

CITY OF HILLVIEW, KENTUCKY
AUDITED FINANCIAL STATEMENTS

JUNE 30, 2023

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

**CITY OF HILLVIEW, KENTUCKY
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JUNE 30, 2023**

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Kerbaugh, Rodes & Butler, PLLC

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 13, 2024, 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 13, 2024

BASIC FINANCIAL STATEMENTS

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,659,915	\$	\$ 5,659,915
Investments (certificates of deposit)	253,937		253,937
Receivables, net of allowance	17,503		17,503
Lease receivable	54,095		54,095
Prepaid insurance	240,925		240,925
Restricted assets:			
Cash and cash equivalents	822,825		822,825
Capital assets not being depreciated:			
Land	192,089		192,089
Capital assets, net of accumulated depreciation	5,977,962		5,977,962
Total assets	<u>13,219,251</u>	<u>-</u>	<u>13,219,251</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	2,098,301		2,098,301
OPEB	1,070,683		1,070,683
Total deferred outflows of resources	<u>3,168,984</u>		<u>3,168,984</u>
LIABILITIES			
Accounts payable	29,926		29,926
Accrued expenses	80,062		80,062
Security deposit	1,000		1,000
Unearned revenue	631,352		631,352
Noncurrent liabilities:			
Due within one year	399,759		399,759
Due in more than one year	6,067,332		6,067,332
Net pension liability	6,575,583		6,575,583
Net OPEB liability	1,825,267		1,825,267
Total liabilities	<u>15,610,281</u>		<u>15,610,281</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	669,873		669,873
OPEB	801,119		801,119
Lease	54,095		54,095
Total deferred inflows of resources	<u>1,525,087</u>		<u>1,525,087</u>
NET POSITION			
Net investment in capital assets	4,802,960		4,802,960
Restricted for:			
Debt service	217,400		217,400
Municipal Aid	61,401		61,401
Unrestricted (deficit)	(5,828,894)		(5,828,894)
Total net position	<u>\$ (747,133)</u>	<u>\$ -</u>	<u>\$ (747,133)</u>

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ (1,405,699)	\$	\$	\$	\$ (1,405,699)		\$ (1,405,699)
Police services	(3,279,646)		1,268,538		(2,011,108)		(2,011,108)
Health & safety	(66,030)				(66,030)		(66,030)
Public works	(1,146,631)	3,000	188,370		(955,261)		(955,261)
Community center & recreation	(359,723)	176,828			(182,895)		(182,895)
Code enforcement	(90,559)				(90,559)		(90,559)
Total governmental activities	(6,348,288)	179,828	1,456,908	-	(4,711,552)		(4,711,552)
Business-type activities:							
Sewer system	(3,119)					(3,119)	(3,119)
Total business-type activities	(3,119)	-	-	-	-	(3,119)	(3,119)
Total primary government	(6,351,407)	179,828	1,456,908	-	(4,711,552)	(3,119)	(4,714,671)
General revenues:							
Property taxes					1,273,477		1,273,477
Occupational taxes					3,682,462		3,682,462
Tangible personal property taxes					31,091		31,091
Motor vehicle taxes					130,266		130,266
Franchise fees					56,903		56,903
Insurance premium licenses					1,124,810		1,124,810
Other licenses and fees, levied for general purposes					120,129		120,129
Interest and investment earnings					26,206	8,947	35,153
Gain (loss) on sale of capital assets					11,713	(656,875)	(645,162)
Insurance proceeds					9,646		9,646
Other					198,531		198,531
Transfers in (out)					230,828	(230,828)	-
Total general revenues, extraordinary items, special items, and transfers					6,896,062	(878,756)	6,017,306
Change in net position					2,184,510	(881,875)	1,302,635
Net position - beginning of year					(2,931,643)	881,875	(2,049,768)
Net position - end of year					\$ (747,133)	\$ -	\$ (747,133)

