

**CITY OF HIGHLAND HEIGHTS**  
**Highland Heights, Kentucky**



**FINANCIAL STATEMENTS**  
**June 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

Mayor and the City Council  
City of Highland Heights, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City Highland Heights, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Kentucky, as of June 30, 2019, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB schedules on pages 3-9 and 32-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020, on our consideration of the City of Highland Heights, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Highland Heights, Kentucky'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 City of Highland Heights, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
January 31, 2020

**City of Highland Heights, Kentucky**  
**Management's Discussion and Analysis**

Our discussion and analysis of the City of Highland Heights's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read in conjunction with the City's financial statements, which follow.

**OVERVIEW OF THIS ANNUAL REPORT**

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of the City, and the independent auditor's report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

The City's financial statements present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

**GOVERNMENT – WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net position of the City and the changes in them. One can think of the City's net position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

Governmental activities—Most of the City's basic services are reported here, including general government administration, police, streets, and parks. Property taxes, licenses and permits, and grants finance most of these activities. The City also collects fees from customers to cover the costs of the services, provided by the Rumpke Waste Removal Company.

## FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2019, net position changed as follows:

	<b>Governmental Activities</b>
Beginning net position	\$ (1,690,865)
Decrease in net position	<u>(167,295)</u>
Ending net position	<u>\$ (1,858,160)</u>

## NET POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2, which is also followed by an explanation of the results.

**TABLE A-1**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
Current Assets	\$ 2,907,645	\$ 2,921,567
Capital Assets and Other Assets	8,216,638	8,341,082
Deferred Outflows	1,963,981	2,164,150
Total Assets and Deferred Outflows	13,088,264	13,426,799
Long-Term Debt Outstanding	9,091,556	9,663,518
Net Pension and OPEB Liability	4,713,794	4,504,962
Current Liabilities	851,772	826,363
Total Liabilities	14,657,122	14,994,843
Deferred Inflows of Resources	289,302	122,821
Net Position:		
Net Investment in Capital Assets	2,289,683	2,297,329
Restricted	667,557	620,594
Unrestricted	(4,815,420)	(4,608,788)
Total Net Position	\$ (1,858,160)	\$ (1,690,865)

**Table A-2**

**Condensed Statement of Activities**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
Revenues		
Programs Revenues		
Charges for services	\$ 232,987	\$ 225,993
Operating Grants & Contributions	198,403	194,996
Capital Grants & Contributions	8,600	12,441
General Revenue		
Taxes	563,624	555,751
License Fees	2,952,384	3,188,486
Permits	10,654	12,769
Fines & Forfeits	1,825	1,945
Grants & Contributions Not Restricted to		
Specific Programs	7,030	6,870
Investment Earnings	35,276	8,557
Other Revenue	118,022	42,491
<b>Total Revenue</b>	<b>4,128,805</b>	<b>4,250,299</b>
Program Expenses		
Administration	673,780	659,488
Police	2,132,021	2,033,472
Maintenance and Public Works	494,800	792,342
Waste Collection	218,794	218,566
Building & Ground	408,332	130,700
Recreation	31,522	33,568
Planning & zoning	43,169	74,245
Interest on long-term debt	293,682	311,399
<b>Total program expenses</b>	<b>4,296,100</b>	<b>4,253,780</b>
<b>Net Change In Net Position</b>	<b>\$ (167,295)</b>	<b>\$ (3,481)</b>

The City's change in Net Position above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities these numbers include dollars of "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principle portions of the debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities.



**Table A-3**

**Condensed Government Activities – Revenues & Expenditures**

	<b>Total Governmental Funds</b>	
	<b>2019</b>	<b>2018</b>
Taxes	\$ 563,624	\$ 555,751
Licenses and Permits	2,963,038	3,201,255
Intergovernmental	214,035	214,307
Fines & Forfeits	1,825	1,945
Charges for Services	232,987	225,993
Other Revenues	153,298	51,048
<b>Total Revenue</b>	<b>4,128,807</b>	<b>4,250,299</b>
Administration	651,828	626,374
Police	1,623,190	1,593,339
Maintenance & Public Works	411,585	465,062
Waste Collection	218,794	218,566
Building & Ground	81,982	57,306
Recreation	28,750	30,796
Planning & Zoning	43,169	74,245
Capital Outlay	242,347	173,842
Debt Service	889,538	860,454
<b>Total Expenditures</b>	<b>4,191,183</b>	<b>4,099,984</b>
Excess Expenditures over Revenues Before	62,376	150,315
Loan proceeds	91,889	54,441
<b>Change in Fund Balance</b>	<b>\$ 29,513</b>	<b>\$ 204,756</b>

The bottom number of Table A-3 above should not be confused with the end of year “Fund Balance” figures in the City’s General Fund Balance, because the above does not reflect the General Fund’s beginning-of-year balance and any debt proceeds received during the fiscal year.

