

CITY OF HIGHLAND HEIGHTS
Highland Heights, Kentucky



FINANCIAL STATEMENTS
June 30, 2021

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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 of Highland Heights, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Highland Heights, Kentucky'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 an opinion 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, 2021, 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 December 2, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City 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 the City of Highland Heights, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
December 2, 2021

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, 2021. 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 auditors' report, the basic financial statements of the City, and the independent auditors' 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 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 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 expense 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, 2021, net position changed as follows:

	Governmental Activities
Beginning net position	\$ (1,818,970)
Increase in net position	<u>155,540</u>
Ending net position	<u>\$ (1,663,430)</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

	Governmental Activities	
	2021	2020
Current Assets	\$ 3,510,499	\$ 3,135,340
Capital Assets and Other Assets	7,902,417	8,049,272
Deferred Outflows	1,845,002	1,916,928
Total Assets and Deferred Outflows	13,257,918	13,101,540
Long-Term Debt Outstanding	7,856,409	8,477,362
Net Pension and OPEB Liability	5,886,017	5,143,894
Current Liabilities	897,624	854,187
Total Liabilities	14,640,050	14,475,443
Deferred Inflows of Resources	281,298	445,067
Net Position:		
Net Investment in Capital Assets	2,271,721	2,415,167
Restricted	790,721	582,114
Unrestricted	(4,725,872)	(4,816,251)
Total Net Position	\$ (1,663,430)	\$ (1,818,970)

Table A-2

Condensed Statement of Activities

	Governmental Activities	
	2021	2020
Revenues		
Programs Revenues		
Charges for services	\$ 238,931	\$ 239,703
Operating Grants & Contributions	543,969	565,148
Capital Grants & Contributions	4,263	15,100
General Revenue		
Taxes	620,618	610,403
License Fees	3,230,508	2,940,023
Permits	8,739	11,515
Fines & Forfeits	3,135	2,355
Grants & Contributions Not Restricted to Specific Programs	5,957	9,742
Investment Earnings	545	59,325
Other Revenue	30,633	49,032
Gain (loss) on disposal of assets	-	15,990
Total Revenue	4,687,298	4,518,336
Program Expenses		
Administration	802,893	668,770
Police	2,157,261	2,238,172
Maintenance and Public Works	600,226	576,332
Waste Collection	229,822	229,747
Building & Ground	424,140	417,938
Recreation	23,709	31,384
Planning & zoning	32,817	39,101
Interest on long-term debt	260,890	277,702
Total program expenses	4,531,758	4,479,146
Net Change In Net Position	\$ 155,540	\$ 39,190

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 Governmental Funds – Revenues & Expenditures**

	Total Governmental Funds	
	2021	2020
Taxes	\$ 620,618	\$ 610,403
Licenses and Permits	3,239,247	2,951,538
Intergovernmental	554,189	589,990
Fines & Forfeits	3,135	2,355
Charges for Services	238,931	239,703
Other Revenues	31,178	163,810
Total Revenue	4,687,298	4,557,799
Administration	744,732	639,782
Police	1,637,340	1,690,535
Maintenance & Public Works	479,802	470,352
Waste Collection	229,822	229,747
Building & Ground	84,851	80,173
Recreation	20,937	28,612
Planning & Zoning	32,817	39,101
Capital Outlay	83,328	332,182
Debt Service	888,094	910,198
Total Expenditures	4,201,723	4,420,682
Excess (deficiency) Revenues over Expenditures	485,575	137,117
Loan proceeds	62,372	76,704
Change in Fund Balance	\$ 547,947	\$ 213,821

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 governmental funds is presented in the table below. (Tables A-4 & 5)

Table A-4

Condensed Governmental Funds – Revenues

	Budget	Actual	Change
Taxes	\$ 590,100	\$ 620,618	\$ 30,518
Licenses and Permits	2,931,400	3,239,247	307,847
Intergovernmental	190,000	554,189	364,189
Fines & Forfeits	-	3,135	3,135
Charges for Services	230,000	238,931	8,931
Other Revenue	65,300	31,178	(34,122)
Total Revenue	\$ 4,006,800	\$ 4,687,298	\$ 680,498

