the current fiscal year was \$181,174. The bonds have fixed interest rates ranging from 3.0% to 3.375%.

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, 2020, was \$377,326 and the direct payment amount due July 15, 2021, was \$440,576.

*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. The proceeds of the bonds were 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 through January 1, 2034 with interest rates ranging from 3.0% to 4.0%. The balance due on the bond issue on June 30, 2021, was \$736,250. Interest paid during the current fiscal year was \$28,486.

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

Year Ending June 30	Principal	Interest	Total
2022	\$ 177,083	\$ 220,968	\$ 398,051
2023	227,917	215,913	443,830
2024	299,167	209,185	508,352
2025	309,167	200,133	509,300
2026	319,167	190,785	509,952
2027-2031	1,703,334	799,840	2,503,174
2032-2036	1,705,833	513,176	2,219,009
2037-2041	1,770,834	214,819	1,985,653
2042-2046	119,581	4,335	123,916
	<u>\$ 6,632,083</u>	<u>\$ 2,569,154</u>	<u>\$ 9,201,237</u>

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Long-term liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
J.Schott Memorial Gym Bond	\$ 781,250	\$	\$ (45,000)	\$ 736,250	\$ 47,083
2010 Bonds	690,000		(690,000)	-	-
KLC General Obligation Lease	-	680,000	(54,167)	625,833	70,000
TA Settlement Bond	5,324,167		(54,167)	5,270,000	60,000
Capital leases	80,892	316,032	(82,198)	314,726	80,688
Governmental activity long-term liabilities	<u>\$ 6,876,309</u>	<u>\$ 996,032</u>	<u>\$ (925,532)</u>	<u>\$ 6,946,809</u>	<u>\$ 257,771</u>
<b>Business-type activities:</b>					
General Obligation Bonds:					
Sewer Fund	<u>\$ 365,000</u>	<u>\$</u>	<u>\$ (120,000)</u>	<u>\$ 245,000</u>	<u>\$ 120,000</u>

**Note G – Retirement Plan**

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority 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, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% for hazardous job classifications, which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were 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 in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 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. For non-hazardous

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members, their account is credited with a 4% employer pay credit. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2021, the City contributed \$150,518 for non-hazardous job classifications, and \$398,663 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$120,740 to the CERS pension fund and \$29,778 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$302,774 to the CERS pension fund and \$95,889 to the CERS insurance fund.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2021, the City reported a liability of \$6,138,237 for its proportionate share of the net pension liability. The liability consisted of \$1,451,225 for non-hazardous job classifications and \$4,687,012 for hazardous job classifications. 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 that date and rolled forward to June 30, 2020. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City’s proportion was .018921% for non-hazardous employees and .155455% for hazardous employees, which was equal to its proportion measured as of June 30, 2020. At June 30, 2020, the City’s proportion was .017195% for non-hazardous employees and .132793% for hazardous employees, which was equal to its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$1,037,348. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 181,552	\$ -
Changes of assumptions	234,426	-
Net difference between projected and actual earnings on Plan investments	240,398	98,495
Changes in proportion and differences between City contributions and proportionate share of contributions	744,379	-
City contributions subsequent to the measurement date	423,514	-
Total	\$ 1,824,269	\$ 98,495

The \$423,514 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2022	\$ 588,447
2023	376,692
2024	221,257
2025	115,864



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*Actuarial Assumptions* – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth	2.00%
Salary increases	3.30% to 10.30% varied by service inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, 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 the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

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*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 amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination 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:

	Discount rate	Hazardous	Nonhazardous	Total
1% decrease	5.25%	5,792,480	1,789,676	7,582,156
Current discount rate	6.25%	4,687,012	1,451,225	6,138,237
1% increase	7.25%	3,784,659	1,170,975	4,955,634

*Payable to the Pension Plan* – At June 30, 2021, the City reported a payable of \$71,853 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

**Note H – Postemployment Benefits Other Than Pensions (OPEB)**

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit other postemployment benefit 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 health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – For the year ended June 30, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% for hazardous job classifications, which

