CITY OF HILLVIEW, KENTUCKY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2024

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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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 and each major fund of the City of Hillview, Kentucky (the City) as of and for the year ended June 30, 2024, 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 and each major fund of the City, as of June 30, 2024, and the respective changes in financial position, 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 25 and 26, and the historical pension and OPEB information on pages 27 through 32, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2025, 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 11, 2025

BASIC FINANCIAL STATEMENTS

CITY OF HILLVIEW, KENTUCKY

STATEMENT OF NET POSITION

JUNE 30, 2024

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	$ 7,053,282
Investments (certificates of deposit)	342,685
Receivables, net of allowance	34,904
Lease receivable	37,609
Prepaid insurance	282,077
Restricted assets:	
Cash and cash equivalents	217,400
Capital assets not being depreciated:	
Land	192,089
Construction in progress	6,700
Capital assets, net of accumulated depreciation	5,970,258
Total assets	14,137,004
DEFERRED OUTFLOWS OF RESOURCES	
Pension	1,868,398
OPEB	738,562
Total deferred outflows of resources	2,606,960
LIABILITIES	
Accounts payable	26,803
Accrued expenses	89,344
Security deposit	1,000
Unearned revenue	64,066
Noncurrent liabilities:	
Due within one year	395,757
Due in more than one year	5,685,807
Net pension liability	5,997,174
Net OPEB liability	196,171
Total liabilities	12,456,122
DEFERRED INFLOWS OF RESOURCES	
Pension	1,148,813
OPEB	2,004,006
Lease	37,609
Total deferred inflows of resources	3,190,428
NET POSITION	
Net investment in capital assets	5,005,399
Restricted for:	
Debt service	217,400
Municipal Aid	61,401
Unrestricted (deficit)	(4,186,786)
Total net position	$ 1,097,414

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
			Operating	Capital	Primary Government
		Charges for	Grants and	Grants and	Governmental
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities
Governmental Activities					
General government	$ (1,602,768)	$	$	$	$ (1,602,768)
Police services	(3,222,134)		735,894		(2,486,240)
Health & safety	(34,832)				(34,832)
Public works	(1,216,194)	3,131	210,314		(1,002,749)
Community center & recreation	(422,922)	220,471			(202,451)
Code enforcement	(89,764)				(89,764)
Total governmental activities	(6,588,614)	223,602	946,208	-	(5,418,804)
Total primary government	(6,588,614)	223,602	946,208	-	(5,418,804)

General revenues:	
Property taxes	1,415,071
Occupational taxes	3,927,751
Tangible personal property taxes	47,970
Motor vehicle taxes	145,177
Franchise fees	55,084
Insurance premium licenses	1,315,629
Other licenses and fees, levied for general purposes	67,474
Interest and investment earnings	104,645
Gain (loss) on sale of capital assets	7,468
Insurance proceeds	185
Other	176,897
Total general revenues, extraordinary items, special items, and transfers	7,263,351
Change in net position	1,844,547
Net position - beginning of year	(747,133)
Net position - end of year	$ 1,097,414

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2024

	General Fund	Special Revenue Fund	Total
ASSETS			
Cash and cash equivalents	$ 6,689,912	$ 363,370	$ 7,053,282
Certificates of deposit	342,685		342,685
Receivables (net of allowance)	34,904		34,904
Lease receivable	17,030		17,030
Prepaid insurance	282,077		282,077
Due from other funds	319,615		319,615
Cash - restricted	217,400		217,400
Total assets	$ 7,903,623	$ 363,370	$ 8,266,993
LIABILITIES			
Accounts payable	$ 26,803	$	$ 26,803
Accrued expenses	89,344		89,344
Due to general fund		319,615	319,615
Security deposit	1,000		1,000
Unearned revenue	28,740		28,740
Unearned grant revenue	35,326		35,326
Total liabilities	181,213	319,615	500,828
DEFERRED INFLOW OF RESOURCES			
Lease	17,030		17,030
FUND BALANCES			
Nonspendable:			
Prepaid expenses	282,077		282,077
Restricted:			
Municipal Road Aid		61,401	61,401
Debt Service	217,400		217,400
Unassigned	7,205,903	(17,646)	7,188,257
Total fund balances	7,705,380	43,755	7,749,135
Total liabilities, deferred inflows of resources, and fund balances	$ 7,903,623	$ 363,370	$ 8,266,993

See accompanying notes to financial statements.