Table A-5

Condensed Governmental Funds – Expenditures

	Budget	Actual	Change
Administration	\$ 662,500	\$ 744,732	\$ 82,232
Police	1,718,050	1,637,340	(80,710)
Maintenance & Public Works	643,900	479,802	(164,098)
Waste Collection	220,000	229,822	9,822
Building & Ground	86,600	84,851	(1,749)
Recreation	11,000	20,937	9,937
Planning & Zoning	39,100	32,817	(6,283)
Capital Outlay	64,400	83,328	18,928
Debt Service	826,794	888,094	61,300
Total Expenditures	\$ 4,272,344	\$ 4,201,723	\$ (70,621)

The city budgeted for a total of \$4,006,800 in revenues for 2020-2021 but ended up having revenues of \$4,687,298. A total of \$4,272,344 was budgeted for expenses, but expenditures totaled \$4,201,723 at the end of 2021.

Total revenues were over budget by \$680,498 and total expenditures were under budget by \$70,621 for the year.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$8,255,000 in general obligation revenue bonds compared to \$8,855,000 last year. The City's general obligations at year-end include \$705,000 for the purchase of the new public works building, \$4,260,000 for the of the city building. \$3,290,000 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 \$109,245 at year end.

Capital Assets

At the end of June 30, 2021, the City had \$7,102,370 invested in capital assets including maintenance equipment, buildings, park facilities, roads and sidewalks, compared to \$7,455,038 last year. The capital assets of the city decreased \$352,668 due to depreciation and disposals exceeding capital additions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Insurance Premium, Occupational, and Payroll License Fees were down in fiscal year 2021.

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 2022 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, 2021

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,300,795
Investments	1,410,380
Receivables, net	788,582
Prepaid expense	<u>10,742</u>
Total current assets	<u>3,510,499</u>
Noncurrent assets	
Restricted cash and cash equivalents	800,047
Capital assets	
Land and improvements	1,680,891
Depreciable infrastructure, net	1,067,193
Depreciable buildings, property, and equipment, net	<u>4,354,286</u>
Total noncurrent assets	<u>7,902,417</u>
Total assets	<u>11,412,916</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	780,854
Deferred outflows - OPEB	507,953
Defeasance on refunding	<u>556,195</u>
Total deferred outflows of resources	<u>1,845,002</u>
Total assets and deferred outflows of resources	<u>\$ 13,257,918</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 36,550
Accrued liabilities	114,809
Other payables	31,790
Unearned revenue	58,860
Current portion of long-term obligations	<u>655,615</u>
Total current liabilities	<u>897,624</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	7,856,409
Net pension liability	4,499,223
Net OPEB liability	<u>1,386,794</u>
Total noncurrent liabilities	<u>13,742,426</u>
Total liabilities	<u>14,640,050</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	82,676
Deferred inflows - OPEB	<u>198,622</u>
Total deferred inflow of resources	<u>281,298</u>
NET POSITION	
Net investment in capital assets	2,271,721
Restricted for	
Bond service	533,811
Other purposes	256,910
Unrestricted (deficit)	<u>(4,725,872)</u>
Total net position	<u>(1,663,430)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,257,918</u>

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, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
Administration	\$ 802,893	\$ -	\$ -	\$ -
Police	2,157,261	-	409,410	-
Maintenance and public works	600,226	-	134,559	-
Waste collection	229,822	238,931	-	4,263
Building and grounds	424,140	-	-	-
Recreation	23,709	-	-	-
Planning and zoning	32,817	-	-	-
Interest on long-term debt	260,890	-	-	-
Total governmental activities	<u>4,531,758</u>	<u>238,931</u>	<u>543,969</u>	<u>4,263</u>
Total primary government	<u>\$ 4,531,758</u>	<u>\$ 238,931</u>	<u>\$ 543,969</u>	<u>\$ 4,263</u>

General revenues

Taxes:	
Property taxes, levied for general purposes	620,618
License fees:	
Occupational license fees	1,972,597
Franchise	97,050
Insurance premiums	707,281
Occupational	453,580
Permits:	
Building	7,970
Other permits	769
Fines and forfeitures	3,135
Grants and contributions not restricted to specific programs	5,957
Investment earnings	545
Miscellaneous	30,633
Total general revenues	<u>3,900,135</u>