**BUDGET HIGHLIGHTS**

Over the course of the fiscal year, the city amended the General Fund. Amendments were made after the beginning of the calendar year to reflect the actual beginning balances after the beginning of said calendar year or due to unusual events that occurred during the fiscal year. The budget contains proposed expenditures and expected revenues. A comparison of the final amended budget to actual amounts for government activities is presented in the table below. (Tables A-4 & 5)

**Table A-4**

**Condensed Government Activities – Revenues**

	Budget	Actual	Change
Taxes	\$ 552,500	\$ 563,624	\$ 11,124
Licenses and Permits	3,091,800	2,963,038	(128,762)
Intergovernmental	61,000	72,548	11,548
Fines & Forfeits	-	1,825	1,825
Charges for Services	230,000	232,987	2,987
Other Revenue	86,100	153,298	67,198
Total Revenue	\$ 4,021,400	\$ 3,987,320	\$ (34,080)

**Table A-5**

**Condensed Government Activities – Expenditures**

	Budget	Actual	Change
Administration	\$ 650,930	\$ 651,828	\$ 898
Police	1,620,600	1,623,190	2,590
Maintenance & Public Works	440,600	387,298	(53,302)
Waste Collection	219,000	218,794	(206)
Building & Ground	82,900	81,982	(918)
Recreation	10,000	28,750	18,750
Planning & Zoning	37,250	43,169	5,919
Capital Outlay	115,312	170,717	55,405
Debt Service	826,253	889,538	63,285
Total Expenditures	\$ 4,002,845	\$ 4,095,266	\$ 92,421

The city budgeted for a total of \$4,021,400 in revenues for 2018-2019 but ended up having revenues of \$3,987,320. A total of \$4,002,845 was budgeted for expenses, but expenditures totaled \$4,095,266 at the end of 2019.

Total revenues were under budget by \$34,080 and total expenditures were over budget by \$92,421 for the year.

## **DEBT AND CAPITAL ASSET ADMINISTRATION**

### **Debt**

At year-end, the City had \$9,435,000 in general obligation revenue bonds compared to \$10,005,000 last year. The City's general obligations at year-end include \$805,000 for the purchase of the new public works building, \$4,600,000 for the of the city building. \$4,030,000 in long-term debt for the NKU Soccer Field. The city building and soccer field bonds were refinanced in fiscal year 2017.

In addition, the City has loans payable for vehicles totaling \$114,741 at year end.

### **Capital Assets**

At the end of June 30, 2019, the City had \$7,539,735 invested in capital assets including maintenance equipment, buildings, park facilities, roads and sidewalks, compared to \$7,710,737 last year. The capital assets of the city decreased \$171,002 due to depreciation exceeding capital additions.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Insurance Premium, Occupational, and Payroll License Fees were down in fiscal year 2019.

We are presently examining prior year insurance premium license fee receipts, by insurance company, to try to determine who/why. These collections have been tracked for 10 years. We will amend the FY 2020 budget accordingly, as more quarterly collections are received this year, and indicate a trend.

The city has taken action to increase property taxes and payroll fees.

The Mayor and Finance Director meet once a week to review cashflow, expenditures, year to year comparison, etc.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Finance Director at 176 Johns Hill Road, Highland Heights, Kentucky 41076.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 877,149
Investments	1,363,824
Receivables, net	655,350
Prepaid expense	11,322
Total current assets	2,907,645
Noncurrent assets	
Restricted cash and cash equivalents	676,903
Capital assets	
Land and improvements	1,617,791
Depreciable infrastructure, net	1,393,890
Depreciable buildings, property, and equipment, net	4,528,054
Total noncurrent assets	8,216,638
Total assets	11,124,283
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - pension	907,383
Deferred outflows - OPEB	408,985
Defeasance on refunding	647,613
Total deferred outflows of resources	1,963,981
Total assets and deferred outflows of resources	\$ 13,088,264
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 43,730
Accrued liabilities	84,371
Other payables	31,790
Unearned revenue	59,372
Current portion of long-term obligations	632,509
Total current liabilities	851,772
Noncurrent liabilities	
Noncurrent portion of long-term obligations	9,091,556
Net pension liability	3,642,136
Net OPEB liability	1,071,658
Total noncurrent liabilities	13,805,350
Total liabilities	14,657,122
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - pension	68,266
Deferred inflows - OPEB	221,036
Total deferred inflow of resources	289,302
<b>NET POSITION</b>	
Net investment in capital assets	2,289,683
Restricted for	
Bond service	491,583
Other purposes	175,994
Unrestricted (Deficit)	(4,815,420)
Total net position	(1,858,160)
Total liabilities, deferred inflows of resources and net position	\$ 13,088,264

The accompanying notes are an integral  
part of the financial statements.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
<b>Primary government</b>					
<b>Governmental activities</b>					
Administration	\$ 673,780	\$ -	\$ -	\$ -	\$ (673,780)
Police	2,132,021	-	56,916	-	(2,075,105)
Maintenance and public works	494,800	-	141,487	-	(353,313)
Waste collection	218,794	232,987	-	8,600	22,793
Building and grounds	408,332	-	-	-	(408,332)
Recreation	31,522	-	-	-	(31,522)
Planning and zoning	43,169	-	-	-	(43,169)
Interest on long-term debt	293,682	-	-	-	(293,682)
Total governmental activities	<u>4,296,100</u>	<u>232,987</u>	<u>198,403</u>	<u>8,600</u>	<u>(3,856,110)</u>
<b>Total primary government</b>	<u>\$ 4,296,100</u>	<u>\$ 232,987</u>	<u>\$ 198,403</u>	<u>\$ 8,600</u>	<u>(3,856,110)</u>

**General revenues**

Taxes:	
Property taxes, levied for general purposes	563,624
License fees:	
Occupational license fees	1,700,754
Franchise	93,630
Insurance premiums	639,620
Occupational	518,380
Permits:	
Building	4,305
Other permits	6,349
Fines and forfeitures	1,825
Grants and contributions	
not restricted to specific programs	7,032
Investment earnings	35,276
Miscellaneous	118,020
Total general revenues	<u>3,688,815</u>
<b>Change in Net Position</b>	(167,295)
Net position-beginning	<u>(1,690,865)</u>
<b>NET POSITION-ENDING</b>	<u>\$ (1,858,160)</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2019**