CITY OF HILLVIEW, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2024

Total fund balances per fund financial statements		$ 7,749,135
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.		(6,739,204)
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	20,579	
Long-term portion of deferred inflow of resources	(20,579)	-
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	9,692,871	
Less: accumulated depreciation and amortization	(3,523,824)	6,169,047
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		(5,927,500)
Leases		(154,064)
Net position of governmental activities		$ 1,097,414

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, 2024

	General Fund	Special Revenue	Total
REVENUES:			
Property taxes	$ 1,415,071	$	$ 1,415,071
Occupational taxes	3,927,751		3,927,751
Tangible personal property taxes	47,970		47,970
Motor vehicle taxes	145,177		145,177
Franchise taxes	55,084		55,084
Insurance premium taxes	1,315,629		1,315,629
Licenses & fees	67,474		67,474
Intergovernmental revenues	739,025	210,314	949,339
Recreation	220,471		220,471
Other revenue	176,897		176,897
Interest	103,981	664	104,645
Total revenues	8,214,530	210,978	8,425,508
EXPENDITURES:			
Current operating:			
General government	1,545,187		1,545,187
Police services	3,124,740		3,124,740
Health & safety	34,388		34,388
Public works	1,032,907	195,341	1,228,248
Community center & recreation	332,376		332,376
Code enforcement	88,803		88,803
Debt service:			
Principal	401,020		401,020
Interest	213,211		213,211
Total expenditures	6,772,632	195,341	6,967,973
Excess (deficiency) of revenues over expenditures before transfers and other sources	1,441,898	15,637	1,457,535
Other financing sources (uses):			
Sale of capital assets	8,773		8,773
Insurance proceeds	185		185
Debt proceeds	29,877		29,877
Transfers in (out)	33,283	(33,283)	
Total transfers and other sources	72,118	(33,283)	38,835
Net change in fund balances	1,514,016	(17,646)	1,496,370
Fund balances--beginning	6,191,364	61,401	6,252,765
Fund balances--ending	$ 7,705,380	$ 43,755	$ 7,749,135

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, 2024

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

Net change in fund balances - total governmental funds	$ 1,496,370
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Depreciation and amortization expense	(458,409)
Capital outlay	473,094
Governmental funds report sales of capital assets as revenues while governmental activities report the sale less the undepreciated basis of the property	(1,305)
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	(29,877)
Principal payments on long-term debt	401,020
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.	(36,346)
Change in net assets of governmental activities	$ 1,844,547

See accompanying notes to financial statements.

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.

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.

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.

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. Therefore, governmental fund financial statements have been reconciled with government-wide financial statements.

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, 2024, 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
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.

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, 2024 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.
- **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 11, 2025, 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, 2024, 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, 2024, 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, 2024, the carrying amount of the City's deposits were $7,613,367 and the bank balance was $7,766,779. At June 30, 2024, $1,510,954 was FDIC insured, $6,243,956 was collateralized, and $11,869 was uninsured and uncollateralized.

The City's investments at June 30, 2024 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date
Governmental Activities:				
First Harrison Bank				
Certificate of Deposit	$ 253,930	$ 253,930	5.00%	12/14/24
Park Community Credit Union				
Certificate of Deposit	83,050	83,050	5.17%	08/05/24
Wesbanco				
Certificate of Deposit	5,705	5,705	4.75%	08/24/25
Total Governmental Type Activities	342,685	342,685		
Government-wide Total	$ 342,685	$ 342,685		

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 11.2 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, 2024, are within permissible limits under the above legislation. Any unpaid 2023 real property taxes were sold at the May 20, 2024 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, 2024 is as follows:

	Beginning Balance	Increases	Decreases / Reclassifications	Ending Balance
Governmental activities:				
Land	$ 192,089	$ -	$ -	$ 192,089
Machinery and Equipment	3,271,592	223,005	(76,890)	3,417,707
Buildings	5,390,979	213,512	-	5,604,491
Construction in Process	-	215,269	(208,569)	6,700
Total	8,854,660	651,786	(285,459)	9,220,987
Less accumulated depreciation for:				
Machinery and Equipment	(2,101,440)	(220,593)	76,890	(2,245,143)
Buildings	(823,593)	(137,268)	-	(960,861)
Total accumulated depreciation	(2,925,033)	(357,861)	76,890	(3,206,004)
Total depreciable capital assets	5,929,627	293,925	(208,569)	6,014,983
Intangible right-to-use assets				
Vehicles	502,960	29,877	(60,953)	471,884
Less accumulated amortization	(262,536)	(100,548)	45,264	(317,820)
Net intangible right-to-use assets	240,424	(70,671)	(15,689)	154,064
Governmental activities capital assets, net	$ 6,170,051	$ 223,254	$ (224,258)	$ 6,169,047

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

Governmental activities:	
General government	$ 87,863
Police services	237,336
Public works	60,931
Community center & recreation	72,279
Total depreciation expense-governmental activities	$ 458,409

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, 2024, the lease receivable was $37,609. During the year ended June 30, 2024, the City recognized interest income of $1,514 related to this lease. Future payments to be received on the lease are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2025	$ 17,030	$ 970	$ 18,000
2026	17,592	408	18,000
2027	2,987	13	3,000
	$ 37,609	$ 1,391	$ 39,000

Note F – Employee Health Benefit Plan

On June 1, 2024, the City changed its health insurance plan to a self-funded health plan covering substantially all employees. The City has an annual stop loss limit on the plan of $25,000 per insured per year and an aggregate stop loss limit minimum of $184,605 (based on the enrollment at the contract date). The actual aggregate stop loss limit is based on the enrollment and will increase if the enrollment increases. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. The accrued liability for claims liabilities is recorded in accrued expenses on the statement of net position. Changes in the balance of claims liabilities during the year ended June 30, 2024, were as follows:

Accrued liability, beginning of year	$	-
Incurred claims, changes in estimates, and fees/premiums		34,606
Claim payments		(18,337)
Accrued liability, end of year	$	16,269

<u>Note G – Long Term Debt</u>

<u>1. Leases</u>

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, 2024 are as follows.

Year Ended June 30,	Principal		Interest		Total Payment	
2025	$	86,591	$	9,991	$	96,582
2026		37,078		5,460		42,538
2027		19,650		3,866		23,516
2028		9,749		2,006		11,755
2029		996		163		1,159
	$	154,064	$	21,486	$	175,550

<u>2. Bonds</u>

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 1, 2030. The balance due on the general obligation lease at June 30, 2024 was $420,417. Interest paid during the year ended June 30, 2024 was $11,428. 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, 2024, was $4,917,916. Interest paid during the year ended June 30, 2024 was $177,889. 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, 2023, was $566,093 and the direct payment amount due July 15, 2024, was $583,671.

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, 2024, was $589,167. Interest paid during the year ended June 30, 2024 was $23,868.

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
2025	$ 309,166	$ 200,133	$ 509,299
2026	319,167	190,785	509,952
2027	331,250	181,064	512,314
2028	340,000	170,898	510,898
2029	346,250	162,400	508,650
2030-2034	1,745,834	626,881	2,372,715
2035-2039	1,714,167	337,583	2,051,750
2040-2043	821,666	51,091	872,757
	$ 5,927,500	$ 1,920,835	$ 7,848,335

Long-term liability activity for the year ended June 30, 2024, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
J.Schott Memorial Gym Bond	$ 639,167	$	$ (50,000)	$ 589,167	$ 52,083
KLC General Obligation Lease	487,500		(67,083)	420,417	70,000
TA Settlement Bond	5,100,000		(182,084)	4,917,916	187,083
Lease Liabilities	240,424	29,877	(116,237)	154,064	86,591
Governmental activity long-term liabilities	$ 6,467,091	$ 29,877	$ (415,404)	$ 6,081,564	$ 395,757