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023

	General Fund	Special Revenue Fund	Total
ASSETS			
Cash and cash equivalents	\$ 5,278,899	\$ 381,016	\$ 5,659,915
Certificates of deposit	253,937		253,937
Receivables (net of allowance)	17,503		17,503
Lease receivable	17,030		17,030
Prepaid insurance	240,925		240,925
Due from other funds	319,615		319,615
Cash - restricted	822,825		822,825
Total assets	<u>\$ 6,950,734</u>	<u>\$ 381,016</u>	<u>\$ 7,331,750</u>
LIABILITIES			
Accounts payable	\$ 29,926	\$	\$ 29,926
Accrued expenses	80,062		80,062
Due to general fund		319,615	319,615
Security deposit	1,000		1,000
Unearned revenue	31,890		31,890
Unearned grant revenue	599,462		599,462
Total liabilities	<u>742,340</u>	<u>319,615</u>	<u>1,061,955</u>
DEFERRED INFLOW OF RESOURCES			
Lease	<u>17,030</u>		<u>17,030</u>
FUND BALANCES			
Nonspendable:			
Prepaid expenses	240,925		240,925
Restricted:			
Municipal Road Aid		61,401	61,401
Debt Service	217,400		217,400
Unassigned	5,733,039		5,733,039
Total fund balances	<u>6,191,364</u>	<u>61,401</u>	<u>6,252,765</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,950,734</u>	<u>\$ 381,016</u>	<u>\$ 7,331,750</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, 2023

Total fund balances per fund financial statements	\$	6,252,765
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Amounts reported for *governmental activities* 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.		(6,702,858)
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The long-term portion of lease receivables are not current financial resources, but are recorded in the government-wide financial statements.

Long-term portion of lease receivable	37,065	
Long-term portion of deferred inflow of resources	<u>(37,065)</u>	-

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	9,357,620	
Less: accumulated depreciation	<u>(3,187,569)</u>	6,170,051

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		(6,175,134)
Leases		(291,957)

Net position of governmental activities	\$	<u><u>(747,133)</u></u>
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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, 2023

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 1,273,477	\$	\$ 1,273,477
Occupational taxes	3,682,462		3,682,462
Tangible personal property taxes	31,091		31,091
Motor vehicle taxes	130,266		130,266
Franchise taxes	56,903		56,903
Insurance premium taxes	1,124,810		1,124,810
Licenses & fees	120,129		120,129
Intergovernmental revenues	1,271,538	188,370	1,459,908
Recreation	176,828		176,828
Other revenue	198,528		198,528
Interest	26,181	25	26,206
Total revenues	8,092,213	188,395	8,280,608
EXPENDITURES:			
Current operating:			
General government	1,946,144		1,946,144
Police services	2,957,267		2,957,267
Health & safety	60,756		60,756
Public works	998,989	118,981	1,117,970
Community center & recreation	281,306		281,306
Code enforcement	82,281		82,281
Debt service:			
Principal	325,152		325,152
Interest	239,722		239,722
Total expenditures	6,891,617	118,981	7,010,598
Excess (deficiency) of revenues over expenditures before transfers and other sources	1,200,596	69,414	1,270,010
Other financing sources (uses):			
Sale of capital assets	11,713		11,713
Insurance proceeds	9,646		9,646
Debt proceeds	45,285		45,285
Transfers in (out)	381,662	(150,834)	230,828
Total transfers and other sources	448,306	(150,834)	297,472
Net change in fund balances	1,648,902	(81,420)	1,567,482
Fund balances--beginning	4,542,462	142,821	4,685,283
Fund balances--ending	<u>\$ 6,191,364</u>	<u>\$ 61,401</u>	<u>\$ 6,252,765</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, 2023

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

Net change in fund balances - total governmental funds	\$	1,567,482
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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		(377,323)
Capital outlay		1,150,026

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		(45,285)
Principal payments on long-term debt		325,151

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.