	<b>General</b>	<b>Municipal Road Aid Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,368,731	\$ 185,321	\$ 1,554,052
Investments	1,363,824	-	1,363,824
Receivables, net	655,350	-	655,350
Prepaid expense	11,322	-	11,322
Due from other funds, net	9,327	-	9,327
Total assets	<b>\$ 3,408,554</b>	<b>\$ 185,321</b>	<b>\$ 3,593,875</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 43,730	\$ -	\$ 43,730
Accrued liabilities	84,371	-	84,371
Other payables	31,790	-	31,790
Due to other funds, net	-	9,327	9,327
Unearned revenue	59,372	-	59,372
Total liabilities	219,263	9,327	228,590
<b>Fund balances</b>			
Nonspendable	11,322	-	11,322
Restricted	491,583	175,994	667,577
Unassigned	2,686,386	-	2,686,386
Total fund balances	3,189,291	175,994	3,365,285
Total liabilities and fund balances	<b>\$ 3,408,554</b>	<b>\$ 185,321</b>	<b>\$ 3,593,875</b>

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

Total fund balances	\$ 3,365,285
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,539,735
Net deferred inflows/outflows related to the long-term net pension/OPEB liability and defeasance on refunding bonds that are not reported in the funds.	1,674,679
Long-term liabilities, including bonds payable and net pension/OPEB liability, that are not due and payable in the current period and therefore are not reported in the funds.	(14,437,859)
Net position of governmental activities	<b>\$ (1,858,160)</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2019**

	<b>General</b>	<b>Municipal Road Aid Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 563,624	\$ -	\$ 563,624
Licenses, permits, billings	2,963,038	-	2,963,038
Intergovernmental revenues	72,548	141,487	214,035
Fines and forfeitures	1,825	-	1,825
Charges for service	232,987	-	232,987
Other revenues	153,298	-	153,298
Total revenues	3,987,320	141,487	4,128,807
<b>EXPENDITURES</b>			
Current			
Administration	651,828	-	651,828
Police	1,623,190	-	1,623,190
Maintenance and public works	387,298	24,287	411,585
Waste collection	218,794	-	218,794
Buildings and grounds	81,982	-	81,982
Recreation	28,750	-	28,750
Planning and zoning	43,169	-	43,169
Capital outlay	170,717	71,630	242,347
Debt service	889,538	-	889,538
Total expenditures	4,095,266	95,917	4,191,183
Excess (deficiency) of revenues over expenditures	(107,946)	45,570	(62,376)
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds	91,889	-	91,889
Total other financing source	91,889	-	91,889
<b>Net change in fund balances</b>	(16,057)	45,570	29,513
Fund balances-beginning	3,205,348	130,424	3,335,772
<b>Fund balances-ending</b>	\$ 3,189,291	\$ 175,994	\$ 3,365,285
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 29,513
less: loan proceeds			(91,889)
add: debt service expenditures			889,538
less: interest on long term debt			(261,246)
less: amortization on bond discount and deferred charges			(32,436)
add: capital outlay expenditures capitalized			242,347
change in net pension liability			(438,836)
change in OPEB liability			(90,937)
less: depreciation on governmental activities assets			(413,349)
Change in net position of governmental activities			\$ (167,295)

The accompanying notes are an integral  
part of the financial statements.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Highland Heights, Kentucky (the City) conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

The City of Highland Heights operates under a Mayor-City Council form of government. The City provides various services including police protection, parks and recreation, street maintenance, planning and zoning, development, waste collection, and other governmental services.

**A. Reporting Entity**

The City of Highland Heights, Kentucky's financial statements include the operations of all entities for which the City Council exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the City of Highland Heights. There are no other entities that are subject to the City's oversight responsibility as indicated above.

**B. Basis of Presentation**

**Government-wide Financial Statements**

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, fund balance, revenues and expenditures or expenses.

**Governmental Funds**

Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon the determination of financial position and budgetary control over revenues and expenditures. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.



**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**Governmental Funds (continued)**

The following funds are used by the City of Highland Heights:

**General Fund** – The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

**Municipal Road Aid Fund** – The municipal road aid fund is a special revenue fund used to account for the receipt of state gasoline tax payments that are restricted for the use of construction, reconstruction, or maintenance of city streets.

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, i.e. measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

**D. Fund Balances**

Fund balances of the governmental funds are classified as follows:

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

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Fund Balances (continued)**

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City has designated the Mayor to carry the intent of the City Council.

*Unassigned* – all other spendable amounts.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

**E. Budgeting**

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are adopted by ordinance of the City and have been revised for amendments authorized during the year. For fiscal year 2019, the City exceeded budgeted amounts by \$92,421.

**F. 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 Employees' Retirement System (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.

**G. Postemployment Benefits Other Than Pensions (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 Employees' Retirement System (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.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Other Accounting Policies**

Cash and cash equivalents - The City considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Investments - Investments are stated at fair market value. Fair market value is determined by using quoted market prices.

Accounts receivable is stated net of an allowance for doubtful accounts. The allowance is based upon historical trends and the periodic aging of accounts receivable.

Interfund balances - On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the statement of net position.

Long-term debt - In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Position. Insurance costs related to bonds and notes issued are deferred and amortized over the life of the applicable bond or note using the straight-line method. Bonds and notes payable are reported net of the applicable bond premium or discount. Issuance costs are reported as expenses in the period in which these costs occur.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires 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 reporting period. Actual results could differ from those estimates.

**I. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through January 31, 2020, 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, 2019, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**2. CASH AND INVESTMENTS (CONTINUED)**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the 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. Investments totaling \$1,363,824 were invested in obligations of the U.S. Treasury and its agencies, with maturities within 5 years. Bank balances at June 30, 2019 totaled \$1,552,532 of which \$500,000 was covered by FDIC, and \$1,052,532 was covered by pledged collateral.

Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

Investments measured at fair value are as follows at June 30, 2019:

	<b>Fair Value Measurements Using</b>			
<b>Investments</b>	<b>Fair Value</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
U.S. Government Obligations	\$ 1,363,824	\$ 1,363,824	\$ -	\$ -

**3. RECEIVABLES**

General fund receivables at June 30, 2019, including the applicable allowance for uncollectible accounts are as follows:

Taxes	\$ 31,582
Licenses, permits, billings	652,567
Other	<u>2,783</u>
Gross receivables	686,932
Less: allowance for uncollectible	<u>(31,582)</u>
Net receivables	<u>\$ 655,350</u>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**4. CAPITAL ASSETS**

A summary of capital asset activity during the fiscal year is as follows:

	<b>Balance July 01, 2018</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2019</b>
Governmental activities:				
Capital assets not depreciated:				
Land and improvements	\$ 1,617,791	\$ -	\$ -	\$ 1,617,791
Capital assets that are depreciated:				
Buildings and improvements	5,197,120	-	-	5,197,120
Vehicles	550,375	106,814	-	657,189
Equipment	<u>697,592</u>	<u>50,687</u>	-	<u>748,279</u>
Totals	<u>6,445,087</u>	<u>157,501</u>	-	<u>6,602,588</u>
Total non-infrastructure assets	<u>8,062,878</u>	<u>157,501</u>	-	<u>8,220,379</u>
Infrastructure assets	<u>3,271,640</u>	<u>84,846</u>	-	<u>3,356,486</u>
Total capital assets	<u>11,334,518</u>	<u>242,347</u>	-	<u>11,576,865</u>
Less accumulated depreciation:				
Buildings and improvements	807,651	104,524	-	912,175
Vehicles	428,627	69,087	-	497,714
Equipment	646,733	17,912	-	664,645
Infrastructure assets	<u>1,740,770</u>	<u>221,826</u>	-	<u>1,962,596</u>
Totals	<u>3,623,781</u>	<u>413,349</u>	-	<u>4,037,130</u>
Total capital assets, net	<u>\$ 7,710,737</u>	<u>\$ (171,002)</u>	<u>\$ -</u>	<u>\$ 7,539,735</u>

Depreciation expense was charged to the Governmental functions as follows:

Administration	\$ 301
Police	41,962
Maintenance and public works	44,736
Building and grounds	<u>326,350</u>
Total depreciation expense	<u>\$ 413,349</u>

**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT**

On December 23, 2008, the City issued General Obligation Public Project Bonds for \$6,405,000. The issuance was to finance the building of a soccer field for Northern Kentucky University (NKU). Ownership was transferred to NKU upon completion of the project. In exchange, a portion of NKU property was annexed into the City and subjected to payroll taxes and the City agreed to transfer its old City Building and Maintenance Building to NKU for \$1. Payroll taxes collected as a direct result of this agreement must be sufficient to pay principal and interest on the debt issued. In the event this does not occur, a tax must be levied on all taxable property within the City. The bonds bear interest rates ranging from 3.35% to 4.85% and mature on June 30, 2029.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)**

In July of 2016, the City refinanced \$3,850,000 of the 2008 Bond with a 2016 General Obligation Bond for \$4,215,000. The bonds bear an interest rate for 2.00% and will mature on December 1, 2028. Principal payments related to the 2008 Bond remained after the refinancing through December 2019. The new issue reduces future debt service by \$493,983 and has a net economic gain of \$438,259.

On July 14, 2009, the City issued General Obligation Public Project Bonds, Series 2009 for \$5,360,000. The issuance was to finance the construction of the new Civic Building. The bonds bore interest rates ranging from 3.00% to 5.125% and matured on June 30, 2039. On January 4, 2017, the City refinanced the 2009 Bond with a 2017 General Obligation Bond for \$4,915,000. The bonds bear interest rates ranging from 3.00% to 3.625% and will mature on December 1, 2038. The new issue reduces future debt service by \$438,027 and has a net economic gain of \$313,584. For the year ended June 30, 2019, the interest rate was 3.00%.

On December 18, 2012, the City issued General Obligation Bonds, Series 2012 for \$1,100,000. The issuance was to finance the construction of a new Public Works building. The bonds bear interest rates ranging from 1.00% to 2.375% and mature on December 1, 2032. For the year ended June 30, 2019, the interest rate was 1.75%.

In February 2016, the City financed a maintenance truck for \$33,665. The loan is for 36 months at an interest rate of 3.78%. The truck, which as of June 30, 2019, had a net book value of \$6,733, is collateral on the loan.

In February 2016, the City financed a police SUV for \$25,137. The loan is for 36 months at an interest rate of 3.78%. The police SUV, which as of June 30, 2019, had a net book value of \$5,027, is collateral on the loan.

In February 2017, the City financed a police cruiser for \$25,277. The loan is for 36 months at an interest rate of 3.78%. The police cruiser, which as of June 30, 2019, had a net book value of \$10,111, is collateral on the loan.

In July 2017, the City financed a police cruiser for \$25,312. The loan is for 36 months at an interest rate of 3.78%. The police cruiser, which as of June 30, 2019, had a net book value of \$15,187, is collateral on the loan.

In June 2018, the City financed a police SUV for \$29,129. The loan is for 36 months at an interest rate of 4.013%. The police SUV, which as of June 30, 2019, had a net book value of \$17,477, is collateral on the loan.

In July 2018, the City financed a police cruiser for \$24,176. The loan is for 36 months at an interest rate of 4.103%. The police cruiser, which as of June 30, 2019, had a net book value of \$19,341, is collateral on the loan.