Note H – 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 adjustments (COLA) are provided at the discretion of state legislature.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or at least 4 years of service and 65 years old
	Reduced retirement	At least 5 years of service and 55 years old
		At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Contributions – For the year ended June 30, 2024, 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, 2024, participating employers contributed 23.34% of each employee's wages for non-hazardous job classifications (26.79% for the year ended June 30, 2023) and 43.69% for hazardous job classifications (49.59% for the year ended June 30, 2023), 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, 2024, the City contributed $164,159 for non-hazardous job classifications, and $569,260 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated $164,159 to the CERS pension fund and $0 to the CERS insurance fund. For hazardous employees, the contribution was allocated $535,644 to the CERS pension fund and $33,616 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2024, the City reported a liability of $5,997,174 for its proportionate share of the net pension liability. The liability consisted of $1,494,982 for non-hazardous job classifications and $4,502,192 for hazardous job classifications. The net pension liability was measured as of June 30, 2022, 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, 2023 (measurement date) in accordance with generally accepted actuarial principles. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2024, the City's proportion was .023299% for non-hazardous employees and .166998% for hazardous employees, which was equal to its proportion measured as of June 30, 2023. 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.

For the year ended June 30, 2024, the City recognized pension expense of $130,434. At June 30, 2024, 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	$ 283,214	$ 4,062
Changes of assumptions	-	488,624
Net difference between projected and actual earnings on Plan investments	562,437	627,996
Changes in proportion and differences between City contributions and proportionate share of contributions	322,944	28,131
City contributions subsequent to the measurement date	699,803	-
Total	$ 1,868,398	$ 1,148,813

The $699,803 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, 2025. 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,	
2025	$ 122,572
2026	(97,798)
2027	58,936
2028	(63,928)

Actuarial Assumptions – The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% (2.30% in the prior year)
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	6.50% (6.25% in the prior year), net of Plan investment expense

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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period ending June 30, 2022.

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%	5.90%
Private Equity	10.00%	11.73%
Special credit/high yield	10.00%	3.65%
Liquidity	**10.00%**	
Core Bonds	10.00%	2.45%
Cash	0.00%	1.39%
Diversifying Strategies	**20.00%**	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Total	**100.00%**	

Discount Rate – The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.50% assumes that the funds receive the required employer contributions each future year over the remaining 28 years (closed) amortization period of the unfunded liability. 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 6.50 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 (5.50 percent) or 1 percentage-point higher (7.50 percent) than the current rate:

	Discount rate	Hazardous	Nonhazardous	Total
1% decrease	5.50%	$ 5,685,092	$ 1,887,505	$ 7,572,597
Current discount rate	6.50%	$ 4,502,192	$ 1,494,982	$ 5,997,174
1% increase	7.50%	$ 3,536,031	$ 1,168,781	$ 4,704,812

Payable to the Pension Plan – At June 30, 2024, the City reported a payable of $67,312 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2024. The payable includes both the pension and insurance contribution allocation.

Note I – 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.

Benefits – The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Insurance Eligibility	10 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Insurance Eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date	After December 31, 2013
	Insurance Eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually

Contributions – For the year ended June 30, 2024, 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, 2024, participating employers contributed 23.34% of each employee's wages for non-hazardous job classifications (26.79% for the year ended June 30, 2023) and 43.69% for hazardous job classifications (49.59% for the year ended June 30, 2023), 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, 2024, the City contributed $164,159 for non-hazardous job classifications, and $569,260 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated $164,159 to the CERS pension fund and $0 to the CERS insurance fund. For hazardous employees, the contribution was allocated $535,644 to the CERS pension fund and $33,616 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2024, the City reported a liability (asset) of $196,171 for its proportionate share of the net OPEB liability (asset). The liability (asset) consisted of $(32,167) for non-hazardous job classifications and $228,338 for hazardous job classifications. The net OPEB asset was measured as of June 30, 2022, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of that date and rolled forward to June 30, 2023 (measurement date) in accordance with generally accepted actuarial principles. The City's proportion of the net OPEB liability (asset) 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, 2024, the City's proportion was .023298% for non-hazardous employees and .166886% for hazardous employees, which was equal to its proportion measured as of June 30, 2023. 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.