(435,541)

Change in net assets of governmental activities	\$	<u><u>2,184,510</u></u>
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See accompanying notes to financial statements.

**CITY OF HILLVIEW, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2023**

	Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$
Total current assets	-
Non current assets:	
Capital assets, net of accumulated depreciation	-
Total noncurrent assets	-
TOTAL ASSETS	-
LIABILITIES	
Current liabilities:	
General obligation bonds payable - current	-
Total current liabilities	-
Noncurrent liabilities:	
General obligation bonds payable	-
Total noncurrent liabilities	-
TOTAL LIABILITIES	-
NET POSITION	
Net investment in capital assets	-
TOTAL NET POSITION	\$ -

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, 2023

	Sewer Fund
Operating revenues:	
Charges for services	\$
Total operating revenues	-
Operating expenses:	
Insurance	3,119
Total operating expenses	3,119
Operating income (loss)	(3,119)
Nonoperating revenues (expenses):	
Interest and investment revenue	8,947
Gain(loss) on sale of wastewater treatment plant	(656,875)
Total nonoperating revenue (expenses)	(647,928)
Income (loss) before contributions, transfers, and extraordinary items	(651,047)
Transfers in (out)	(230,828)
Change in net position	(881,875)
Total net position - beginning	881,875
Total net position - ending	\$ -

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023

	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (3,119)
Net cash provided (used) by operating activities	<u>(3,119)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>(230,828)</u>
Net cash provided (used) by noncapital financing activities	<u>(230,828)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of capital assets	<u>225,000</u>
Net cash provided (used) by capital and related financing activities	<u>225,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>8,947</u>
Net cash provided (used) by investing activities	<u>8,947</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>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ (3,119)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	
Net cash provided (used) by operating activities	<u>\$ (3,119)</u>

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

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 accounting principles generally accepted 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, 2023

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. The City sold the sewer plant to Metro Sanitation District during the year ended June 30, 2023.

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.

CITY OF HILLVIEW, KENTUCKY
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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, 2023, 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.

CITY OF HILLVIEW, KENTUCKY
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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 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, 2023 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.

CITY OF HILLVIEW, KENTUCKY
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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 13, 2024, 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, 2023, 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, 2023, 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, 2023, the carrying amount of the City’s deposits were \$6,736,677 and the bank balance was \$6,763,730. At June 30, 2023, \$1,432,534 was FDIC insured, \$5,294,316 was collateralized, and \$36,880 was uninsured and uncollateralized.

The City’s investments at June 30, 2023 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Governmental Activities:				
BB&T Bank				
Certificate of Deposit	<u>\$ 253,937</u>	<u>\$ 253,937</u>	0.01%	03/06/24

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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 12.14 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, 2023, are within permissible limits under the above legislation. Any unpaid 2022 real property taxes were sold at the May 15, 2023 council meeting.

Note D – Capital Assets, Net

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, 2023 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases / Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 192,089	\$ -	\$ -	\$ 192,089
Machinery and Equipment	2,536,089	735,503	-	3,271,592
Buildings	2,725,756	2,665,223	-	5,390,979
Construction in Process	2,295,985	808,238	(3,104,223)	-
Total	<u>7,749,919</u>	<u>4,208,964</u>	<u>(3,104,223)</u>	<u>8,854,660</u>
Less accumulated depreciation for:				
Machinery and Equipment	(1,896,993)	(204,447)	-	(2,101,440)
Buildings	(747,535)	(76,058)	-	(823,593)
Total accumulated depreciation	<u>(2,644,528)</u>	<u>(280,505)</u>	<u>-</u>	<u>(2,925,033)</u>
Total depreciable capital assets	<u>5,105,391</u>	<u>3,928,459</u>	<u>(3,104,223)</u>	<u>5,929,627</u>
Intangible right-to-use assets				
Vehicles	457,675	45,285	-	502,960
Less accumulated amortization	(165,718)	(96,818)	-	(262,536)
Net intangible right-to-use assets	<u>291,957</u>	<u>(51,533)</u>	<u>-</u>	<u>240,424</u>
Governmental activities capital assets, net	<u>\$ 5,397,348</u>	<u>\$ 3,876,926</u>	<u>\$ (3,104,223)</u>	<u>\$ 6,170,051</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>(1,700,000)</u>	<u>-</u>
Less accumulated depreciation for:				
Sewer Plant	(818,125)	-	818,125	-
Total accumulated depreciation	<u>(818,125)</u>	<u>-</u>	<u>818,125</u>	<u>-</u>
Business-type activities capital assets, net	<u>\$ 881,875</u>	<u>\$ -</u>	<u>\$ (881,875)</u>	<u>\$ -</u>