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were 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 in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 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. For non-hazardous members, their account is credited with a 4% employer pay credit. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2021, the City contributed \$150,518 for non-hazardous job classifications, and \$398,663 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$120,740 to the CERS pension fund and \$29,778 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$302,774 to the CERS pension fund and \$95,889 to the CERS insurance fund.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2021, the City reported a liability of \$1,892,855 for its proportionate share of the net OPEB liability. The liability consisted of \$456,740 for non-hazardous job classifications and \$1,436,115 for hazardous job classifications. 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 that date and rolled forward to June 30, 2020. 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 pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City's proportion was .018915 percent for non-hazardous employees and .155406% for hazardous employees, which was equal to its proportion measured as of June 30, 2020. At June 30, 2020, the City's proportion was .017190 percent for non-hazardous employees and .132767% for hazardous employees, which was equal to its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized OPEB expense of \$189,964. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual results	\$ 125,594	\$ 219,783
Changes of assumptions	313,731	1,806
Net difference between projected and actual earnings on Plan investments	130,841	51,911
Changes in proportion and differences between City contributions and proportionate share of contributions	265,683	299
City contributions subsequent to the measurement date	<u>125,667</u>	<u>-</u>
Total	<u>\$ 961,516</u>	<u>\$ 273,799</u>

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The \$125,667 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<b>Year ending June 30,</b>	
2022	\$ 157,040
2023	124,221
2024	129,463
2025	106,195
2026	45,131

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service
Investment rate of return	6.25%
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Post - 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023 then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, 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 the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer 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 OPEB liability was 5.34 percent for non-hazardous and 5.30% for hazardous. 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 amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

*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 of 5.34 percent for non-hazardous and 5.30% for hazardous, 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 (4.34% for hazardous and 4.30% for nonhazardous) or 1-percentage-point higher (6.34% for hazardous and 6.30% for nonhazardous) than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	1,949,489	586,776	2,536,265
Current discount rate	1,436,115	456,740	1,892,855
1% increase	1,022,440	349,936	1,372,376

*Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate* – The following presents the City's proportionate share of the net OPEB liability calculated using the health care trend rate described above, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	1,026,290	353,631	1,379,921
Current healthcare tend rate	1,436,115	456,740	1,892,855
1% increase	1,939,960	581,865	2,521,825

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
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	2.95%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*Payable to the Pension Plan* – At June 30, 2021, the City reported a payable of \$71,853 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

**Note I – Risk Management**

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. 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. 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.

**Note J – Subsequent Events**

Sale of Wastewater Treatment Plant

In September 2021, the City submitted an offer letter to Metro Sanitation District (MSD) to sell the wastewater treatment plant to MSD for \$225,000. In February 2022, MSD accepted the offer, pending due diligence and formal approval of an interlocal agreement by the MSD Board, the Kentucky Attorney General, Louisville Metro Mayor, and Louisville Metro Council. The expected closing date is June of 2022.

Purchase of Building

In July 2021, the City closed on the purchase of building in the amount of \$1,350,000. The police department will be moved to this building once it is renovated. The building will also have additional space that may be used by the City or rented to commercial businesses.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HILLVIEW, KENTUCKY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 950,125	\$ 1,369,573	\$ 1,369,542	\$ (31)
Occupational taxes	2,254,645	2,530,697	2,533,278	2,581
Tangible personal property taxes	29,161	48,034	48,034	-
Motor vehicle taxes	76,375	96,419	95,911	(508)
Franchise taxes	59,909	57,921	57,922	1
Insurance premium taxes	882,888	994,341	1,045,748	51,407
Licenses & fees	50,200	70,835	127,420	56,585
Intergovernmental revenues	111,927	984,697	996,686	11,989
Recreation	158,260	117,477	116,650	(827)
Other revenue	104,540	78,862	92,200	13,338
Interest	425	425	5,996	5,571
Total revenues	<u>4,678,455</u>	<u>6,349,281</u>	<u>6,489,387</u>	<u>140,106</u>
EXPENDITURES:				
Current operating:				
General government	1,065,349	1,135,644	888,278	247,366
Police services	2,284,269	2,309,476	2,562,381	(252,905)
Health & safety	389,685	328,016	6,253	321,763
Public works	1,049,600	867,617	828,323	39,294
Community center & recreation	71,207	9,690	237,542	(227,852)
Code enforcement	80,095	78,386	65,869	12,517
Debt service:				
Principal	235,341	235,341	925,352	(690,011)
Interest			211,251	(211,251)
Total expenditures	<u>5,175,546</u>	<u>4,964,170</u>	<u>5,725,249</u>	<u>(761,079)</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	(497,091)	1,385,111	764,138	(620,973)
Other financing sources (uses):				
Sale of capital assets	7,500	-	19,801	19,801
Insurance proceeds			37,624	37,624
Debt proceeds	-	-	996,032	996,032
Transfers in (out)			(133,474)	(133,474)
Total transfers and other sources	<u>7,500</u>	<u>-</u>	<u>919,983</u>	<u>919,983</u>
Excess (deficiency) revenues over expenditures	(489,591)	1,385,111	1,684,121	299,010
Fund balances--beginning	3,534,488	3,534,488	3,534,488	-
Fund balances--ending	<u>\$ 3,044,897</u>	<u>\$ 4,919,599</u>	<u>\$ 5,218,609</u>	<u>\$ 299,010</u>