For the year ended June 30, 2024, the City recognized OPEB expense of $(94,088). At June 30, 2024, 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	$ 43,078	$ 1,398,107
Changes of assumptions	219,213	282,147
Net difference between projected and actual earnings on Plan investments	268,014	306,925
Changes in proportion and differences between City contributions and proportionate share of contributions	174,641	16,827
City contributions subsequent to the measurement date	33,616	-
Total	$ 738,562	$ 2,004,006

The $33,616 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, 2025. 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,		
2025	$	(239,885)
2026		(307,727)
2027		(251,911)
2028		(338,664)
2029		(160,873)

Actuarial Assumptions – The total OPEB liability (asset) in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% (2.30% in the prior year)
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	6.50% (6.25% in the prior year)
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 8.50% in 2025, 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period ending June 30, 2022.

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%	5.90%
Private Equity	10.00%	11.73%
Special credit/high yield	10.00%	3.65%
Liquidity	**10.00%**	
Core Bonds	10.00%	2.45%
Cash	0.00%	1.39%
Diversifying Strategies	**20.00%**	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Total	**100.00%**	

Discount Rate – The discount rate used to measure the total OPEB liability (asset) was 5.93% (5.70% in prior year) for non-hazardous and 5.97% (5.61% in prior year) for hazardous. The projection of cash flows used to determine the single discount rate assumed that local employers would contribute the actuarially determined contribution each year calculated in accordance with the current funding policy.

The discount rate uses an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. 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 $8,384 at June 30, 2024.

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 5.93% for non-hazardous and 5.97% 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 (4.93% for hazardous and 4.97% for nonhazardous) or 1-percentage-point higher (6.97% for hazardous and 6.93% for nonhazardous) than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	$ 577,471	$ 60,365	$ 637,836
Current discount rate	$ 228,338	$ (32,167)	$ 196,171
1% increase	$ (62,583)	$ (109,651)	$ (172,234)

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	$ 2,602	$ (103,100)	$ (100,498)
Current healthcare tend rate	$ 228,338	$ (32,167)	$ 196,171
1% increase	$ 500,962	$ 54,968	$ 555,930

Payable to the Pension Plan – At June 30, 2024, the City reported a payable of $67,312 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2024. The payable includes both the pension and insurance contribution allocation.

Note J – 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, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	$ 1,304,100	$ 1,412,282	$ 1,415,071	$ 2,789
Occupational taxes	3,650,530	3,914,249	3,927,751	13,502
Tangible personal property taxes	34,800	36,800	47,970	11,170
Motor vehicle taxes	132,955	139,300	145,177	5,877
Franchise taxes	56,903	55,084	55,084	-
Insurance premium taxes	1,126,689	1,316,123	1,315,629	(494)
Licenses & fees	121,200	59,040	67,474	8,434
Intergovernmental revenues	148,726	175,421	739,025	563,604
Recreation	184,340	234,863	220,471	(14,392)
Other revenue	246,818	149,780	176,897	27,117
Interest	1,900	50,614	103,981	53,367
Total revenues	7,008,961	7,543,556	8,214,530	670,974
EXPENDITURES:				
Current operating:				
General government	2,656,391	1,931,277	1,545,187	386,090
Police services	3,572,770	3,549,770	3,124,740	425,030
Health & safety	45,935	45,935	34,388	11,547
Public works	1,674,340	1,674,340	1,032,907	641,433
Community center & recreation	385,124	385,124	332,376	52,748
Code enforcement	97,966	97,966	88,803	9,163
Debt service:				
Principal	402,000	402,000	401,020	980
Interest	215,000	215,000	213,211	1,789
Total expenditures	9,049,526	8,301,412	6,772,632	1,528,780
Excess (deficiency) of revenues over expenditures before transfers and other sources	(2,040,565)	(757,856)	1,441,898	2,199,754
Other financing sources (uses):				
Sale of capital assets	2,500	2,719	8,773	6,054
Insurance proceeds	2,000	185	185	-
Debt proceeds	-	-	29,877	29,877
Transfers in (out)	-	-	33,283	33,283
Total transfers and other sources	4,500	2,904	72,118	69,214
Excess (deficiency) revenues over expenditures	(2,036,065)	(754,952)	1,514,016	2,268,968
Fund balances--beginning	6,191,364	6,191,364	6,191,364	-
Fund balances--ending	$ 4,155,299	$ 5,436,412	$ 7,705,380	$ 2,268,968

