

CITY OF HIGHLAND HEIGHTS
Highland Heights, Kentucky

FINANCIAL STATEMENTS
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Highland Heights, Kentucky

Report on the Audit of the Financial Statements

Opinions

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, 2022, 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.

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, 2022, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Highland Heights, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Heights, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Highland Heights, Kentucky's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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 4–10 and 34–47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Heights, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022, 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 City of Highland Heights, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
December 1, 2022

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, 2022. 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, 2022, net position changed as follows:

	Governmental Activities
Beginning net position, as restated	\$ (1,716,336)
Increase in net position	<u>411,650</u>
Ending net position	<u>\$ (1,304,686)</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	
	2022	2021
Current Assets	\$ 5,577,916	\$ 3,457,593
Capital Assets and Other Assets	7,832,595	7,902,417
Deferred Outflows	1,716,751	1,845,002
Total Assets and Deferred Outflows	15,127,253	13,205,012
Long-Term Debt Outstanding	7,199,786	7,856,409
Net Pension and OPEB Liability	5,148,678	5,886,017
Current Liabilities	2,988,690	897,624
Total Liabilities	15,337,154	14,640,050
Deferred Inflows of Resources	1,094,785	281,298
Net Position:		
Net Investment in Capital Assets	2,527,938	2,271,721
Restricted	631,197	790,721
Unrestricted	(4,463,821)	(4,778,778)
Total Net Position	\$ (1,304,686)	\$ (1,716,336)

Table A-2

Condensed Statement of Activities

	Governmental Activities	
	2022	2021
Revenues		
Programs Revenues		
Charges for services	\$ 288,531	\$ 238,931
Operating Grants & Contributions	1,373,349	491,063
Capital Grants & Contributions	3,000	4,263
General Revenue		
Taxes	656,408	620,618
License Fees	3,780,035	3,230,508
Permits	10,851	8,739
Fines & Forfeits	2,025	3,135
Grants & Contributions Not Restricted to		
Specific Programs	12,026	5,957
Investment Earnings	(52,209)	545
Other Revenue	63,360	30,633
Gain (loss) on disposal of assets	(153,177)	-
Total Revenue	5,984,199	4,634,392
Program Expenses		
Administration	2,030,346	802,893
Police	1,859,112	2,157,261
Maintenance and Public Works	656,785	600,226
Waste Collection	304,304	229,822
Building & Ground	389,857	424,140
Recreation	48,933	23,709
Planning & zoning	27,207	32,817
Interest on long-term debt	256,005	260,890
Total program expenses	5,572,549	4,531,758
Net Change In Net Position	\$ 411,650	\$ 102,634

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	
	2022	2021
Taxes	\$ 656,408	\$ 620,618
Licenses and Permits	3,790,886	3,239,247
Intergovernmental	1,388,375	501,283
Fines & Forfeits	2,025	3,135
Charges for Services	288,531	238,931
Other Revenues	27,659	31,178
Total Revenue	6,153,884	4,634,392
Administration	1,966,101	744,732
Police	1,754,782	1,637,340
Maintenance & Public Works	563,578	479,802
Waste Collection	304,304	229,822
Building & Ground	95,015	84,851
Recreation	46,161	20,937
Planning & Zoning	27,207	32,817
Capital Outlay	587,499	83,328
Debt Service	888,796	888,094
Total Expenditures	6,233,443	4,201,723
Excess (deficiency) Revenues over Expenditures	(79,559)	432,669
Loan proceeds	28,072	62,372
Change in Fund Balance	\$ (51,487)	\$ 495,041

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the city amended the General Fund budget. 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	\$ 599,500	\$ 656,408	\$ 56,908
Licenses and Permits	3,089,400	3,790,886	701,486
Intergovernmental	2,264,944	1,388,375	(876,569)
Fines & Forfeits	19,200	2,025	(17,175)
Charges for Services	230,000	288,531	58,531
Other Revenue	-	27,659	27,659
Total Revenue	\$ 6,203,044	\$ 6,153,884	\$ (49,160)

Table A-5**Condensed Governmental Funds – Expenditures**

	Budget	Actual	Change
Administration	\$ 2,063,616	\$ 1,966,101	\$ (97,515)
Police	1,930,963	1,754,782	(176,181)
Maintenance & Public Works	793,588	563,578	(230,010)
Waste Collection	230,000	304,304	74,304
Building & Ground	87,600	95,015	7,415
Recreation	11,000	46,161	35,161
Planning & Zoning	41,100	27,207	(13,893)
Capital Outlay	617,730	587,499	(30,231)
Debt Service	827,994	888,796	60,802
Total Expenditures	\$ 6,450,361	\$ 6,233,443	\$ (216,918)

The city budgeted for a total of \$6,203,044 in revenues for 2021-2022 but ended up having revenues of \$6,153,884. A total of \$6,450,361 was budgeted for expenses, but expenditures totaled \$6,233,443 at the end of 2022.