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 sale closed on March 6, 2023.

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

Governmental activities:	
General government	\$ 54,201
Police services	206,631
Public works	56,596
Community center & recreation	<u>59,895</u>
Total depreciation expense-governmental activities	<u><u>\$ 377,323</u></u>

Note E – Lease Receivable

In August 2021, the City entered into a lease agreement to lease certain premises in the Hillview Annex Building in the amount of \$18,000 per year, paid monthly through July 31, 2026. The lease provides for one optional extension period of five years upon 90 days notice prior to the end of the initial term. In accordance with GASB Statement No. 87, the City recognized a lease receivable and corresponding deferred inflow of resources in the statement of net position at the present value of the remaining lease payments, using a discount rate of 3.25%. At June 30, 2023, the lease receivable was \$54,095. During the year ended June 30, 2023, the City recognized interest income of \$2,040 related to this lease. Future payments to be received on the lease are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2024	\$ 16,486	\$ 1,514	\$ 18,000
2025	17,030	970	18,000
2026	17,592	408	18,000
2027	<u>2,987</u>	<u>13</u>	<u>3,000</u>
	<u><u>\$ 54,095</u></u>	<u><u>\$ 2,905</u></u>	<u><u>\$ 57,000</u></u>

Note F – Long Term Debt

1. Leases

The City has entered into lease agreements with Enterprise FM Trust for the acquisition of vehicles. In accordance with GASB Statement No. 87, *Leases*, the City has recognized a lease liability and an intangible right-to-use lease asset at the present value of the future minimum lease payments as of the inception date of each lease. The leases have terms of 60 months and having varying dates of maturity through November 2027.

The future minimum lease obligations as of June 30, 2023 are as follows.

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2024	\$ 100,592	\$ 10,840	\$ 111,432
2025	90,040	9,875	99,915
2026	32,343	4,595	36,938
2027	13,674	2,887	16,561
2028	<u>3,775</u>	<u>1,027</u>	<u>4,802</u>
	<u><u>\$ 240,424</u></u>	<u><u>\$ 29,224</u></u>	<u><u>\$ 269,648</u></u>

2. Bonds

Government Center Acquisition/Renovation and Ferguson Lane Property Refinance

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

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1, 2030. The balance due on the general obligation lease at June 30, 2023 was \$487,500. Interest paid during the year ended June 30, 2023 was \$13,088. 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, 2023, was \$5,100,000. Interest paid during the year ended June 30, 2023 was \$177,464. 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, 2022, was \$484,230 and the direct payment amount due July 15, 2023, was \$566,093.

Jesse Schott 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, 2023, was \$639,167. Interest paid during the year ended June 30, 2023 was \$25,628.