CITY OF HILLVIEW, KENTUCKY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2024

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	$ 182,998	$ 182,998	$ 210,314	$ 27,316
Interest	750	2,663	664	(1,999)
Total revenues	183,748	185,661	210,978	25,317
EXPENDITURES:				
Current operating:				
Public works	250,000	99,247	195,341	(96,094)
Total expenditures	250,000	99,247	195,341	(96,094)
Excess (deficiency) of revenues over expenditures before transfers and other sources	(66,252)	86,414	15,637	(70,777)
Other financing sources (uses):				
Transfers in (out)	-	-	(33,283)	(33,283)
Total transfers and other sources	-	-	(33,283)	(33,283)
Excess (deficiency) revenues over expenditures	(66,252)	86,414	(17,646)	(104,060)
Fund balances--beginning	61,401	61,401	61,401	-
Fund balances--ending	$ (4,851)	$ 147,815	$ 43,755	$ (104,060)

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

	Hazardous							
	2024	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.166998%	0.164911%	0.167347%	0.155455%	0.132793%	0.112644%	0.109295%	0.105877%
City's proportionate share of the net pension liability (asset)	$ 4,502,192	$ 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	$ 1,211,618	$ 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	371.59%	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	52.96%	47.11%	52.26%	44.11%	50.45%	49.26%	58.99%	53.95%

	Non-Hazardous							
	2024	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net pension liability	0.023299%	0.021350%	0.019518%	0.018921%	0.017195%	0.014902%	0.013464%	0.013432%
City's proportionate share of the net pension liability (asset)	$ 1,494,982	$ 1,543,394	$ 1,244,426	$ 1,451,225	$ 1,209,332	$ 907,577	$ 788,089	$ 661,362
City's covered employee payroll	$ 686,390	$ 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	217.80%	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	57.48%	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 Eight Fiscal Years*

	Hazardous							
	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	$ 535,644	$ 537,493	$ 366,538	$ 302,774	$ 273,015	$ 188,086	$ 139,294	$ 130,253
Contributions relative to contractually required employer contribution	535,644	537,493	366,538	302,774	273,015	188,086	139,294	130,253
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's covered employee payroll	$ 1,302,953	$ 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	41.11%	42.81%	33.86%	30.06%	30.06%	24.87%	22.20%	21.71%

	Non-Hazardous							
	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	$ 164,159	$ 172,685	$ 142,292	$ 120,740	$ 93,538	$ 70,351	$ 53,842	$ 45,729
Contributions relative to contractually required employer contribution	164,159	172,685	142,292	120,740	93,538	70,351	53,842	45,729
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's covered employee payroll	$ 703,338	$ 737,970	$ 672,140	$ 625,225	$ 484,453	$ 433,730	$ 371,837	$ 327,806
Employer contributions as a percentage of covered-employee payroll	23.34%	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 Seven Fiscal Years*

	Hazardous						
	2024	2023	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.166886%	0.164828%	0.167347%	0.155406%	0.132767%	0.112644%	0.109295%
City's proportionate share of the net OPEB liability (asset)	$ 228,338	$ 1,403,981	$ 1,353,100	$ 1,436,115	$ 982,290	$ 803,106	$ 903,511
City's covered employee payroll	$ 1,302,953	$ 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	17.52%	111.82%	125.00%	142.58%	108.15%	106.19%	144.00%
Plan fiduciary net position as a percentage of the total OPEB liability	92.27%	64.13%	66.81%	58.84%	64.44%	64.24%	58.99%