Total revenues were under budget by \$49,160 and total expenditures were under budget by \$216,918 for the year.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$7,640,000 in general obligation revenue bonds compared to \$8,255,000 last year. The City's general obligations at year-end include \$655,000 for the purchase of the new public works building, \$4,080,000 for the of the city building. \$2,905,000 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 \$87,091 at year end.

Capital Assets

At the end of June 30, 2022, the City had \$7,119,478 invested in capital assets including maintenance equipment, buildings, park facilities, roads and sidewalks, compared to \$7,102,370 last year. The capital assets of the city increased \$17,108 due to capital additions exceeding depreciation and disposals.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Insurance Premium, Occupational, and Payroll License Fees were down in fiscal year 2022.

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 2023 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, 2022

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,374,409
Investments	1,351,093
Receivables, net	837,786
Prepaid expense	14,628
Total current assets	<u>5,577,916</u>
Noncurrent assets	
Restricted cash and cash equivalents	713,108
Capital assets	
Land and improvements	1,511,207
Construction in process	297,570
Depreciable infrastructure, net	891,551
Depreciable buildings, property, and equipment, net	4,419,150
Total noncurrent assets	<u>7,832,586</u>
Total assets	<u>13,410,502</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	658,321
Deferred outflows - OPEB	547,944
Defeasance on refunding	510,486
Total deferred outflows of resources	<u>1,716,751</u>
Total assets and deferred outflows of resources	<u>\$ 15,127,253</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 218,039
Accrued liabilities	123,382
Other payables	176,130
Unearned revenue	77,362
Deferred revenue	1,731,967
Current portion of long-term obligations	661,810
Total current liabilities	<u>2,988,690</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	7,199,786
Net pension liability	3,951,936
Net OPEB liability	1,196,742
Total noncurrent liabilities	<u>12,348,464</u>
Total liabilities	<u>15,337,154</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	623,306
Deferred inflows - OPEB	471,479
Total deferred inflow of resources	<u>1,094,785</u>
NET POSITION	
Net investment in capital assets	2,527,938
Restricted for	
Bond service	471,721
Other purposes	159,476
Unrestricted (deficit)	(4,463,821)
Total net position	<u>(1,304,686)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,127,253</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, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government					
Governmental activities					
Administration	\$ 2,030,346	\$ -	\$ 1,124,550	\$ -	\$ (905,796)
Police	1,859,112	-	107,239	-	(1,751,873)
Maintenance and public works	656,785	-	141,560	-	(515,225)
Waste collection	304,304	288,531	-	3,000	(12,773)
Building and grounds	389,857	-	-	-	(389,857)
Recreation	48,933	-	-	-	(48,933)
Planning and zoning	27,207	-	-	-	(27,207)
Interest on long-term debt	256,005	-	-	-	(256,005)
Total governmental activities	<u>5,572,549</u>	<u>288,531</u>	<u>1,373,349</u>	<u>3,000</u>	<u>(3,907,669)</u>
Total primary government	<u>\$ 5,572,549</u>	<u>\$ 288,531</u>	<u>\$ 1,373,349</u>	<u>\$ 3,000</u>	<u>(3,907,669)</u>
General revenues					
Taxes:					
Property taxes, levied for general purposes					656,408
License fees:					
Occupational license fees					2,182,929
Franchise					365,296
Insurance premiums					755,025
Occupational					476,785
Permits:					
Building					900
Other permits					9,951
Fines and forfeitures					2,025
Grants and contributions					
not restricted to specific programs					12,026
Investment earnings					(52,209)
Miscellaneous					63,360
Total general revenues					<u>4,472,496</u>
Gain (loss) on disposal of assets					<u>(153,177)</u>
Total general revenues					<u>4,319,319</u>
Change in Net Position					411,650
Net position-beginning, as restated					<u>(1,716,336)</u>
NET POSITION-ENDING					<u>\$ (1,304,686)</u>