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
2024	\$ 299,167	\$ 209,185	\$ 508,352
2025	309,167	200,133	509,300
2026	319,167	190,785	509,952
2027	331,250	181,064	512,314
2028	340,000	170,898	510,898
2029-2033	1,747,500	684,153	2,431,653
2034-2038	1,687,917	395,619	2,083,536
2039-2042	1,192,499	94,818	1,287,317
	<u>\$ 6,226,667</u>	<u>\$ 2,126,655</u>	<u>\$ 8,353,322</u>

Long-term liability activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
J.Schott Memorial Gym Bond	\$ 689,167	\$	\$ (50,000)	\$ 639,167	\$ 50,000
KLC General Obligation Lease	555,833		(68,333)	487,500	67,083
TA Settlement Bond	5,210,000		(110,000)	5,100,000	182,084
Lease Liabilities	291,957	45,285	(96,818)	240,424	100,592
Governmental activity long-term liabilities	<u>\$ 6,746,957</u>	<u>\$ 45,285</u>	<u>\$ (325,151)</u>	<u>\$ 6,467,091</u>	<u>\$ 399,759</u>

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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, 2023, 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, 2023, participating employers contributed 26.79% of each employee's wages for non-hazardous job classifications (26.95% for the year ended June 30, 2022) and 49.59% for hazardous job classifications (44.33% for the year ended June 30, 2022), 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 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, 2023, the City contributed \$197,702 for non-hazardous job classifications, and \$622,618 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$172,685 to the CERS pension fund and \$25,017 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$537,493 to the CERS pension fund and \$85,125 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the City reported a liability of \$6,575,583 for its proportionate share of the net pension liability. The liability consisted of \$1,543,394 for non-hazardous job classifications and \$5,032,189 for hazardous job classifications. The net pension liability was measured as of June 30, 2021, 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, 2022. 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

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relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2023, the City's proportion was .021350% for non-hazardous employees and .164911% for hazardous employees, which was equal to its proportion measured as of June 30, 2022. At June 30, 2022, the City's proportion was .019518% for non-hazardous employees and .167347% for hazardous employees, which was equal to its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized pension expense of \$210,762. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 145,932	\$ 13,745
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	771,347	615,550
Changes in proportion and differences between City contributions and proportionate share of contributions	470,844	40,578
City contributions subsequent to the measurement date	710,178	-
Total	\$ 2,098,301	\$ 669,873

The \$710,178 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2024	\$ 336,430
2025	217,211
2026	1,032
2027	163,577

Actuarial Assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%	
Payroll growth	2.00%	
	3.30% to 10.30% varied by service inflation for nonhazardous	
Salary increases	3.55% to 19.05% varied by service inflation for hazardous	
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.

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The actuarial assumptions used in the June 30, 2022 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 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
Growth	70.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special credit/high yield	10.00%	2.28%
Liquidity	10.00%	
Core Bonds	10.00%	0.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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 over the remaining 29 years (closed) amortization period of the unfunded liability. 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:

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	Discount rate	Hazardous	Nonhazardous	Total
1% decrease	5.25%	6,268,415	1,929,051	8,197,466
Current discount rate	6.25%	5,032,189	1,543,394	6,575,583
1% increase	7.25%	4,025,359	1,224,424	5,249,783

Payable to the Pension Plan – At June 30, 2023, the City reported a payable of \$78,255 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2023. 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, 2023, 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, 2023, participating employers contributed 26.79% of each employee's wages for non-hazardous job classifications (26.95% for the year ended June 30, 2022) and 49.59% for hazardous job classifications (44.33% for the year ended June 30, 2022), 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 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, 2023, the City contributed \$197,702 for non-hazardous job classifications, and \$622,618 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$172,685 to the CERS pension fund and \$25,017 to the CERS insurance fund. For

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hazardous employees, the contribution was allocated \$537,493 to the CERS pension fund and \$85,125 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the City reported a liability of \$1,825,267 for its proportionate share of the net OPEB liability. The liability consisted of \$421,286 for non-hazardous job classifications and \$1,403,981 for hazardous job classifications. The net OPEB liability was measured as of June 30, 2021, 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, 2022. 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, 2023, the City’s proportion was .021347% for non-hazardous employees and .164828% for hazardous employees, which was equal to its proportion measured as of June 30, 2022. At June 30, 2022, the City’s proportion was .019513% for non-hazardous employees and .167347% for hazardous employees, which was equal to its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized OPEB expense of \$224,779. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 73,428	\$ 179,763
Changes of assumptions	300,994	296,477
Net difference between projected and actual earnings on Plan investments	371,957	303,614
Changes in proportion and differences between City contributions and proportionate share of contributions	214,162	21,265
City contributions subsequent to the measurement date	110,142	-
Total	\$ 1,070,683	\$ 801,119