In July 2018, the City purchased a dump truck for \$58,107, with \$43,182 being financed. The loan is for 60 months at an interest rate of 4.013%. The dump truck, which as of June 30, 2019, had a net book value of \$46,486, is collateral on the loan.

In December 2018, the City financed a police cruiser for \$24,531. The loan is for 36 months at an interest rate of 4.408%. The police cruiser, which as of June 30, 2019, had a net book value of \$22,078, is collateral on the loan.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**A. Changes in General Long-Term Debt**

	June 30, 2018	Additions	Retirements	June 30, 2019
2008 GO Bond	\$ 300,000	\$ -	\$ 300,000	\$ -
2016 GO Bond	4,090,000	-	60,000	4,030,000
2017 GO Bond	4,760,000	-	160,000	4,600,000
2012 GO Bond	855,000	-	50,000	805,000
Vehicle loans payable	81,144	91,889	58,292	114,741
Total long-term debt	<u>10,086,144</u>	<u>91,889</u>	<u>628,292</u>	<u>9,549,741</u>
Add: premium (discount) on bond obligations	<u>187,597</u>	<u>-</u>	<u>13,273</u>	<u>174,324</u>
	<u>\$ 10,273,741</u>	<u>\$ 91,889</u>	<u>\$ 641,565</u>	<u>\$ 9,724,065</u>

**B. Debt Service Requirements**

Fiscal Year	Principal	Interest	Total
2020	\$ 632,509	\$ 245,243	\$ 877,752
2021	637,033	229,561	866,594
2022	629,532	214,460	843,992
2023	639,133	199,760	838,893
2024	641,534	184,957	826,491
2025-2029	3,450,000	693,425	4,143,425
2030-2034	1,470,000	375,295	1,845,295
2035-2039	<u>1,450,000</u>	<u>133,642</u>	<u>1,583,642</u>
	<u>\$ 9,549,741</u>	<u>\$ 2,276,343</u>	<u>\$ 11,826,084</u>

**BOND ORDINANCE REQUIREMENTS**

The general obligation bond ordinance requires that the following reserve be created and maintained.

**Sinking Fund Reserve** - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment by the 25<sup>th</sup> of each month. The minimum balance required to be in the reserve at June 30, 2019, was \$358,894. The actual reserve balance totaled \$491,583 at June 30, 2019.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**6. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2019 were levied in September 2018, on the assessed valuation of property located in the City of Highland Heights as of the preceding January 1, the lien date. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<b>Description</b>	<b>Date Per K.R.S. 134.020</b>
1. Due date for payment of taxes	October 31, 2018
2. 10% penalty delinquent date	November 2, 2018

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Campbell County and are due and collected in the birth month of the vehicle's licensee.

**7. MAJOR TAXPAYERS**

NKU is a major taxpayer of the City of Highland Heights. Total payroll tax collected from NKU employees during the fiscal year was \$888,112, which represented 52% of total payroll taxes collected. General Cable is a major taxpayer of the City of Highland Heights. Total payroll tax collected from General Cable employees during the fiscal year was \$338,589, which represented 20% of total payroll taxes collected.

**8. RETIREMENT PLAN**

**CERS**

The City of Highland Heights is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

*Contributions* – For the year ended June 30, 2019, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee's wages for non-hazardous job classifications and 35.34% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 9. Plan members contributed 16.22% to the pension trust for non-hazardous job classifications and 24.87% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.



**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**8. RETIREMENT PLAN (CONTINUED)**

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

For the year ended June 30, 2019, the City contributed \$73,042, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$55,156 to the CERS pension fund and \$17,886 to the CERS insurance fund. The City contributed \$239,715, or 100% of the required contribution for hazardous job classifications, which was allocated \$168,696 to the CERS pension fund and \$71,019 to the CERS insurance fund

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

For retirement purposes, employees are grouped into three tiers based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**8. RETIREMENT PLAN (CONTINUED)**

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 3,642,136</u>	<u>\$ 638,751</u>	<u>\$ 3,003,385</u>

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

<b>Non-hazardous</b>	<b>Hazardous</b>
.0105%	.1242%

The proportionate share at June 30, 2018 increased .0003% for non-hazardous and increased .0034% for hazardous to the proportionate share as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$663,130. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 259,853	\$ 9,350
Changes of assumptions	382,125	-
Net difference between projected and actual earnings on Plan investments	-	41,535
Changes in proportion and differences between City contributions and proportionate share of contributions	50,279	17,381
City contributions subsequent to the measurement date	<u>215,126</u>	<u>-</u>
Total	<u>\$ 907,383</u>	<u>\$ 68,266</u>

The \$215,126 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, 2020. Contributions exclude \$8,725 of contributions for employees that previously retired and were subsequently re-employed. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2020	\$ 434,592
2021	\$ 218,118
2022	\$ (11,728)
2023	\$ (16,991)

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**8. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

**Hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

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 (setback 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**8. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

*Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Non-hazardous			Hazardous		
	City’s proportionate share of net pension liability			City’s proportionate share of net pension liability		
	Discount rate	\$		Discount rate	\$	
1% decrease	5.25%	\$	804,122	5.25%	\$	3,763,045
Current discount rate	6.25%	\$	638,751	6.25%	\$	3,003,385
1% increase	7.25%	\$	500,200	7.25%	\$	2,375,384

*Payable to the Pension Plan* – At June 30, 2019, the City reported a payable of \$27,814 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. The payable includes both the pension and insurance contribution allocation.