Change in Net Position	155,540
Net position-beginning	<u>(1,818,970)</u>
NET POSITION-ENDING	<u>\$ (1,663,430)</u>

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021

	General	Municipal Road Aid Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,834,605	\$ 266,237	\$ 2,100,842
Investments	1,410,380	-	1,410,380
Receivables, net	788,582	-	788,582
Prepaid expense	10,742	-	10,742
Due from other funds	9,327	-	9,327
Total assets	\$ 4,053,636	\$ 266,237	\$ 4,319,873
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 36,550	\$ -	\$ 36,550
Accrued liabilities	114,809	-	114,809
Other payables	31,790	-	31,790
Due to other funds	-	9,327	9,327
Unearned revenue	58,860	-	58,860
Total liabilities	242,009	9,327	251,336
Fund balances			
Nonspendable	10,742	-	10,742
Restricted	533,811	256,910	790,721
Unassigned	3,267,074	-	3,267,074
Total fund balances	3,811,627	256,910	4,068,537
Total liabilities and fund balances	\$ 4,053,636	\$ 266,237	\$ 4,319,873

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

Total fund balances	\$ 4,068,537
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,102,370
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.	1,563,704
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.	(14,398,041)
Net position of governmental activities	\$ (1,663,430)

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, 2021

	General	Municipal Road Aid Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 620,618	\$ -	\$ 620,618
Licenses, permits, billings	3,239,247	-	3,239,247
Intergovernmental revenues	419,630	134,559	554,189
Fines and forfeitures	3,135	-	3,135
Charges for service	238,931	-	238,931
Other revenues	31,178	-	31,178
	<u>4,552,739</u>	<u>134,559</u>	<u>4,687,298</u>
EXPENDITURES			
Current			
Administration	744,732	-	744,732
Police	1,637,340	-	1,637,340
Maintenance and public works	455,548	24,254	479,802
Waste collection	229,822	-	229,822
Buildings and grounds	84,851	-	84,851
Recreation	20,937	-	20,937
Planning and zoning	32,817	-	32,817
Capital outlay	80,544	2,784	83,328
Debt service	888,094	-	888,094
	<u>4,174,685</u>	<u>27,038</u>	<u>4,201,723</u>
Excess (deficiency) of revenues over expenditures	<u>378,054</u>	<u>107,521</u>	<u>485,575</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds	62,372	-	62,372
Total other financing source	<u>62,372</u>	<u>-</u>	<u>62,372</u>
Net change in fund balances	440,426	107,521	547,947
Fund balances-beginning	<u>3,371,201</u>	<u>149,389</u>	<u>3,520,590</u>
Fund balances-ending	<u>\$ 3,811,627</u>	<u>\$ 256,910</u>	<u>\$ 4,068,537</u>
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 547,947
less: loan proceeds			(62,372)
add: debt service expenditures			888,094
less: interest on long term debt			(228,454)
less: amortization on bond discount and deferred charges			(32,436)
add: capital outlay expenditures capitalized			83,328
change in net pension liability			(477,373)
change in OPEB liability			(127,198)
less: depreciation on governmental activities assets			(435,996)
			<u>\$ 155,540</u>
Change in net position of governmental activities			<u>\$ 155,540</u>

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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. The City does not have any business-type activities.

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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. 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:

Nonspendable – 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, 2021

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. In fiscal year 2021, the City did not adopt an amended budget through ordinance. This resulted in the City exceeding budgeted administrative expenses by \$82,232. Much of this unbudgeted expense was the result of the hiring of new personnel which was approved by the City Council.

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, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Acquired capital assets are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	35-45 years
Buildings	25-50 years
Improvements	10-25 years
Vehicles, furniture and equipment	5-20 years

I. 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.

J. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 2, 2021, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2021, have not been evaluated by the City.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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.