The \$110,142 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,		
2024	\$	88,749
2025		65,084
2026		(262)
2027		52,376
2028		(46,525)

Actuarial Assumptions – The total OPEB liability in the June 30, 2022 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 for nonhazardous	
	3.55% to 19.05% varied by service for hazardous	
Investment rate of return	6.25%	

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Healthcare trend rates: Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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, 2022 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 real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Growth	70.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special credit/high yield	10.00%	2.28%
Liquidity	10.00%	
Core Bonds	10.00%	0.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.70% (5.20% in prior year) for non-hazardous and 5.61% (5.05% in prior year) for hazardous. The projection of cash flows used to determine the discount

CITY OF HILLVIEW, KENTUCKY
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JUNE 30, 2023

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 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 did not impact the calculation of the total OPEB liability and only impacted 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 uses an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in the Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The City’s proportionate share of the implicit subsidy was \$30,505 at June 30, 2023.

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 5.70% for non-hazardous and 5.61% 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 (4.61% for hazardous and 4.70% for nonhazardous) or 1-percentage-point higher (6.61% for hazardous and 6.70% for nonhazardous) than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	1,950,790	563,192	2,513,982
Current discount rate	1,403,981	421,286	1,825,267
1% increase	959,871	303,977	1,263,848

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	980,383	313,217	1,293,600
Current healthcare tend rate	1,403,981	421,286	1,825,267
1% increase	1,920,326	551,057	2,471,383

Payable to the Pension Plan – At June 30, 2023, the City reported a payable of \$78,255 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2023. 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.

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, 2023

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,321,000	\$ 1,295,156	\$ 1,273,477	\$ (21,679)
Occupational taxes	3,238,307	3,650,530	3,682,462	31,932
Tangible personal property taxes	60,954	34,779	31,091	(3,688)
Motor vehicle taxes	101,489	129,952	130,266	314
Franchise taxes	57,001	56,903	56,903	-
Insurance premium taxes	1,001,000	1,124,689	1,124,810	121
Licenses & fees	105,945	126,015	120,129	(5,886)
Intergovernmental revenues	1,404,924	218,026	1,271,538	1,053,512
Recreation	153,838	182,741	176,828	(5,913)
Other revenue	175,020	186,965	198,528	11,563
Interest	7,673	7,364	26,181	18,817
Total revenues	7,627,151	7,013,120	8,092,213	1,079,093
EXPENDITURES:				
Current operating:				
General government	3,140,109	3,394,075	1,946,144	1,447,931
Police services	2,907,098	3,207,000	2,957,267	249,733
Health & safety	91,749	70,458	60,756	9,702
Public works	1,229,475	1,242,528	998,989	243,539
Community center & recreation	370,489	390,850	281,306	109,544
Code enforcement	87,333	89,793	82,281	7,512
Debt service:				
Principal	330,000	333,000	325,152	7,848
Interest	240,000	240,000	239,722	278
Total expenditures	8,396,253	8,967,704	6,891,617	2,076,087
Excess (deficiency) of revenues over expenditures before transfers and other sources	(769,102)	(1,954,584)	1,200,596	3,155,180
Other financing sources (uses):				
Sale of capital assets	3,500	2,820	11,713	8,893
Insurance proceeds	2,500	2,367	9,646	7,279
Debt proceeds	-	-	45,285	45,285
Transfers in (out)	-	-	381,662	381,662
Total transfers and other sources	6,000	5,187	448,306	443,119
Excess (deficiency) revenues over expenditures	(763,102)	(1,949,397)	1,648,902	3,598,299
Fund balances--beginning	4,542,462	4,542,462	4,542,462	-
Fund balances--ending	\$ 3,779,360	\$ 2,593,065	\$ 6,191,364	\$ 3,598,299