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

	<u>General</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,846,129	\$ 241,388	\$ 4,087,517
Investments	1,351,093	-	1,351,093
Receivables, net	837,786	-	837,786
Prepaid expense	14,628	-	14,628
Due from other funds	<u>9,327</u>	<u>-</u>	<u>9,327</u>
Total assets	<u>\$ 6,058,963</u>	<u>\$ 241,388</u>	<u>\$ 6,300,351</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 145,454	\$ 72,585	\$ 218,039
Accrued liabilities	123,382	-	123,382
Other payables	176,130	-	176,130
Due to other funds	-	9,327	9,327
Unearned revenue	77,362	-	77,362
Deferred revenue	<u>1,731,967</u>	<u>-</u>	<u>1,731,967</u>
Total liabilities	<u>2,254,295</u>	<u>81,912</u>	<u>2,336,207</u>
Fund balances			
Nonspendable	14,628	-	14,628
Restricted	471,721	159,476	631,197
Unassigned	<u>3,318,319</u>	<u>-</u>	<u>3,318,319</u>
Total fund balances	<u>3,804,668</u>	<u>159,476</u>	<u>3,964,144</u>
Total liabilities and fund balances	<u>\$ 6,058,963</u>	<u>\$ 241,388</u>	<u>\$ 6,300,351</u>

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

Total fund balances	\$ 3,964,144
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,119,478
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.	621,966
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.	<u>(13,010,274)</u>
Net position of governmental activities	<u>\$ (1,304,686)</u>

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, 2022

	<u>General</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 656,408	\$ -	\$ 656,408
Licenses, permits, billings	3,790,886	-	3,790,886
Intergovernmental revenues	1,246,815	141,560	1,388,375
Fines and forfeitures	2,025	-	2,025
Charges for service	288,531	-	288,531
Other revenues	<u>27,659</u>	<u>-</u>	<u>27,659</u>
Total revenues	<u>6,012,324</u>	<u>141,560</u>	<u>6,153,884</u>
EXPENDITURES			
Current			
Administration	1,966,101	-	1,966,101
Police	1,754,782	-	1,754,782
Maintenance and public works	477,814	85,764	563,578
Waste collection	304,304	-	304,304
Buildings and grounds	95,015	-	95,015
Recreation	46,161	-	46,161
Planning and zoning	27,207	-	27,207
Capital outlay	434,269	153,230	587,499
Debt service	<u>888,796</u>	<u>-</u>	<u>888,796</u>
Total expenditures	<u>5,994,449</u>	<u>238,994</u>	<u>6,233,443</u>
Excess (deficiency) of revenues over expenditures	<u>17,875</u>	<u>(97,434)</u>	<u>(79,559)</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds	<u>28,072</u>	<u>-</u>	<u>28,072</u>
Total other financing source	<u>28,072</u>	<u>-</u>	<u>28,072</u>
Net change in fund balances	45,947	(97,434)	(51,487)
Fund balances-beginning, as restated	<u>3,758,721</u>	<u>256,910</u>	<u>4,015,631</u>
Fund balances-ending	<u>\$ 3,804,668</u>	<u>\$ 159,476</u>	<u>\$ 3,964,144</u>
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ (51,487)
less: loan proceeds			(28,072)
add: debt service expenditures			888,796
less: interest on long term debt			(223,569)
less: amortization on bond discount and deferred charges			(32,436)
add: capital outlay expenditures capitalized			587,499
less: proceeds from the sale of assets			(16,508)
Less: loss on disposal of assets			(153,177)
change in net pension liability			(115,876)
change in OPEB liability			(42,814)
less: depreciation on governmental activities assets			<u>(400,706)</u>
Change in net position of governmental activities			<u>\$ 411,650</u>

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022

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, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balances (continued)

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

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

Unassigned – all other spendable amounts.

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

E. Budgeting

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

Budgeted amounts in the financial statements are adopted by ordinance of the City and have been revised for amendments authorized during the year. For fiscal year 2022, the City was within their budgeted expenditure amounts.

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, 2022

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. Leases

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City's June 30, 2022 financial statements and had no effect on the beginning net position of the City.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 1, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2022, have not been evaluated by the City.