**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 8, the City participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

For the year ended June 30, 2019, the City contributed \$17,886, or 100% of the required contribution for non-hazardous job classifications, and \$71,019, or 100% of the required contribution for hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the City reported a liability for its proportionate share of the net OPEB liability as follows:

<b>Total Net</b>		
<b>OPEB Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
\$ <u>1,071,658</u>	\$ <u>186,212</u>	\$ <u>885,446</u>

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2018 was .0105% for non-hazardous and .1242% for hazardous, which was an increase of .0003% and increase of .0034%, respectively, compared to the proportionate share as of June 30, 2018.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

For the year ended June 30, 2019, the City recognized OPEB expense of \$175,996. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 120,652
Changes of assumptions	308,908	2,852
Net difference between projected and actual earnings on Plan investments	-	97,003
Changes in proportion and differences between City contributions and proportionate share of contributions	14,525	529
City contributions subsequent to the measurement date	<u>85,552</u>	<u>-</u>
Total	<u>\$ 408,985</u>	<u>\$ 221,036</u>

The \$85,552 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, 2020. Contributions exclude \$2,832 of contributions for employees that previously retired and were subsequently re-employed. Contributions also include adjustments of \$3,004 for the nonhazardous implicit subsidy and (\$3,526) for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending June 30,**

2020	\$ 57,462
2021	\$ 57,462
2022	\$ 8,589
2023	\$ (18,982)
2024	\$ (1,093)
2025	\$ (1,041)

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous and  
Hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

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

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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 (setback 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

**9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total net OPEB liability was 5.85% and 5.97% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the City’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net OPEB liability	Discount rate	City’s proportionate share of net OPEB liability
1% decrease	4.85%	\$ 241,860	4.97%	\$ 1,230,813
Current discount rate	5.85%	\$ 186,212	5.97%	\$ 885,446
1% increase	6.85%	\$ 138,811	6.97%	\$ 608,970

*Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the City’s proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net OPEB liability	Discount rate	City’s proportionate share of net OPEB liability
1% decrease		\$ 138,637		\$ 603,031
Current trend rate		\$ 186,212		\$ 885,446
1% increase		\$ 242,290		\$ 1,235,228

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

**10. RISK MANAGEMENT**

The City of Highland Heights 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. In addition to its general liability insurance, the City also carries commercial insurance for all other risks of loss such as worker’s compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**11. TAX ABATEMENT**