	Non-Hazardous						
	2024	2023	2022	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.023298%	0.021347%	0.019513%	0.018915%	0.017190%	0.014902%	0.013464%
City's proportionate share of the net OPEB liability (asset)	$ (32,167)	$ 421,286	$ 373,567	$ 456,740	$ 289,128	$ 264,582	$ 270,672
City's covered employee payroll	$ 703,338	$ 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	-4.57%	57.09%	55.58%	73.05%	59.68%	61.00%	72.79%
Plan fiduciary net position as a percentage of the total OPEB liability	104.23%	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 Seven Fiscal Years*

	Hazardous						
	2024	2023	2022	2021	2020	2019	2018
Contractually required employer contribution	$ 33,616	$ 85,125	$ 113,339	$ 95,889	$ 86,464	$ 79,182	$ 58,667
Contributions relative to contractually required employer contribution	33,616	85,125	113,339	95,889	86,464	79,182	58,667
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's covered employee payroll	$ 1,302,953	$ 1,255,531	$ 1,082,510	$ 908,233	$ 908,233	$ 756,277	$ 627,450
Employer contributions as a percentage of covered-employee payroll	2.58%	6.78%	10.47%	10.56%	9.52%	10.47%	9.35%

	Non-Hazardous						
	2024	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	-	25,017	38,850	29,778	23,069	22,814	17,360
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's covered employee payroll	$ 703,338	$ 737,970	$ 672,140	$ 484,453	$ 484,453	$ 433,730	$ 371,837
Employer contributions as a percentage of covered-employee payroll	0.00%	3.39%	5.78%	6.15%	4.76%	5.26%	4.70%

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

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, 2023 – 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, 2023:

- The assumed rate of return was increased from 6.25% to 6.50%.
- The assumed rate of inflation was increased from 2.30% to 2.50%.

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.

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%

COMPLIANCE SECTION

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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 and each major fund of the City of Hillview, Kentucky (the City) as of and for the year ended June 30, 2024, 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 11, 2025.

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2024-003.

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 are described in the accompanying schedule of findings and responses. 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 the response.

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 11, 2025

2024-001 - The City should have internal controls in place that enable it to prepare complete financial statements (recurring)

Criteria: The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with accounting principles generally accepted in the United States of America.

Condition: Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

Cause: The City lacks personnel with the expertise to draft the financial statements, including the related note disclosures, in conformity with the accounting principles generally accepted in the United States of America.

Effect: The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response: 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.

2024-002 - Lack of segregation of duties (recurring)

Criteria: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of the finance personnel activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: During the audit, we noted that the City lacks segregation of duties in multiple accounting functions.

Cause: The City has a limited number of employees who have the primary responsibility for the finance and accounting function.

Effect: There is a lack of oversight over transactions being recorded.

Recommendation: We recommend that the City continue to segregate functions where possible and provide oversight and monitoring of the financial reporting functions. A common method for achieving this goal is for a City council member or other individual not involved in the process to review the City's bank statements, payroll registers, and other financial information on a monthly basis. While not a preventative control, this increased oversight can detect irregularities in the financial reporting function that are caused by a lack of segregation of duties within a relatively short period of time.

Response: The City does not believe the addition of an employee for the purpose of improving segregation of duties is cost-beneficial to the City. The City will continue to monitor procedures currently in place and determine if any additional procedures should be implemented.

2024-003 – Expenditures exceeded budget

Criteria: According to KRS 91A.030, "No city shall expend from any governmental fund, except in accordance with a budget ordinance adopted pursuant to this section".

Condition: During the fiscal year ended June 30, 2024, the City's expenditures exceeded its appropriations in the amount of $96,094 in the special revenue fund (road).

Cause: The City did not have procedures in place to identify budgeted line items that may be susceptible to over expenditure and steps to implement a budget amendment if determined necessary.

Effect: The expenditures in excess of budget represents a violation of KRS 91A.030.

Recommendation: We recommend that the City amend the budget when it is determined that expenditures will exceed the original budgeted amounts in order to be in compliance with KRS 91A.030.

Response: The City will more closely monitor the budget to actual monthly and propose a budget amendment when it is determined that expenditures will exceed the original budgeted amounts.