CITY OF HILLVIEW, KENTUCKY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Intergovernmental revenues	\$ 164,083	\$ 186,962	\$ 188,370	\$ 1,408
Interest	145	27	25	(2)
Total revenues	<u>164,228</u>	<u>186,989</u>	<u>188,395</u>	<u>1,406</u>
EXPENDITURES:				
Current operating:				
Public works	250,000	185,909	118,981	66,928
Total expenditures	<u>250,000</u>	<u>185,909</u>	<u>118,981</u>	<u>66,928</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	(85,772)	1,080	69,414	68,334
Other financing sources (uses):				
Transfers in (out)	-	-	(150,834)	(150,834)
Total transfers and other sources	<u>-</u>	<u>-</u>	<u>(150,834)</u>	<u>(150,834)</u>
Excess (deficiency) revenues over expenditures	(85,772)	1,080	(81,420)	(82,500)
Fund balances--beginning	142,821	142,821	142,821	-
Fund balances--ending	<u>\$ 57,049</u>	<u>\$ 143,901</u>	<u>\$ 61,401</u>	<u>\$ (82,500)</u>

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

	Hazardous						
	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.164911%	0.167347%	0.155455%	0.132793%	0.112644%	0.109295%	0.105877%
City's proportionate share of the net pension liability (asset)	\$ 5,032,189	\$ 4,455,044	\$ 4,687,012	\$ 3,668,135	\$ 2,724,077	\$ 2,445,234	\$ 1,816,788
City's covered employee payroll	\$ 1,171,343	\$ 1,082,510	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 599,968
City's share of the net pension liability (asset) as a percentage of its covered payroll	429.61%	411.55%	465.34%	403.88%	360.20%	389.71%	302.81%
Plan fiduciary net position as a percentage of the total pension liability	47.11%	52.26%	44.11%	50.45%	49.26%	58.99%	53.95%

	Non-Hazardous						
	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.021350%	0.019518%	0.018921%	0.017195%	0.014902%	0.013464%	0.013432%
City's proportionate share of the net pension liability (asset)	\$ 1,543,394	\$ 1,244,426	\$ 1,451,225	\$ 1,209,332	\$ 907,577	\$ 788,089	\$ 661,362
City's covered employee payroll	\$ 676,310	\$ 672,140	\$ 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	228.21%	185.14%	232.11%	249.63%	209.25%	211.94%	201.75%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	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 Seven Fiscal Years

	Hazardous						
	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 537,493	\$ 366,538	\$ 302,774	\$ 273,015	\$ 188,086	\$ 139,294	\$ 130,253
Contributions relative to contractually required employer contribution	<u>537,493</u>	<u>366,538</u>	<u>302,774</u>	<u>273,015</u>	<u>188,086</u>	<u>139,294</u>	<u>130,253</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,255,531	\$ 1,082,510	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450	\$ 599,968
Employer contributions as a percentage of covered-employee payroll	42.81%	33.86%	30.06%	30.06%	24.87%	22.20%	21.71%
	Non-Hazardous						
	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 172,685	\$ 142,292	\$ 120,740	\$ 93,538	\$ 70,351	\$ 53,842	\$ 45,729
Contributions relative to contractually required employer contribution	<u>172,685</u>	<u>142,292</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>
City's covered employee payroll	\$ 737,970	\$ 672,140	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837	\$ 327,806
Employer contributions as a percentage of covered-employee payroll	23.40%	21.17%	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 Six Fiscal Years*