The City entered into a local participation agreement with Campbell County Fiscal Court for the US 27 Development Area effective July 1, 2014. As part of the agreement, the City pledged 80% of the City's Incremental Revenues from City real property ad valorem taxes and occupational taxes generated within the Development Area for a period of thirty years. These funds are to pay for Project Costs and Redevelopment Assistance within the Development Area. A tax base was established as part of the agreement based on calendar 2013 revenues to measure Incremental Revenues within the Development Area. No significant development had occurred as of June 30, 2019 in the Development Area.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
<b>Taxes</b>				
Property taxes	\$ 457,600	\$ 457,500	\$ 459,649	\$ 2,149
Tangible tax	41,000	48,000	48,120	120
Bank share	32,000	34,000	33,975	(25)
Penalties and interest	13,000	13,000	21,880	8,880
Total taxes	<u>543,600</u>	<u>552,500</u>	<u>563,624</u>	<u>11,124</u>
<b>Licenses, permits and billings</b>				
Occupational license fees	1,764,000	1,752,000	1,700,754	(51,246)
Franchise	17,000	17,000	15,326	(1,674)
Insurance premium license fee	756,000	715,000	639,620	(75,380)
Telecommunications	76,500	76,500	78,304	1,804
Net profit license fee	470,000	520,000	518,380	(1,620)
Building permits	5,000	5,000	4,305	(695)
Other permits and fees	6,300	6,300	6,349	49
Total licenses, permits and billings	<u>3,094,800</u>	<u>3,091,800</u>	<u>2,963,038</u>	<u>(128,762)</u>
<b>Intergovernmental revenues</b>				
Police incentive pay	52,000	52,000	56,916	4,916
District court revenue	8,000	9,000	7,032	(1,968)
Other grants	-	-	8,600	8,600
Total intergovernmental revenues	<u>60,000</u>	<u>61,000</u>	<u>72,548</u>	<u>11,548</u>
<b>Fines and forfeitures</b>				
Parking fines	-	-	1,825	1,825
Total fines and forfeitures	<u>-</u>	<u>-</u>	<u>1,825</u>	<u>1,825</u>
<b>Charges for service</b>				
Waste collection	224,000	230,000	228,144	(1,856)
Penalty and interest	-	-	4,843	4,843
Total charges for service	<u>224,000</u>	<u>230,000</u>	<u>232,987</u>	<u>2,987</u>
<b>Other revenues</b>				
Other	16,600	86,100	153,298	67,198
Total other revenue	<u>16,600</u>	<u>86,100</u>	<u>153,298</u>	<u>67,198</u>
Total revenue	<u>\$ 3,939,000</u>	<u>\$ 4,021,400</u>	<u>\$ 3,987,320</u>	<u>\$ (34,080)</u>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>EXPENDITURES</b>				
<b>Administration</b>				
Salaries	\$ 167,000	\$ 167,000	\$ 171,831	\$ 4,831
Payroll expenses	44,750	51,650	51,015	(635)
Advertisement	4,000	4,000	3,415	(585)
Legal and accounting	60,000	58,000	57,649	(351)
Professional fees/tech/other	80,000	68,000	64,324	(3,676)
Codification	1,000	1,000	2,449	1,449
PVA charges	15,000	15,000	15,163	163
NKADD	3,000	3,000	-	(3,000)
KY League of Cities	800	800	-	(800)
Other contractual	109,000	110,000	107,910	(2,090)
Bank fees	14,000	14,000	14,654	654
Maintenance contracts and repairs	46,000	46,000	56,997	10,997
Travel and training	700	2,000	2,318	318
Utilities	16,500	17,500	15,284	(2,216)
Postage and shipping	4,000	4,000	4,679	679
Website/internet	16,000	13,000	11,768	(1,232)
Insurance and bonds	56,000	41,000	40,737	(263)
Office supplies	15,000	15,500	8,387	(7,113)
Dues and subscriptions	4,000	5,000	5,917	917
ADP charges	4,500	4,500	5,139	639
Animal control	5,500	5,500	5,464	(36)
Other	4,160	4,480	6,728	2,248
Total administration	<u>670,910</u>	<u>650,930</u>	<u>651,828</u>	<u>898</u>
<b>Police</b>				
Salaries	862,000	865,000	884,318	19,318
Payroll expenses	553,500	569,000	541,336	(27,664)
Uniforms	17,000	17,000	16,454	(546)
Cruiser expense	20,000	15,000	52,421	37,421
Maintenance and repairs	37,500	37,500	34,624	(2,876)
Insurance	43,000	32,000	31,218	(782)
Travel and training	15,000	15,000	13,779	(1,221)
K-9 expense	1,000	500	376	(124)
Equipment expense	19,000	13,800	17,401	3,601
Office supplies	1,000	1,000	1,262	262
Dues and subscriptions	8,000	8,000	10,727	2,727
Communication/postage	13,300	13,300	16,879	3,579
Recruitment	-	30,000	-	(30,000)
Other expenses	5,000	3,500	2,395	(1,105)
Total police	<u>1,595,300</u>	<u>1,620,600</u>	<u>1,623,190</u>	<u>2,590</u>
<b>Maintenance and public works</b>				
Salaries	193,500	221,000	220,033	(967)
Payroll expenses	104,125	111,000	106,318	(4,682)
Repairs and contracts	20,000	15,000	5,180	(9,820)
Travel and training	500	500	1,242	742
Uniforms	1,500	1,500	2,388	888
Vehicle expenses	13,500	13,000	10,427	(2,573)
Park maintenance	10,000	-	-	-
Grounds maintenance	58,000	60,000	19,456	(40,544)
Insurance	5,500	4,200	4,189	(11)
Materials and supplies	15,100	10,300	10,742	442
Miscellaneous	4,300	4,100	7,323	3,223
Total maintenance and public works	<u>\$ 426,025</u>	<u>\$ 440,600</u>	<u>\$ 387,298</u>	<u>\$ (53,302)</u>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Waste collection</b>				
Waste collections	\$ 220,000	\$ 219,000	\$ 218,794	\$ (206)
<b>Building and grounds</b>				
Utilities	78,000	82,900	81,982	(918)
Total building and grounds	78,000	82,900	81,982	(918)
<b>Recreation</b>				
Materials and supplies	11,000	10,000	28,750	18,750
Total recreation	11,000	10,000	28,750	18,750
<b>Planning and zoning</b>				
Salaries	11,000	8,050	8,500	450
Professional fees	19,000	13,200	13,359	159
Legal fees	17,000	16,000	19,460	3,460
Travel and training	300	-	-	-
Supplies	500	-	-	-
Board of Adjustments	-	-	1,850	1,850
Total planning and zoning	47,800	37,250	43,169	5,919
<b>Capital outlay</b>	67,100	115,312	170,717	55,405
<b>Debt service</b>	826,313	826,253	889,538	63,285
Total expenditures	3,942,448	4,002,845	4,095,266	92,421
<b>Other financing sources</b>				
Loan proceeds	-	-	91,889	91,889
Total other financing sources	-	-	91,889	91,889
<b>Excess of revenues (expenditures)</b>	<u>\$ (3,448)</u>	<u>\$ 18,555</u>	<u>\$ (16,057)</u>	<u>\$ (34,612)</u>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**MUNICIPAL ROAD AID FUND**  
**for the year ended June 30, 2019**

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	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental revenue	\$ 140,000	\$ 140,000	\$ 141,487	\$ 1,487
Expenditures				
Operating expenditures	140,000	140,000	24,287	(115,713)
Capital outlay	<u>-</u>	<u>-</u>	<u>71,630</u>	<u>71,630</u>
Total expenditures	<u>140,000</u>	<u>140,000</u>	<u>95,917</u>	<u>(44,083)</u>
Excess of revenues (expenditures)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,570</u>	<u>\$ 45,570</u>

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
 Last Six Fiscal Years**

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	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.0105%	0.0102%	0.0102%	0.0099%	0.0092%	0.0092%
City's proportionate share of the net pension liability (asset)	\$ 638,751	\$ 597,330	\$ 502,481	\$ 424,216	\$ 297,393	\$ 335,285
City's covered employee payroll	\$ 313,249	\$ 363,739	\$ 379,449	\$ 368,333	\$ 298,736	\$ 188,921
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	203.91%	164.22%	132.42%	115.17%	99.55%	177.47%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%	66.80%	61.22%

**Notes:**

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS  
 Last Six Fiscal Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.1242%	0.1208%	0.1230%	0.1208%	0.1231%	0.1231%
City's proportionate share of the net pension liability (asset)	\$ 3,003,385	\$ 2,703,527	\$ 2,111,391	\$ 1,854,320	\$ 1,479,855	\$ 1,646,597
City's covered employee payroll	\$ 691,782	\$ 674,595	\$ 633,045	\$ 586,291	\$ 681,588	\$ 792,003
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	434.15%	400.76%	333.53%	316.28%	217.12%	207.90%
Plan fiduciary net position as a percentage of the total pension liability	49.26%	49.78%	53.95%	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