**CITY OF HILLVIEW, KENTUCKY  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$ 161,945	\$ 161,945	\$ 172,961	\$ 11,016
Interest	1,203	1,704	2,062	358
Total revenues	<u>163,148</u>	<u>163,649</u>	<u>175,023</u>	<u>11,374</u>
EXPENDITURES:				
Current operating:				
Public works	172,288	172,288	40,846	131,442
Total expenditures	<u>172,288</u>	<u>172,288</u>	<u>40,846</u>	<u>131,442</u>
Excess (deficiency) revenues over expenditures	(9,140)	(8,639)	134,177	142,816
Fund balances--beginning	83,827	83,827	83,827	-
Fund balances--ending	<u>\$ 74,687</u>	<u>\$ 75,188</u>	<u>\$ 218,004</u>	<u>\$ 142,816</u>

**CITY OF HILLVIEW, KENTUCKY  
REQUIRED SUPPLEMENTAL SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Five Fiscal Years\***

	Hazardous					Non-Hazardous				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.155455%	0.132793%	0.112644%	0.109295%	0.105877%	0.018921%	0.017195%	0.014902%	0.013464%	0.013432%
City's proportionate share of the net pension liability (asset)	\$ 4,687,012	\$ 3,668,135	\$ 2,724,077	\$ 2,445,234	\$ 1,816,788	\$ 1,451,225	\$ 1,209,332	\$ 907,577	\$ 788,089	\$ 661,362
City's covered employee payroll	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 599,968	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837	\$ 327,806
City's share of the net pension liability (asset) as a percentage of its covered payroll	465.34%	403.88%	360.20%	389.71%	302.81%	232.11%	249.63%	209.25%	211.94%	201.75%
Plan fiduciary net position as a percentage of the total pension liability	44.11%	50.45%	49.26%	58.99%	53.95%	47.81%	46.63%	53.54%	53.32%	55.50%

\* The above schedule will present 10 years of historical data once available

**CITY OF HILLVIEW, KENTUCKY**  
**REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS**  
**Last Five Fiscal Years**

	Hazardous					Non-Hazardous				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 302,774	\$ 273,015	\$ 188,086	\$ 139,294	\$ 130,253	\$ 120,740	\$ 93,538	\$ 70,351	\$ 53,842	\$ 45,729
Contributions relative to contractually required employer contribution	<u>302,774</u>	<u>273,015</u>	<u>188,086</u>	<u>139,294</u>	<u>130,253</u>	<u>120,740</u>	<u>93,538</u>	<u>70,351</u>	<u>53,842</u>	<u>45,729</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 599,968	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837	\$ 327,806
Employer contributions as a percentage of covered-employee payroll	30.06%	30.06%	24.87%	22.20%	21.71%	19.30%	19.30%	16.22%	14.48%	13.95%

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

**CITY OF HILLVIEW, KENTUCKY  
REQUIRED SUPPLEMENTAL SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Four Fiscal Years\***

	Hazardous				Non-Hazardous			
	2021	2020	2019	2018	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.155406%	0.132767%	0.112644%	0.109295%	0.018915%	0.017190%	0.014902%	0.013464%
City's proportionate share of the net OPEB liability (asset)	\$ 1,436,115	\$ 982,290	\$ 803,106	\$ 903,511	\$ 456,740	\$ 289,128	\$ 264,582	\$ 270,672
City's covered employee payroll	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	142.58%	108.15%	106.19%	144.00%	73.05%	59.68%	61.00%	72.79%
Plan fiduciary net position as a percentage of the total OPEB liability	58.84%	64.44%	64.24%	58.99%	51.67%	60.44%	57.62%	52.39%