2. CASH AND INVESTMENTS

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

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 \$1,351,093 were invested in obligations of the U.S. Treasury and its agencies, with maturities within 5 years. Bank balances at June 30, 2022 totaled \$4,122,465 of which \$500,000 was covered by FDIC, and the remaining \$3,622,465 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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

2. CASH AND INVESTMENTS (CONTINUED)

Investments measured at fair value are as follows at June 30, 2022:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and cash equivalents	\$ 63,181	\$ 63,181	\$ -	\$ -
U.S. Government Obligations	<u>1,287,912</u>	<u>1,287,912</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,351,093</u>	<u>\$ 1,351,093</u>	<u>\$ -</u>	<u>\$ -</u>

3. CAPITAL ASSETS

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

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Governmental Activities:				
Capital assets not depreciated:				
Land & Improvements	\$ 1,680,891	\$ -	\$ 169,684	\$ 1,511,207
Construction in process	<u>-</u>	<u>297,570</u>	<u>-</u>	<u>297,570</u>
Totals	<u>1,680,891</u>	<u>297,570</u>	<u>169,684</u>	<u>1,808,777</u>
Capital assets that are depreciated:				
Buildings and Improvements	5,223,737	-	78,657	5,145,080
Vehicles	781,177	249,914	140,936	890,155
Equipment	<u>809,094</u>	<u>27,115</u>	<u>46,581</u>	<u>789,628</u>
Totals	<u>6,814,008</u>	<u>277,029</u>	<u>266,174</u>	<u>6,824,863</u>
Total non-infrastructure assets	<u>8,494,899</u>	<u>574,599</u>	<u>435,858</u>	<u>8,633,640</u>
Infrastructure assets	<u>3,495,668</u>	<u>12,900</u>	<u>-</u>	<u>3,508,568</u>
Total capital assets	<u>11,990,567</u>	<u>587,499</u>	<u>435,858</u>	<u>12,142,208</u>
Less accumulated depreciation:				
Buildings and improvements	1,123,351	106,300	78,657	1,150,994
Vehicles	613,550	74,387	140,936	547,001
Equipment	722,821	31,477	46,580	707,718
Infrastructure assets	<u>2,428,475</u>	<u>188,542</u>	<u>-</u>	<u>2,617,017</u>
Totals	<u>4,888,197</u>	<u>400,706</u>	<u>266,173</u>	<u>5,022,730</u>
Total capital assets, net	<u>\$ 7,102,370</u>	<u>\$ 186,793</u>	<u>\$ 169,685</u>	<u>\$ 7,119,478</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Governmental functions as follows:

Administration	\$ 866
Police	70,009
Maintenance and public works	34,989
Building and grounds	<u>294,842</u>
Total depreciation expense	<u>\$ 400,706</u>

4. RECEIVABLES

General fund receivables at June 30, 2022, including the applicable allowance for uncollectible accounts are as follows:

Taxes	\$ 32,309
Licenses, permits, billings	<u>837,786</u>
Gross receivables	870,095
Less: allowance for uncollectible	<u>(32,309)</u>
Net receivables	<u>\$ 837,786</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 \$217,075 as of June 30, 2022.

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, 2022, the interest rate was 3.00%. Deferred outflows of the defeasance on refunding was \$293,411 as of June 30, 2022.

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, 2022, 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, 2022, had a net book value of \$11,621, is collateral on the loan.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

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, 2022, had a net book value of \$7,359, 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, 2022, had a net book value of \$25,039, 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, 2022, had a net book value of \$25,918, is collateral on the loan.

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, 2022, had a net book value of \$23,314, is collateral on the loan.

In July 2021, the City financed a police cruiser for \$28,072. The loan is for 36 months at an interest rate of 3.99%. The police cruiser, which as of June 30, 2022, had a net book value of \$29,454, is collateral on the loan.

A. Changes in General Long-Term Debt

	June 30, 2021	Additions	Retirements	June 30, 2022
2016 GO Bond	\$ 3,290,000	\$ -	\$ 385,000	\$ 2,905,000
2017 GO Bond	4,260,000	-	180,000	4,080,000
2012 GO Bond	705,000	-	50,000	655,000
Direct placement debt:				
Vehicle loans payable	109,245	28,072	50,226	87,091
Total long-term debt	8,364,245	28,072	665,226	7,727,091
Add: premium (discount) on bond obligations	147,779	-	13,272	134,505
	<u>\$ 8,512,024</u>	<u>\$ 28,072</u>	<u>\$ 678,498</u>	<u>\$ 7,861,596</u>