	Hazardous					
	2023	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.164828%	0.167347%	0.155406%	0.132767%	0.112644%	0.109295%
City's proportionate share of the net OPEB liability (asset)	\$ 1,403,981	\$ 1,353,100	\$ 1,436,115	\$ 982,290	\$ 803,106	\$ 903,511
City's covered employee payroll	\$ 1,255,531	\$ 1,082,510	\$ 1,007,232	\$ 908,233	\$ 756,277	\$ 627,450
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	111.82%	125.00%	142.58%	108.15%	106.19%	144.00%
Plan fiduciary net position as a percentage of the total OPEB liability	64.13%	66.81%	58.84%	64.44%	64.24%	58.99%

	Non-Hazardous					
	2023	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.021347%	0.019513%	0.018915%	0.017190%	0.014902%	0.013464%
City's proportionate share of the net OPEB liability (asset)	\$ 421,286	\$ 373,567	\$ 456,740	\$ 289,128	\$ 264,582	\$ 270,672
City's covered employee payroll	\$ 737,970	\$ 672,140	\$ 625,225	\$ 484,453	\$ 433,730	\$ 371,837
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	57.09%	55.58%	73.05%	59.68%	61.00%	72.79%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	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 Six Fiscal Years

	Hazardous					
	2023	2022	2021	2020	2019	2018
Contractually required employer contribution	\$ 85,125	\$ 113,339	\$ 95,889	\$ 86,464	\$ 79,182	\$ 58,667
Contributions relative to contractually required employer contribution	<u>85,125</u>	<u>113,339</u>	<u>95,889</u>	<u>86,464</u>	<u>79,182</u>	<u>58,667</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,255,531	\$ 1,082,510	\$ 908,233	\$ 908,233	\$ 756,277	\$ 627,450
Employer contributions as a percentage of covered-employee payroll	6.78%	10.47%	10.56%	9.52%	10.47%	9.35%

	Non-Hazardous					
	2023	2022	2021	2020	2019	2018
Contractually required employer contribution	\$ 25,017	\$ 38,850	\$ 29,778	\$ 23,069	\$ 22,814	\$ 17,360
Contributions relative to contractually required employer contribution	<u>25,017</u>	<u>38,850</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>
City's covered employee payroll	\$ 737,970	\$ 672,140	\$ 484,453	\$ 484,453	\$ 433,730	\$ 371,837
Employer contributions as a percentage of covered-employee payroll	3.39%	5.78%	6.15%	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, 2023

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, 2022 –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, 2022, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate used to calculate the OPEB liability was increased from 5.20% to 5.70% for non-hazardous and from 5.05% to 5.61% for hazardous.
- The healthcare trend rate starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2021 –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, 2021, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

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.

CITY OF HILLVIEW, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2023

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%.
- 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, 2023

<u>Grant/Program Title</u>	<u>Federal Assistance Listing 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:				
Highway Safety Cluster:				
National Priority Safety Program	20.600	AL-2022-10	\$ 2,619	\$ -
State and Community Highway Safety	20.600	AL-2023-11	<u>13,589</u>	<u>-</u>
			<u>16,208</u>	<u>-</u>
B. U.S. Department of the Treasury:				
Passed through Commonwealth of Kentucky,				
Department for Local Government:				
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		<u>1,115,250</u>	<u>-</u>
			<u>1,115,250</u>	<u>-</u>
C. U.S. Department of Homeland Security:				
Disaster Grants - Public Assistance	97.036	029-369982-00	<u>5,820</u>	<u>-</u>
			<u>5,820</u>	<u>-</u>
			<u>\$ 1,137,278</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, 2023

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, and each major fund of the City of Hillview, Kentucky (the City) as of and for the year ended June 30, 2023, 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 13, 2024.

Report on 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 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 during the year 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.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and 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 13, 2024

Kerbaugh, Rodes & Butler, PLLC

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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

Opinion on Each Major Federal Program

We have audited the City of Hillview, Kentucky's (the City's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 13, 2024

**CITY OF HILLVIEW, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

Section I-Summary of Auditor’s Results

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>
21.027	U.S. Department of the Treasury, Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? No

**CITY OF HILLVIEW, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings

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.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

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.