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



**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF PENSION CONTRIBUTIONS - NONHAZARDOUS  
Last Seven Fiscal Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 55,156	\$ 45,358	\$ 50,741	\$ 47,096	\$ 46,962	\$ 26,227	\$ 23,842
Contributions relative to contractually required employer contribution	<u>55,156</u>	<u>45,358</u>	<u>50,741</u>	<u>47,096</u>	<u>46,962</u>	<u>26,227</u>	<u>23,842</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 340,048	\$ 313,249	\$ 363,739	\$ 379,449	\$ 368,333	\$ 298,736	\$ 188,921
Employer contributions as a percentage of covered-employee payroll	16.22%	14.48%	13.95%	12.41%	12.75%	8.78%	12.62%

**Notes:**

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF PENSION CONTRIBUTIONS - HAZARDOUS  
Last Seven Fiscal Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 168,696	\$ 153,576	\$ 146,454	\$ 128,255	\$ 121,538	\$ 135,742	\$ 159,193
Contributions relative to contractually required employer contribution	<u>168,696</u>	<u>153,576</u>	<u>146,454</u>	<u>128,255</u>	<u>121,538</u>	<u>135,742</u>	<u>159,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 678,311	\$ 691,782	\$ 674,595	\$ 633,045	\$ 586,291	\$ 681,588	\$ 792,003
Employer contributions as a percentage of covered-employee payroll	24.87%	22.20%	21.71%	20.26%	20.73%	19.92%	20.10%

Notes:

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - NONHAZARDOUS  
 Last Three Fiscal Years**

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	2019	2018	2017
City's proportion of the net OPEB liability	0.0105%	0.0102%	0.0102%
City's proportionate share of the net OPEB liability (asset)	\$ 186,212	\$ 205,155	\$ 160,918
City's covered employee payroll	\$ 313,249	\$ 363,739	\$ 379,449
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	59.45%	56.40%	42.41%
Plan fiduciary net position as a percentage of the total OPEB liability of covered-employee payroll	57.62%	52.39%	unavailable

**Notes:**

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
REQUIRED SUPPLEMENTARY SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - HAZARDOUS  
Last Three Fiscal Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
City's proportion of the net OPEB liability	0.1242%	0.1208%	0.1208%
City's proportionate share of the net OPEB liability (asset)	\$ 885,446	\$ 998,950	\$ 596,909
City's covered employee payroll	\$ 691,782	\$ 674,595	\$ 633,045
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	127.99%	148.08%	94.29%
Plan fiduciary net position as a percentage of the total OPEB liability	64.24%	58.99%	unavailable

**Notes:**

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF OPEB CONTRIBUTIONS - NONHAZARDOUS  
Last Seven Fiscal Years**

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	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 17,886	\$ 14,723	\$ 17,205	\$ 17,594	\$ 18,122	\$ 9,830	\$ 13,092
Contributions relative to contractually required employer contribution	<u>17,886</u>	<u>14,723</u>	<u>17,205</u>	<u>17,594</u>	<u>18,122</u>	<u>9,830</u>	<u>13,092</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 340,048	\$ 313,249	\$ 363,739	\$ 379,449	\$ 368,333	\$ 298,736	\$ 188,921
Employer contributions as a percentage of covered-employee payroll	5.26%	4.70%	4.73%	4.64%	4.92%	3.29%	6.93%

**Notes:**

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS OPEB fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability.

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

**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF OPEB CONTRIBUTIONS - HAZARDOUS  
Last Seven Fiscal Years**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 71,019	\$ 64,682	\$ 63,075	\$ 80,333	\$ 79,618	\$ 61,243	\$ 138,600
Contributions relative to contractually required employer contribution	<u>71,019</u>	<u>64,682</u>	<u>63,075</u>	<u>80,333</u>	<u>79,618</u>	<u>61,243</u>	<u>138,600</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 678,311	\$ 691,782	\$ 674,595	\$ 633,045	\$ 586,291	\$ 681,588	\$ 792,003
Employer contributions as a percentage of covered-employee payroll	10.47%	9.35%	9.35%	12.69%	13.58%	8.99%	17.50%

Notes:

There were no changes in benefit terms or assumptions as of the June 30, 2018 valuation.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS OPEB fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability.

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



**INDEPENDENT AUDITORS' 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**

Mayor and the City Council  
City of Highland Heights, 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, each major fund, and the aggregate remaining fund information of City of Highland Heights, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Highland Heights, Kentucky's basic financial statements and have issued our report thereon dated January 31, 2020

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as an item (2019-001) that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Highland Heights, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*, which is described in the accompanying schedule of findings and responses (2019-002).

## **City of Highland Heights, Kentucky's Response to Findings**

City of Highland Heights, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Highland Heights, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
January 31 , 2020



**CITY OF HIGHLAND HEIGHTS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2019**

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**FINDING: 2019-001 (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 generally accepted accounting principles.

*Condition:* Management was unable to prepare draft financial statements, including the related notes to the financial statements.

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

*Effect:* Management engaged the auditor to prepare 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 or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

**RESPONSE:** This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

**FINDING: 2019-002**

*Criteria:* Per KRS 91A.030 each city shall adopt an annual budget ordinance. No city shall expend any monies from any fund, except in accordance with a budget ordinance.

*Condition:* The City did not monitor the amounts expended during the year to ensure amounts expended were within the parameters of the adopted budget.

*Cause:* Lack of adequate internal controls over budgeting.

*Effect:* The City expended more on various line item expenditures than were budgeted.

*Recommendation:* The City should only spend monies in compliance with their budget and should amend the budget as deemed necessary.