B. Debt Service Requirements

Fiscal Year	Principal	Interest	Total
2023	\$ 677,015	\$ 202,916	\$ 879,931
2024	671,465	186,491	857,956
2025	663,611	170,291	833,902
2026	670,000	154,796	824,796
2027	695,000	139,145	834,145
2028-2032	2,325,000	483,459	2,808,459
2033-2037	1,415,000	232,648	1,647,648
2038-2039	610,000	22,294	632,294
	<u>\$ 7,727,091</u>	<u>\$ 1,592,040</u>	<u>\$ 9,319,131</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

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, 2022, was \$384,667. The actual reserve balance totaled \$471,721 at June 30, 2022.

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2022 were levied in September 2021, 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, 2021
2. 10% penalty delinquent date	November 2, 2021

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 \$1,007,686, which represented 46% 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 Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, 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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2022, 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, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications and 44.33% 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 21.17% to the pension trust for non-hazardous job classifications and 33.86% 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.

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, 2022, the City contributed \$166,987, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$131,173 to the CERS pension fund and \$35,814 to the CERS insurance fund. The City contributed \$272,318, or 100% of the required contribution for hazardous job classifications, which was allocated \$208,001 to the CERS pension fund and \$64,317 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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 3,951,936</u>	<u>\$ 1,011,901</u>	<u>\$ 2,940,035</u>

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 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, 2021, was as follows:

Non-hazardous	Hazardous
.0159%	.1104%

The proportionate share at June 30, 2021, increased .0030% for non-hazardous and decreased .0060% for hazardous compared to the proportionate share as of June 30, 2020.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2022, the City recognized pension expense of \$447,250. At June 30, 2022, 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	\$ 92,696	\$ 9,821
Changes of assumptions	50,303	-
Net difference between projected and actual earnings on Plan investments	-	450,488
Changes in proportion and differences between City contributions and proportionate share of contributions	187,892	162,997
City contributions subsequent to the measurement date	<u>327,430</u>	<u>-</u>
Total	<u>\$ 658,321</u>	<u>\$ 623,306</u>

The \$327,430 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, 2023. Contributions exclude \$11,744 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,

2023	\$ 23,595
2024	\$ (45,207)
2025	\$ (119,062)
2026	\$ (151,741)

Actuarial Assumptions – The total pension liabilities in the June 30, 2020, 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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2021, 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, 2020) to the plan's fiscal year ending June 30, 2021.

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	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

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%	\$ 1,297,811	5.25%	\$ 3,747,483
Current discount rate	6.25%	\$ 1,011,901	6.25%	\$ 2,940,035
1% increase	7.25%	\$ 775,317	7.25%	\$ 2,281,969

Payable to the Pension Plan – At June 30, 2022, the City reported a payable of \$44,597 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022. 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, 2022, the employer's contribution was 5.78% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

For the year ended June 30, 2022, the City contributed \$35,814, or 100% of the required contribution for non-hazardous job classifications, and \$64,317, 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, 2022, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net OPEB Liability	Non-hazardous	Hazardous
\$ <u>1,196,742</u>	\$ <u>303,785</u>	\$ <u>892,957</u>

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 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, 2021, was as follows:

Non-hazardous	Hazardous
.0159%	.1104%

The proportionate share at June 30, 2021, increased .0030% for non-hazardous and decreased .0060% for hazardous compared to the proportionate share as of June 30, 2021.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

For the year ended June 30, 2022, the City recognized OPEB expense of \$141,139. At June 30, 2022, 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	\$ 75,673	\$ 186,768
Changes of assumptions	304,471	626
Net difference between projected and actual earnings on Plan investments	-	215,598
Changes in proportion and differences between City contributions and proportionate share of contributions	71,109	68,487
City contributions subsequent to the measurement date	<u>96,691</u>	<u>-</u>
Total	<u>\$ 547,944</u>	<u>\$ 471,479</u>

The \$96,691 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, 2023. Contributions exclude \$3,206 of contributions for employees that previously retired and were subsequently re-employed. Adjustments of \$9,996 for the nonhazardous implicit subsidy and \$6,359 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,

2023	\$ (7,675)
2024	\$ 7,193
2025	\$ 6,738
2026	\$ (37,443)
2027	\$ 10,971

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

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 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2020 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, 2020) to the plan's fiscal year ending June 30, 2021.