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 \$1,410,380 were invested in obligations of the U.S. Treasury and its agencies, with maturities within 5 years. Bank balances at June 30, 2021 totaled \$2,129,644 of which \$500,000 was covered by FDIC, and the remaining \$1,629,644 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, 2021:

<u>Investments</u>	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Cash and cash equivalents	\$ 10,409	\$ 10,409	\$ -	\$ -
U.S. Government Obligations	1,399,971	1,399,971	-	-
Total	<u>\$ 1,410,380</u>	<u>\$ 1,410,380</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

3. RECEIVABLES

General fund receivables at June 30, 2021, including the applicable allowance for uncollectible accounts are as follows:

Taxes	\$ 30,702
Licenses, permits, billings	732,893
Intergovernmental	52,906
Other	<u>2,783</u>
Gross receivables	819,284
Less: allowance for uncollectible	<u>(30,702)</u>
Net receivables	<u>\$ 788,582</u>

4. CAPITAL ASSETS

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

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Governmental Activities:				
Capital assets not depreciated:				
Land & Improvements	\$ 1,680,891	\$ -	\$ -	\$ 1,680,891
Capital assets that are depreciated:				
Buildings and Improvements	5,220,102	3,635	-	5,223,737
Vehicles	710,864	70,313	-	781,177
Equipment	<u>802,498</u>	<u>6,596</u>	-	<u>809,094</u>
Totals	<u>6,733,464</u>	<u>80,544</u>	-	<u>6,814,008</u>
Total non-infrastructure assets	<u>8,414,355</u>	<u>80,544</u>	-	<u>8,494,899</u>
Infrastructure assets	<u>3,492,884</u>	<u>2,784</u>	-	<u>3,495,668</u>
Total capital assets	<u>11,907,239</u>	<u>83,328</u>	-	<u>11,990,567</u>
Less accumulated depreciation:				
Buildings and improvements	1,017,083	106,268	-	1,123,351
Vehicles	548,468	65,082	-	613,550
Equipment	691,196	31,625	-	722,821
Infrastructure assets	<u>2,195,454</u>	<u>233,021</u>	-	<u>2,428,475</u>
Totals	<u>4,452,201</u>	<u>435,996</u>	-	<u>4,888,197</u>
Total capital assets, net	<u>\$ 7,455,038</u>	<u>\$ (352,668)</u>	<u>\$ -</u>	<u>\$ 7,102,370</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Governmental functions as follows:

Administration	\$ 866
Police	60,111
Maintenance and public works	35,730
Building and grounds	<u>339,289</u>
Total depreciation expense	<u>\$ 435,996</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.

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 at 2.00% and will mature on December 1, 2028. The new issue reduced future debt service by \$493,983 and had a net economic gain of \$438,259. Deferred outflows of the defeasance on refunding was \$246,018 as of June 30, 2021.

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 reduced future debt service by \$438,027 and had a net economic gain of \$313,584. For the year ended June 30, 2021, the interest rate was 3.00%. Deferred outflows of the defeasance on refunding was \$310,177 as of June 30, 2021.

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 2.38% and mature on December 1, 2032. For the year ended June 30, 2021, the interest rate was 1.75%.

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 4.01%. The dump truck, which as of June 30, 2021, had a net book value of \$23,243, 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 4.41%. The police cruiser, which as of June 30, 2021, had a net book value of \$12,266, is collateral on the loan.

In November 2019, the City financed a maintenance truck for \$51,804. The loan is for 60 months at an interest rate of 4.39%. The maintenance truck, which as of June 30, 2021, had a net book value of \$35,399, is collateral on the loan.

In August 2020, the City financed a police cruiser for \$31,000. The loan is for 36 months at an interest rate of 3.99%. The police cruiser, which as of June 30, 2021, had a net book value of \$29,143, is collateral on the loan.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

In October 2020, the City financed a police cruiser for \$31,372. The loan is for 48 months at an interest rate of 3.99%. The police cruiser, which as of June 30, 2021, had a net book value of \$30,631, is collateral on the loan.

A. Changes in General Long-Term Debt

	June 30, 2020	Additions	Retirements	June 30, 2021
2016 GO Bond	\$ 3,665,000	\$ -	\$ 375,000	\$ 3,290,000
2017 GO Bond	4,435,000	-	175,000	4,260,000
2012 GO Bond	755,000	-	50,000	705,000
Direct placement debt:				
Vehicle loans payable	106,513	62,372	59,640	109,245
Total long-term debt	<u>8,961,513</u>	<u>62,372</u>	<u>659,640</u>	<u>8,364,245</u>
Add: premium (discount) on bond obligations	<u>161,051</u>	<u>-</u>	<u>13,272</u>	<u>147,779</u>
	<u>\$ 9,122,564</u>	<u>\$ 62,372</u>	<u>\$ 672,912</u>	<u>\$ 8,512,024</u>

B. Debt Service Requirements

Fiscal Year	Principal	Interest	Total
2022	\$ 655,615	\$ 217,959	\$ 873,574
2023	667,799	202,179	869,978
2024	662,217	186,118	848,335
2025	663,614	170,300	833,914
2026	670,000	154,796	824,796
2027-2031	2,710,000	547,134	3,257,134
2032-2036	1,435,000	280,750	1,715,750
2037-2039	<u>900,000</u>	<u>49,662</u>	<u>949,662</u>
	<u>\$ 8,364,245</u>	<u>\$ 1,808,898</u>	<u>\$ 10,173,143</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 25th of each month. The minimum balance required to be in the reserve at June 30, 2021, was \$377,082. The actual reserve balance totaled \$533,811 at June 30, 2021.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2021 were levied in September 2020, 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:

Description	Date Per K.R.S. 134.020
1. Due date for payment of taxes	October 31, 2020
2. 10% penalty delinquent date	November 2, 2020

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

Northern Kentucky University (NKU) is a major taxpayer of the City of Highland Heights. Total payroll tax collected from NKU employees during the fiscal year was \$969,441, which represented 49% of total payroll taxes collected.

8. RETIREMENT PLAN

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, school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2021, plan members were required to contribute 5% 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, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 9. Plan members contributed 19.30% to the pension trust for non-hazardous job classifications and 30.06% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021, the City contributed \$110,817, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$88,893 to the CERS pension fund and \$21,924 to the CERS insurance fund. The City contributed \$256,182, or 100% of the required contribution for hazardous job classifications, which was allocated \$194,564 to the CERS pension fund and \$61,618 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 and 4 years service 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, 2021

8. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2021, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 4,499,223</u>	<u>\$ 987,348</u>	<u>\$ 3,511,875</u>

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2020, was as follows:

Non-hazardous	Hazardous
.0129%	.1165%

The proportionate share at June 30, 2020, increased .0017% for non-hazardous and decreased .0026% for hazardous compared to the proportionate share as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$745,152. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 133,538	\$ -
Changes of assumptions	171,744	-
Net difference between projected and actual earnings on Plan investments	103,821	-
Changes in proportion and differences between City contributions and proportionate share of contributions	98,946	82,676
City contributions subsequent to the measurement date	<u>272,805</u>	<u>-</u>
Total	<u>\$ 780,854</u>	<u>\$ 82,676</u>

The \$272,805 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Contributions exclude \$10,652 of contributions for employees that previously retired and were subsequently re-employed. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2022	\$	198,925
2023	\$	124,874
2024	\$	57,842
2025	\$	43,732

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

8. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liabilities in the June 30, 2019, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

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

Hazardous

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

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 rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

8. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 23-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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net pension liability	Discount rate	City’s proportionate share of net pension liability
1% decrease	5.25%	\$ 1,217,619	5.25%	\$ 4,340,168
Current discount rate	6.25%	\$ 987,348	6.25%	\$ 3,511,875
1% increase	7.25%	\$ 796,681	7.25%	\$ 2,835,755

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$35,368 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the City of Highland Heights 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, 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, 2021, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers 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 Systems are financed through employer contributions and investment earnings.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

For the year ended June 30, 2021, the City contributed \$21,924, or 100% of the required contribution for non-hazardous job classifications, and \$61,618, 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, 2021, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
OPEB Liability	Non-hazardous	Hazardous
\$ <u>1,386,794</u>	\$ <u>310,747</u>	\$ <u>1,076,047</u>

The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2020, was as follows:

Non-hazardous	Hazardous
.0129%	.1164%

The proportionate share at June 30, 2020, increased .0017% for non-hazardous and decreased .0026% for hazardous compared to the proportionate share as of June 30, 2019.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For the year ended June 30, 2021, the City recognized OPEB expense of \$223,060. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 88,845	\$ 159,415
Changes of assumptions	229,596	1,321
Net difference between projected and actual earnings on Plan investments	58,093	-
Changes in proportion and differences between City contributions and proportionate share of contributions	37,821	37,886
City contributions subsequent to the measurement date	<u>93,598</u>	<u>-</u>
 Total	 <u>\$ 507,953</u>	 <u>\$ 198,622</u>