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

**CITY OF HILLVIEW, KENTUCKY**  
**REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB PLAN CONTRIBUTIONS**  
**Last Four Fiscal Years**

	Hazardous				Non-Hazardous			
	2021	2020	2019	2018	2021	2020	2019	2018
Contractually required employer contribution	\$ 95,889	\$ 86,464	\$ 79,182	\$ 58,667	\$ 29,778	\$ 23,069	\$ 22,814	\$ 17,360
Contributions relative to contractually required employer contribution	<u>95,889</u>	<u>86,464</u>	<u>79,182</u>	<u>58,667</u>	<u>29,778</u>	<u>23,069</u>	<u>22,814</u>	<u>17,360</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837
Employer contributions as a percentage of covered-employee payroll	9.52%	9.52%	10.47%	9.35%	4.76%	4.76%	5.26%	4.70%

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

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**

**Note 1. General Information**

**Contributions**

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

**Payroll**

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

**Measurement Date**

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

**Note 2. Changes of Assumptions (Measurement Date)**

**June 30, 2020 –OPEB Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.

**June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

**June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

**June 30, 2017 – Pension – Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

**June 30, 2015 – Pension – Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**

- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

**June 30, 2014 – Pension – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

**June 30, 2013 – Pension – Hazardous and Nonhazardous**

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

## **COMPLIANCE SECTION**



**CITY OF HILLVIEW, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2021**

<u>Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Passed Through To Subrecipients</u>
A. U.S. Department of Transportation: Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet: Traffic Safety Program	20.616	M5HVE-2021-09	\$ 11,295	\$ -
B. U.S. Department of the Treasury: Passed through Commonwealth of Kentucky, Department for Local Government: Coronavirus Relief Funds for States	21.019	C201	657,800	-
Coronavirus Relief Funds for States	21.019	C2-213	207,655	-
			<u>865,455</u>	<u>-</u>
			<u>\$ 876,750</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF HILLVIEW, KENTUCKY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

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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*

The Mayor and Members of 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillview, Kentucky (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2022.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 with 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies. We consider the following deficiencies to be material weaknesses.

1. As is common within the system of internal control of most small organizations, the accounting function of the City does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the City has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the City's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with accounting principles generally accepted in the United States of America. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. AU-C 265 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the material weakness above helps to emphasize that the responsibility for financial reporting rests entirely with the City and not the auditor. Stated another way, if an entity is unable to issue, without the auditor's involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

2. Due to the limited number of employees within the City, there exists a lack of adequate segregation of duties related to recordkeeping and custody of assets. Due to the fact that the City is not in the financial position to hire additional employees, we recommend that the council continue to be involved in the financial review process on an ongoing basis and continue to review all procedures to assure that maximum segregation of accounting and asset custodial duties occurs whenever possible.

### **Management's Response**

1. 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.
2. Management hired a treasurer position subsequent to year end to aid in improving segregation of duties. Management will continue to monitor procedures currently in place and determine if any additional procedures should be implemented.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the findings identified in our audit is described above. 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 City'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.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
February 28, 2022

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## Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Mayor and Members of the  
City Council  
City of Hillview, Kentucky

### Report on Compliance for Each Major Federal Program

We have audited the City of Hillview, Kentucky's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
February 28, 2022

**CITY OF HILLVIEW, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2021**

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.019	U.S. Department of the Treasury, Coronavirus Relief Fund

Dollar threshold used to distinguish Between type A and type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	No

**CITY OF HILLVIEW, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2021**

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**Section II – Financial Statement Findings**

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See 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* on pages 38-39.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.

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**Section IV – Prior Year Audit Findings**

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Prior year financial statement finding related to issues concerning the segregation of duties. Management has determined that the addition of an employee(s) to segregate processes would not be cost effective for the City. Therefore, the finding related to segregation of duties was repeated in the current year audit.

Prior year financial statement finding related to preparing financial statements in accordance with generally accepted accounting principles. Management has determined that the addition of an employee(s) to prepare its year-end financial statements would not be cost effective. Therefore, the finding related to preparing financial statements was repeated in the current year audit.