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	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% and 5.05% 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		
	Discount rate	City's proportionate share of net OPEB liability		Discount rate	City's proportionate share of net OPEB liability	
1% decrease	4.20%	\$ 417,094		4.05%	\$ 1,294,618	
Current discount rate	5.20%	\$ 303,785		5.05%	\$ 892,957	
1% increase	6.20%	\$ 210,796		6.05%	\$ 570,245	

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	\$ 218,689		\$ 585,114	
Current trend rate	\$ 303,785		\$ 892,957	
1% increase	\$ 406,497		\$ 1,269,991	

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, 2022

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, 2022 in the Development Area; however, the financial impact has not yet been determined.

12. COVID-19 PANDEMIC

Since early 2020, various restrictions have been 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.

13. RESTATEMENT OF FUND BALANCE

Fund balance and Net Position of the City have been restated as previously reported as of June 30, 2021. The restatement relates to \$52,906 of grant revenues that were previously reported in the year end June 30, 2021. Based on subsequent grant reporting, expenditures were utilized in the year ended June 30, 2022, as a result the grant revenues are also reported in fiscal 2022.

Government-wide/General Fund

Net Position/Fund balance, at beginning of year	\$ (1,663,430)	\$ 3,811,627
Decrease in grants receivable	<u>(52,906)</u>	<u>(52,906)</u>
Net Position/Fund balance, at beginning of year, as restated	<u>\$ (1,716,336)</u>	<u>\$ 3,758,721</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2022

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes				
Property taxes	\$ 491,500	\$ 491,500	\$ 527,184	\$ 35,684
Tangible tax	40,000	40,000	38,641	(1,359)
Bank share	55,000	55,000	60,737	5,737
Penalties and interest	13,000	13,000	29,846	16,846
Total taxes	<u>599,500</u>	<u>599,500</u>	<u>656,408</u>	<u>56,908</u>
Licenses, permits and billings				
Occupational license fees	1,860,000	1,860,000	2,182,929	322,929
Franchise	20,000	20,000	285,032	265,032
Insurance premium license fee	670,000	670,000	755,025	85,025
Telecommunications	76,500	76,500	80,264	3,764
Net profit license fee	450,000	450,000	476,785	26,785
Building permits	5,000	5,000	900	(4,100)
Other permits and fees	7,900	7,900	9,951	2,051
Total licenses, permits and billings	<u>3,089,400</u>	<u>3,089,400</u>	<u>3,790,886</u>	<u>701,486</u>
Intergovernmental revenues				
Police incentive pay	57,000	57,000	54,333	(2,667)
District court revenue	8,000	8,000	12,026	4,026
CARES Act - Coronavirus Relief Fund	-	-	52,906	52,906
American Rescue Plan	914,944	914,944	129,550	(785,394)
CDBG Grant	1,000,000	1,150,000	995,000	(155,000)
Other grants	-	-	3,000	3,000
Total intergovernmental revenues	<u>1,979,944</u>	<u>2,129,944</u>	<u>1,246,815</u>	<u>(883,129)</u>
Fines and forfeitures				
Parking fines	19,200	19,200	2,025	(17,175)
Total fines and forfeitures	<u>19,200</u>	<u>19,200</u>	<u>2,025</u>	<u>(17,175)</u>
Charges for service				
Waste collection	230,000	230,000	288,531	58,531
Total charges for service	<u>230,000</u>	<u>230,000</u>	<u>288,531</u>	<u>58,531</u>
Other revenues				
Other	-	-	27,659	27,659
Total other revenue	<u>-</u>	<u>-</u>	<u>27,659</u>	<u>27,659</u>
Total revenue	<u>\$ 5,918,044</u>	<u>\$ 6,068,044</u>	<u>\$ 6,012,324</u>	<u>\$ (55,720)</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2022