The \$93,598 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Contributions exclude \$2,627 of contributions for employees that previously retired and were subsequently re-employed. Adjustments of \$7,626 for the nonhazardous implicit subsidy and \$5,057 for the hazardous implicit subsidy 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,

2022	\$	61,325
2023	\$	36,108
2024	\$	53,458
2025	\$	52,991
2026	\$	11,851

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

Non-hazardous

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

Pre – 65: Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Post – 65: Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Hazardous

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

Pre – 65: Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Post – 65: Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.34% and 5.30% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index.” 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		
		City’s proportionate share of net OPEB liability			City’s proportionate share of net OPEB liability	
	Discount rate		Discount rate			
1% decrease	4.34%	\$ 399,236	4.30%	\$ 1,460,700		
Current discount rate	5.34%	\$ 310,747	5.30%	\$ 1,076,047		
1% increase	6.34%	\$ 238,093	6.30%	\$ 766,087		

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

	Non-hazardous		Hazardous	
		City’s proportionate share of net OPEB liability		City’s proportionate share of net OPEB liability
1% decrease		\$ 240,606		\$ 768,972
Current trend rate		\$ 310,747		\$ 1,076,047
1% increase		\$ 395,894		\$ 1,453,560

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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.

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. Development has begun as of June 30, 2021 in the Development Area; however, the financial impact has not yet been determined.

12. COVID-19 PANDEMIC

Since early 2020, various restrictions were placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The City is continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the City. Restrictions placed on the City could negatively impact the City's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes			
Property taxes	\$ 492,100	\$ 509,922	\$ 17,822
Tangible tax	45,000	38,412	(6,588)
Bank share	40,000	56,576	16,576
Penalties and interest	13,000	15,708	2,708
Total taxes	<u>590,100</u>	<u>620,618</u>	<u>30,518</u>
Licenses, permits and billings			
Occupational license fees	1,725,000	1,972,597	247,597
Franchise	17,000	17,499	499
Insurance premium license fee	650,000	707,281	57,281
Telecommunications	76,500	79,551	3,051
Net profit license fee	450,000	453,580	3,580
Building permits	5,000	7,970	2,970
Other permits and fees	7,900	769	(7,131)
Total licenses, permits and billings	<u>2,931,400</u>	<u>3,239,247</u>	<u>307,847</u>
Intergovernmental revenues			
Police incentive pay	57,000	55,625	(1,375)
District court revenue	10,000	5,957	(4,043)
CARES act - Coronavirus Relief Fund	-	353,785	353,785
American Rescue Plan	-	-	-
Other grants	-	4,263	4,263
Total intergovernmental revenues	<u>67,000</u>	<u>419,630</u>	<u>352,630</u>
Fines and forfeitures			
Parking fines	-	3,135	3,135
Total fines and forfeitures	<u>-</u>	<u>3,135</u>	<u>3,135</u>
Charges for service			
Waste collection	230,000	238,931	8,931
Total charges for service	<u>230,000</u>	<u>238,931</u>	<u>8,931</u>
Other revenues			
Other	65,300	31,178	(34,122)
Total other revenue	<u>65,300</u>	<u>31,178</u>	<u>(34,122)</u>
Total revenue	<u>\$ 3,883,800</u>	<u>\$ 4,552,739</u>	<u>\$ 668,939</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES			
Administration			
Salaries	\$ 174,000	\$ 238,266	\$ 64,266
Payroll expenses	65,000	90,684	25,684
Advertisement	4,000	656	(3,344)
Legal and accounting	53,000	52,064	(936)
Professional fees/tech/other	65,000	58,681	(6,319)
Codification	1,500	2,940	1,440
PVA charges	16,000	16,794	794
Other contractual	102,000	114,667	12,667
Bank fees	14,000	17,337	3,337
Maintenance contracts and repairs	53,500	38,389	(15,111)
Travel and training	4,000	2,603	(1,397)
Utilities	16,500	14,146	(2,354)
Postage and shipping	4,000	2,303	(1,697)
Website/internet	5,000	6,749	1,749
Insurance and bonds	44,000	42,514	(1,486)
Office supplies	17,000	20,717	3,717
Dues and subscriptions	6,000	8,021	2,021
ADP charges	4,000	4,826	826
Animal control	5,500	5,660	160
Other	8,500	6,715	(1,785)
Total administration	<u>662,500</u>	<u>744,732</u>	<u>82,232</u>
Police			
Salaries	909,000	887,179	(21,821)
Payroll expenses	638,000	520,127	(117,873)
Uniforms	17,000	20,957	3,957
Cruiser expense	20,000	48,433	28,433
Maintenance and repairs	40,000	2,063	(37,937)
Insurance	35,000	32,143	(2,857)
Travel and training	18,000	9,085	(8,915)
K-9 expense	750	-	(750)
Equipment expense	11,000	20,176	9,176
Office supplies	1,500	14,937	13,437
Dues and subscriptions	8,000	18,137	10,137
Communication/postage	13,300	17,998	4,698
Recruitment	-	-	-
Other expenses	6,500	46,105	39,605
Total police	<u>1,718,050</u>	<u>1,637,340</u>	<u>(80,710)</u>
Maintenance and public works			
Salaries	232,000	248,269	16,269
Payroll expenses	130,800	127,049	(3,751)
Repairs and contracts	15,000	11,090	(3,910)
Travel and training	1,000	1,684	684
Uniforms	2,500	969	(1,531)
Vehicle expenses	16,000	29,922	13,922
Grounds maintenance	62,000	18,892	(43,108)
Insurance	4,600	4,156	(444)
Materials and supplies	10,800	9,374	(1,426)
Miscellaneous	4,200	4,143	(57)
Total maintenance and public works	<u>\$ 478,900</u>	<u>\$ 455,548</u>	<u>\$ (23,352)</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Actual</u>	<u>Variance</u>
Waste collection			
Waste collections	\$ 220,000	\$ 229,822	\$ 9,822
 Building and grounds			
Utilities	86,600	84,851	(1,749)
Total building and grounds	<u>86,600</u>	<u>84,851</u>	<u>(1,749)</u>
 Recreation			
Materials and supplies	11,000	20,937	9,937
Total recreation	<u>11,000</u>	<u>20,937</u>	<u>9,937</u>
 Planning and zoning			
Salaries	8,200	5,925	(2,275)
Professional fees	13,000	4,807	(8,193)
Legal fees	17,000	19,460	2,460
Travel and training	400	-	(400)
Supplies	500	-	(500)
Board of Adjustments	-	2,625	2,625
Total planning and zoning	<u>39,100</u>	<u>32,817</u>	<u>(6,283)</u>
 Capital outlay	<u>64,400</u>	<u>80,544</u>	<u>16,144</u>
 Debt service	<u>826,794</u>	<u>888,094</u>	<u>61,300</u>
Total expenditures	<u>4,107,344</u>	<u>4,174,685</u>	<u>67,341</u>
 Other financing sources			
Loan proceeds	-	62,372	62,372
Total other financing sources	<u>-</u>	<u>62,372</u>	<u>62,372</u>
 Net change in fund balance	<u>\$ (223,544)</u>	<u>\$ 440,426</u>	<u>\$ 663,970</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
MUNICIPAL ROAD AID FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Intergovernmental revenue	\$ 123,000	\$ 134,559	\$ 11,559
Expenditures			
Operating expenditures	165,000	24,254	(140,746)
Capital outlay	-	2,784	2,784
Total expenditures	<u>165,000</u>	<u>27,038</u>	<u>(137,962)</u>
Net change in fund balance	<u>\$ (42,000)</u>	<u>\$ 107,521</u>	<u>\$ 149,521</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.0092%	0.0092%	0.0099%	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%
City's proportionate share of the net pension liability (asset)	\$ 335,285	\$ 297,393	\$ 424,216	\$ 502,481	\$ 597,330	\$ 638,751	\$ 785,169	\$ 987,348
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	177.47%	99.55%	115.17%	132.42%	164.22%	203.91%	230.90%	257.42%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%

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 Eight Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.1231%	0.1231%	0.1208%	0.1230%	0.1208%	0.1242%	0.1191%	0.1165%
City's proportionate share of the net pension liability (asset)	\$ 1,646,597	\$ 1,479,855	\$ 1,854,320	\$ 2,111,391	\$ 2,703,527	\$ 3,003,385	\$ 3,289,977	\$ 3,511,875
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	207.90%	217.12%	316.28%	333.53%	400.76%	434.15%	485.02%	503.68%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	53.95%	49.78%	49.26%	46.63%	44.11%

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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 23,842	\$ 26,227	\$ 46,962	\$ 47,096	\$ 50,741	\$ 45,358	\$ 55,156	\$ 74,027	\$ 88,893
Contributions relative to contractually required employer contribution	<u>23,842</u>	<u>26,227</u>	<u>46,962</u>	<u>47,096</u>	<u>50,741</u>	<u>45,358</u>	<u>55,156</u>	<u>74,027</u>	<u>88,893</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587
Employer contributions as a percentage of covered-employee payroll	12.62%	8.78%	12.75%	12.41%	13.95%	14.48%	16.22%	19.30%	19.30%

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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 159,193	\$ 135,742	\$ 121,538	\$ 128,255	\$ 146,454	\$ 153,576	\$ 168,696	\$ 209,591	\$ 194,564
Contributions relative to contractually required employer contribution	<u>159,193</u>	<u>135,742</u>	<u>121,538</u>	<u>128,255</u>	<u>146,454</u>	<u>153,576</u>	<u>168,696</u>	<u>209,591</u>	<u>194,564</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251
Employer contributions as a percentage of covered-employee payroll	20.10%	19.92%	20.73%	20.26%	21.71%	22.20%	24.87%	30.06%	30.06%

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 Five Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%
City's proportionate share of the net OPEB liability (asset)	\$ 160,918	\$ 205,155	\$ 186,212	\$ 187,723	\$ 310,747
City's covered employee payroll	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	42.41%	56.40%	59.45%	55.20%	81.02%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%

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 Five Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.1208%	0.1208%	0.1242%	0.1191%	0.1164%
City's proportionate share of the net OPEB liability (asset)	\$ 596,909	\$ 998,950	\$ 885,446	\$ 881,025	\$ 1,076,047
City's covered employee payroll	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	94.29%	148.08%	127.99%	129.89%	154.33%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%

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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 13,092	\$ 9,830	\$ 18,122	\$ 17,594	\$ 17,205	\$ 14,723	\$ 17,886	\$ 18,258	\$ 21,924
Contributions relative to contractually required employer contribution	<u>13,092</u>	<u>9,830</u>	<u>18,122</u>	<u>17,594</u>	<u>17,205</u>	<u>14,723</u>	<u>17,886</u>	<u>18,258</u>	<u>21,924</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587
Employer contributions as a percentage of covered-employee payroll	6.93%	3.29%	4.92%	4.64%	4.73%	4.70%	5.26%	4.76%	4.76%

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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 138,600	\$ 61,243	\$ 79,618	\$ 80,333	\$ 63,075	\$ 64,682	\$ 71,019	\$ 66,378	\$ 61,618
Contributions relative to contractually required employer contribution	<u>138,600</u>	<u>61,243</u>	<u>79,618</u>	<u>80,333</u>	<u>63,075</u>	<u>64,682</u>	<u>71,019</u>	<u>66,378</u>	<u>61,618</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251
Employer contributions as a percentage of covered-employee payroll	17.50%	8.99%	13.58%	12.69%	9.35%	9.35%	10.47%	9.52%	9.52%

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

1. GENERAL INFORMATION

Contributions

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

Payroll

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

2. CHANGES OF ASSUMPTIONS

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

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years..

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

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

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

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

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

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

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

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

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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

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

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

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

June 30, 2013 – Pension – Hazardous and Nonhazardous

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

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



**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 the City of Highland Heights, Kentucky, as of and for the year ended June 30, 2021, 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 December 2, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Heights, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 item 2021-001 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Highland Heights, Kentucky's Response to Finding

City of Highland Heights, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Highland Heights, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
December 2, 2021

**CITY OF HIGHLAND HEIGHTS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021**

FINDING: 2021-001 (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.