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES				
Administration				
Salaries	\$ 301,500	\$ 322,500	\$ 358,308	\$ 35,808
Payroll expenses	162,250	169,516	159,150	(10,366)
Advertisement	4,000	4,000	1,677	(2,323)
Legal and accounting	53,000	53,000	51,000	(2,000)
Professional fees/tech/other	40,000	40,000	37,906	(2,094)
Codification	3,000	3,000	495	(2,505)
PVA charges	17,000	17,000	17,020	20
Other contractual	114,000	114,000	116,898	2,898
Bank fees	14,000	14,000	17,686	3,686
Maintenance contracts and repairs	56,000	56,000	85,113	29,113
Travel and training	2,000	2,000	3,303	1,303
Utilities	16,000	16,000	14,509	(1,491)
Postage and shipping	5,000	5,000	3,161	(1,839)
Website/internet	5,000	5,000	939	(4,061)
Insurance and bonds	46,600	46,600	41,726	(4,874)
Office supplies	19,000	19,000	14,097	(4,903)
Dues and subscriptions	5,000	5,000	13,109	8,109
Paycor charges	5,500	5,500	5,361	(139)
Animal control	6,000	6,000	5,755	(245)
Other	<u>1,010,500</u>	<u>1,160,500</u>	<u>1,018,888</u>	<u>(141,612)</u>
Total administration	<u>1,885,350</u>	<u>2,063,616</u>	<u>1,966,101</u>	<u>(97,515)</u>
Police				
Salaries	917,000	987,000	953,791	(33,209)
Payroll expenses	694,000	737,663	538,175	(199,488)
Uniforms	18,000	18,000	18,149	149
Cruiser expense	68,000	68,000	62,767	(5,233)
Maintenance and repairs	-	-	1,183	1,183
Insurance	37,500	37,500	35,156	(2,344)
Travel and training	15,000	15,000	23,210	8,210
K-9 expense	-	-	-	-
Equipment expense	34,000	34,000	47,140	13,140
Office supplies	1,500	1,500	19,697	18,197
Dues and subscriptions	12,500	12,500	12,362	(138)
Communication/postage	13,300	13,300	18,151	4,851
Recruitment	-	-	-	-
Other expenses	<u>6,500</u>	<u>6,500</u>	<u>25,001</u>	<u>18,501</u>
Total police	<u>1,817,300</u>	<u>1,930,963</u>	<u>1,754,782</u>	<u>(176,181)</u>
Maintenance and public works				
Salaries	263,000	291,000	279,063	(11,937)
Payroll expenses	142,000	151,688	141,697	(9,991)
Repairs and contracts	16,000	16,000	6,697	(9,303)
Travel and training	1,000	1,000	2,786	1,786
Uniforms	2,500	2,500	3,509	1,009
Vehicle expenses	23,000	23,000	12,887	(10,113)
Grounds maintenance	64,000	64,000	9,556	(54,444)
Insurance	4,600	4,600	3,069	(1,531)
Materials and supplies	9,800	9,800	15,747	5,947
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>2,803</u>	<u>(2,197)</u>
Total maintenance and public works	<u>\$ 530,900</u>	<u>\$ 568,588</u>	<u>\$ 477,814</u>	<u>\$ (90,774)</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2022

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Waste collection				
Waste collections	\$ 230,000	\$ 230,000	\$ 304,304	\$ 74,304
Building and grounds				
Utilities	87,600	87,600	95,015	7,415
Total building and grounds	87,600	87,600	95,015	7,415
Recreation				
Materials and supplies	11,000	11,000	46,161	35,161
Total recreation	11,000	11,000	46,161	35,161
Planning and zoning				
Salaries	8,200	8,200	9,575	1,375
Professional fees	31,500	31,500	17,507	(13,993)
Travel and training	400	400	-	(400)
Supplies	1,000	1,000	-	(1,000)
Board of Adjustments	-	-	125	125
Total planning and zoning	41,100	41,100	27,207	(13,893)
Capital outlay	464,500	464,500	434,269	(30,231)
Debt service	827,994	827,994	888,796	60,802
Total expenditures	5,895,744	6,225,361	5,994,449	(230,912)
Other financing sources				
Loan proceeds	-	-	28,072	28,072
Total other financing sources	-	-	28,072	28,072
Net change in fund balance	<u>\$ 22,300</u>	<u>\$ (157,317)</u>	<u>\$ 45,947</u>	<u>\$ 203,264</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
MUNICIPAL ROAD AID FUND
for the year ended June 30, 2022

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental revenue	\$ 135,000	\$ 135,000	\$ 141,560	\$ 6,560
Expenditures				
Operating expenditures	71,770	71,770	85,764	13,994
Capital outlay	153,230	153,230	153,230	-
Total expenditures	225,000	225,000	238,994	13,994
Net change in fund balance	<u>\$ (90,000)</u>	<u>\$ (90,000)</u>	<u>\$ (97,434)</u>	<u>\$ (7,434)</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net pension liability	0.0092%	0.0092%	0.0099%	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%	0.0159%
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	\$ 1,011,901
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587
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%	219.70%
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%	57.33%

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 Nine Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net pension liability	0.1231%	0.1231%	0.1208%	0.1230%	0.1208%	0.1242%	0.1191%	0.1165%	0.1104%
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	\$ 2,940,035
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251
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%	454.23%
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%	52.26%

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 Ten Fiscal Years

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 23,842	\$ 26,227	\$ 46,962	\$ 47,096	\$ 50,741	\$ 45,358	\$ 55,156	\$ 74,027	\$ 88,893	\$ 131,173
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>	<u>131,173</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620
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%	21.17%

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 159,193	\$ 135,742	\$ 121,538	\$ 128,255	\$ 146,454	\$ 153,576	\$ 168,696	\$ 209,591	\$ 194,564	\$ 208,001
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>	<u>208,001</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298
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%	33.86%

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

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net OPEB liability	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%	0.0159%
City's proportionate share of the net OPEB liability (asset)	\$ 160,918	\$ 205,155	\$ 186,212	\$ 187,723	\$ 310,747	\$ 303,785
City's covered employee payroll	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587
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%	65.96%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%

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 Six Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net OPEB liability	0.1208%	0.1208%	0.1242%	0.1191%	0.1164%	0.1104%
City's proportionate share of the net OPEB liability (asset)	\$ 596,909	\$ 998,950	\$ 885,446	\$ 881,025	\$ 1,076,047	\$ 892,957
City's covered employee payroll	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251
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%	137.96%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%	66.81%

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 Ten Fiscal Years

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 13,092	\$ 9,830	\$ 18,122	\$ 17,594	\$ 17,205	\$ 14,723	\$ 17,886	\$ 18,258	\$ 21,924	\$ 35,814
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>	<u>35,814</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 188,921	\$ 298,736	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620
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%	5.78%

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 138,600	\$ 61,243	\$ 79,618	\$ 80,333	\$ 63,075	\$ 64,682	\$ 71,019	\$ 66,378	\$ 61,618	\$ 64,317
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>	<u>64,317</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 792,003	\$ 681,588	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298
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%	10.47%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

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, 2021 – 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, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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%

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 City of Highland Heights, Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City of Highland Heights, Kentucky's basic financial statements and have issued our report thereon dated December 1, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City of Highland Heights, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Highland Heights, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Highland Heights, Kentucky's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Highland Heights, Kentucky's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 1, 2022



Members American Institute of Certified Public Accountants
and Kentucky Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Mayor and the City Council
City of Highland Heights, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Highland Heights, Kentucky's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Highland Heights, Kentucky's major federal programs for the year ended June 30, 2022. City of Highland Heights, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Highland Heights, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Highland Heights, Kentucky's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Highland Heights, Kentucky's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Highland Heights, Kentucky's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

RFH

RFH, PLLC
Lexington, Kentucky
December 1, 2022

CITY OF HIGHLAND HEIGHTS, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2022

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass/Through Contract Number	Passed Through to Subrecipients	Expenditures
U.S. Department of the Treasury				
Passed through the Kentucky Department for Local Government				
COVID-19 - Coronavirus Relief Fund for States	21.019	PON2 112 2200000581	\$ -	\$ 52,906
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	81865214	-	129,550
Total U.S. Department of the Treasury			-	182,456
U.S. Department of Housing & Urban Development				
Passed through the Kentucky Department for Local Government				
Community Development Block Grant	14.228	PON2 1122100003443	950,000	995,000
Total U.S. Department of Housing & Urban Development			950,000	995,000
U.S. Department of Transportation				
Passed through the Kentucky Transportation Cabinet				
State and Community Highway Safety	20.600	SC 625 22000001244	-	498
Total U.S. Department of Transportation			-	498
Total federal awards expended			\$ 950,000	\$ 1,177,954

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Highland Heights, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) . Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2 - Indirect Cost Rates

The City did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**CITY OF HIGHLAND HEIGHTS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☒ Yes ☐ None reported

Non-compliance material to financial statements noted ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Major Program:

AL Numbers

Name of Federal Program or Cluster

14.228

Community Development Block Grant

Dollar threshold used to distinguish between type A
and type B programs:

\$ 750,000

Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

CITY OF HIGHLAND HEIGHTS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

FINDING: 2022-001 (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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE