

CITY OF HIGHLAND HEIGHTS
Highland Heights, Kentucky

FINANCIAL STATEMENTS
June 30, 2025

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INDEPENDENT AUDITORS' REPORT

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, 2025, 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, 2025, 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 36–50 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2026, 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
January 9, 2026

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, 2025. 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, 2025, net position changed as follows:

	Governmental Activities
Beginning net position	\$ 1,110,577
Increase in net position	<u>1,518,237</u>
Ending net position	<u>\$ 2,628,814</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	
	2025	2024
Current Assets	\$ 5,695,583	\$ 5,729,046
Capital Assets and Other Assets	8,074,303	8,059,721
Deferred Outflows	1,246,331	1,497,566
Total Assets and Deferred Outflows	15,016,217	15,286,333
Long-Term Debt Outstanding	5,193,937	5,904,675
Net Pension and OPEB Liability	3,740,807	4,021,523
Current Liabilities	1,816,611	2,317,068
Total Liabilities	10,751,355	12,243,266
Deferred Inflows of Resources	1,636,048	1,932,490
Net Position:		
Net Investment in Capital Assets	1,324,458	2,780,872
Restricted	1,497,233	1,249,302
Unrestricted	(192,877)	(2,919,597)
Total Net Position	\$ 2,628,814	\$ 1,110,577

Table A-2

Condensed Statement of Activities

	Governmental Activities	
	2025	2024
Revenues		
Programs Revenues		
Charges for services	\$ 308,558	\$ 467,427
Operating Grants & Contributions	641,575	303,624
Capital Grants & Contributions	-	168,646
General Revenue		
Taxes	745,858	704,791
License Fees	4,454,835	4,245,001
Permits	8,495	8,142
Fines & Forfeits	5,439	6,541
Grants & Contributions Not Restricted to		
Specific Programs	14,521	8,104
Investment Earnings	79,131	58,782
Other Revenue	23,589	74,297
Gain (loss) on disposal of assets	-	13,160
Total Revenue	6,282,001	6,058,515
Program Expenses		
Administration	945,573	787,896
Police	2,019,674	2,213,586
Maintenance and Public Works	886,033	672,932
Waste Collection	254,841	328,799
Building & Ground	371,590	388,377
Recreation	37,676	40,295
Planning & zoning	35,514	54,701
Interest on long-term debt	212,863	226,208
Total program expenses	4,763,764	4,712,794
Net Change In Net Position	\$ 1,518,237	\$ 1,345,721

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	
	2025	2024
Taxes	\$ 745,858	\$ 704,791
Licenses and Permits	4,463,330	4,253,143
Intergovernmental	656,096	495,478
Fines & Forfeits	5,439	6,541
Charges for Services	308,558	310,804
Other Revenues	108,942	133,079
Total Revenue	6,288,223	5,903,836
Administration	943,549	988,420
Police	2,278,985	2,095,947
Maintenance & Public Works	811,841	555,394
Waste Collection	254,841	328,799
Building & Ground	100,450	118,758
Recreation	34,904	37,523
Planning & Zoning	35,514	54,701
Capital Outlay	350,535	396,072
Debt Service	881,714	903,773
Total Expenditures	5,692,333	5,479,387
Excess (deficiency) Revenues over Expenditures	595,890	424,449
Loan proceeds	-	75,730
Proceeds from sale of assets	-	-
Proceeds from SBITA	-	-
Change in Fund Balance	\$ 595,890	\$ 500,179

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 General Fund – Revenues**

	Budget	Actual	Change
Taxes	\$ 706,000	\$ 745,858	\$ 39,858
Licenses and Permits	3,970,000	4,463,330	493,330
Intergovernmental	598,000	509,244	(88,756)
Fines & Forfeits	58,700	5,439	(53,261)
Charges for Services	315,000	308,558	(6,442)
Other Revenue	-	108,942	108,942
Total Revenue	\$ 5,647,700	\$ 6,141,371	\$ 493,671

Table A-5**Condensed General Fund – Expenditures**

	Budget	Actual	Change
Administration	\$ 992,100	\$ 943,549	\$ (48,551)
Police	2,354,885	2,278,985	(75,900)
Maintenance & Public Works	739,403	602,722	(136,681)
Waste Collection	312,000	254,841	(57,159)
Building & Ground	98,000	100,450	2,450
Recreation	7,000	34,904	27,904
Planning & Zoning	143,500	35,514	(107,986)
Capital Outlay	59,200	345,502	286,302
Debt Service	824,467	881,714	57,247
Total Expenditures	\$ 5,530,555	\$ 5,478,181	\$ (52,374)

The city budgeted for a total of \$5,647,700 in revenues for 2024-2025 but ended up having revenues of \$6,141,371. A total of \$5,530,555 was budgeted for expenses, but expenditures totaled \$5,478,181 at the end of 2025.

Total revenues were over budget by \$493,671 and total expenditures were under budget by \$51,974 for the year.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$5,715,000 in general obligation revenue bonds compared to \$6,370,000 last year. The City's general obligations at year-end include \$490,000 for the purchase of the public works building, and \$3,510,000 for purchase of the city building. \$1,715,000 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 \$89,167 at year end.

Capital Assets

At the end of June 30, 2025, the City had approximately \$6,866,000 invested in capital assets including maintenance equipment, buildings, park facilities, roads and sidewalks, compared to approximately \$6,986,000 last year. The capital assets of the city decreased approximately \$120,000 due to depreciation and disposals exceeding capital additions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City has taken action to increase property taxes and payroll fees. Insurance Premium, Occupational, and Payroll License Fees increased in fiscal year 2025.

We are presently examining budget versus actual expenditures. The City amends the budget throughout the year as needed, and will perform a final budget amendment at the end of the fiscal year.

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, 2025

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,985,761
Investments	1,472,872
Receivables, net	1,230,966
Prepaid expense	<u>5,984</u>
Total current assets	<u>5,695,583</u>
Noncurrent assets	
Restricted cash and cash equivalents	1,207,530
Capital assets	
Land and improvements	1,511,207
Construction in process	198,293
Depreciable infrastructure, net	836,673
Depreciable buildings, property, and equipment, net	4,303,446
Amortizable SBITA assets, net	<u>17,154</u>
Total noncurrent assets	<u>8,074,303</u>
Total assets	<u>13,769,886</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	630,090
Deferred outflows - OPEB	242,883
Defeasance on refunding	<u>373,358</u>
Total deferred outflows of resources	<u>1,246,331</u>
Total assets and deferred outflows of resources	<u>\$ 15,016,217</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 77,807
Accrued liabilities	210,581
Other payables	31,790
Unearned revenue - ARPA	697,335
Unearned revenue - sanitation	77,362
Current portion of SBITA liabilities	8,124
Current portion of long-term obligations	<u>713,612</u>
Total current liabilities	<u>1,816,611</u>
Noncurrent liabilities	
Noncurrent portion of SBITA liabilities	8,696
Noncurrent portion of long-term obligations	5,185,241
Net pension liability	3,662,354
Net OPEB liability	<u>78,453</u>
Total noncurrent liabilities	<u>8,934,744</u>
Total liabilities	<u>10,751,355</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	604,006
Deferred inflows - OPEB	<u>1,032,042</u>
Total deferred inflow of resources	<u>1,636,048</u>
NET POSITION	
Net investment in capital assets	1,324,458
Restricted for	
Bond service	915,675
TIF fund	187,471
Other purposes	394,087
Unrestricted (deficit)	<u>(192,877)</u>
Total net position	<u>2,628,814</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,016,217</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, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Primary government					
Governmental activities					
Administration	\$ 945,573	\$ -	\$ 388,320	\$ -	\$ (557,253)
Police	2,019,674	-	106,403	-	(1,913,271)
Maintenance and public works	886,033	-	146,852	-	(739,181)
Waste collection	254,841	308,558	-	-	53,717
Building and grounds	371,590	-	-	-	(371,590)
Recreation	37,676	-	-	-	(37,676)
Planning and zoning	35,514	-	-	-	(35,514)
Interest on long-term debt	212,863	-	-	-	(212,863)
Total governmental activities	4,763,764	308,558	641,575	-	(3,813,631)
Total primary government	\$ 4,763,764	\$ 308,558	\$ 641,575	\$ -	(3,813,631)

General revenues

Taxes:	
Property taxes, levied for general purposes	745,858
License fees:	
Occupational license fees	2,493,726
Franchise	456,495
Insurance premiums	998,020
Occupational	506,594
Permits:	
Building	-
Other permits	8,495
Fines and forfeitures	5,439
Grants and contributions	
not restricted to specific programs	14,521
Investment earnings	79,131
Miscellaneous	23,589

Total general revenues 5,331,868

Change in Net Position 1,518,237

Net position-beginning, as restated 1,110,577

NET POSITION-ENDING \$ 2,628,814

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2025

	<u>General</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,907,360	\$ 291,856	\$ 4,199,216
Investments	1,472,872	-	1,472,872
Receivables, net	1,230,966	-	1,230,966
Prepaid expense	5,984	-	5,984
Due from other funds	<u>9,327</u>	<u>-</u>	<u>9,327</u>
Total assets	<u>\$ 6,626,509</u>	<u>\$ 291,856</u>	<u>\$ 6,918,365</u>
LIABILITIES			
Liabilities			
Accounts payable	\$ 74,618	\$ 9,114	\$ 83,732
Accrued liabilities	210,581	-	210,581
Other payables	31,790	-	31,790
Due to other funds	-	9,327	9,327
Unearned revenue	<u>774,697</u>	<u>-</u>	<u>774,697</u>
Total liabilities	<u>1,091,686</u>	<u>18,441</u>	<u>1,110,127</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>276,403</u>	<u>-</u>	<u>276,403</u>
Total deferred inflows of resources	<u>276,403</u>	<u>-</u>	<u>276,403</u>
FUND BALANCES			
Nonspendable	5,984	-	5,984
Restricted	1,223,818	273,415	1,497,233
Unassigned	<u>4,028,618</u>	<u>-</u>	<u>4,028,618</u>
Total fund balances	<u>5,258,420</u>	<u>273,415</u>	<u>5,531,835</u>
Total liabilities and fund balances	<u>\$ 6,626,509</u>	<u>\$ 291,856</u>	<u>\$ 6,918,365</u>

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

Total fund balances	\$ 5,531,835
Capital and SBITA assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,866,773
Revenue recognized in governmental activities that does not represent current financial resources and therefore is not recognized in the funds.	276,403
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.	(389,717)
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>(9,656,480)</u>
Net position of governmental activities	<u>\$ 2,628,814</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, 2025

	<u>General</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 745,858	\$ -	\$ 745,858
Licenses, permits, billings	4,463,330	-	4,463,330
Intergovernmental revenues	509,244	146,852	656,096
Fines and forfeitures	5,439	-	5,439
Charges for service	308,558	-	308,558
Other revenues	<u>108,942</u>	<u>-</u>	<u>108,942</u>
Total revenues	<u>6,141,371</u>	<u>146,852</u>	<u>6,288,223</u>
EXPENDITURES			
Current			
Administration	943,549	-	943,549
Police	2,278,985	-	2,278,985
Maintenance and public works	602,722	209,119	811,841
Waste collection	254,841	-	254,841
Buildings and grounds	100,450	-	100,450
Recreation	34,904	-	34,904
Planning and zoning	35,514	-	35,514
Capital outlay	345,502	5,033	350,535
Debt service	<u>881,714</u>	<u>-</u>	<u>881,714</u>
Total expenditures	<u>5,478,181</u>	<u>214,152</u>	<u>5,692,333</u>
Excess of revenues over (under) expenditures	<u>663,190</u>	<u>(67,300)</u>	<u>595,890</u>
Net change in fund balances	663,190	(67,300)	595,890
Fund balances-beginning	<u>4,595,230</u>	<u>340,715</u>	<u>4,935,945</u>
Fund balances-ending	<u>\$ 5,258,420</u>	<u>\$ 273,415</u>	<u>\$ 5,531,835</u>
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 595,890
add: capital outlay expenditures capitalized			350,535
add: debt service expenditures			881,714
less: unavailable revenue			(6,222)
less: interest on long term debt			(180,388)
less: amortization on bond discount and deferred charges			(32,475)
change in net pension liability			169,340
change in OPEB liability			202,761
less: depreciation on governmental activities assets			<u>(462,918)</u>
Change in net position of governmental activities			<u>\$ 1,518,237</u>

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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, 2025

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2025, the City exceeded budgeted expenditures in the buildings and grounds department by \$2,450, recreation department by \$27,904, and the municipal road aid fund by \$39,152.

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Leases

The City follows 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.

K. Subscription-based Information Technology Arrangements

The City follows Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. Government entities are required to recognize a subscription liability and an intangible right-to-use subscription asset.

L. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 9, 2026, 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, 2025, have not been evaluated by the City.

L. Compensated Absences

Effective July 1, 2023, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. The objective of GASB Statement No. 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. These changes were incorporated in the City's June 30, 2025, financial statements. See Note 13 for the effect on the beginning net position/fund balance of the City as a result of implementing GASB Statement No. 101

2. CASH AND INVESTMENTS

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

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments totaling \$1,472,872 were invested in obligations of the U.S. Treasury and its agencies. The weighted average maturity of the investments is 1.6 years. Bank balances at June 30, 2025 totaled \$4,299,376 of which \$500,000 was covered by FDIC. The remaining \$3,799,376 was fully secured by pledged collateral.

Investment Valuation

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

Investments measured at fair value are as follows at June 30, 2025:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and cash equivalents	\$ 146,360	\$ 146,360	\$ -	\$ -
U.S. Government Obligations	<u>1,326,512</u>	<u>-</u>	<u>1,326,512</u>	<u>-</u>
Total	<u>\$ 1,472,872</u>	<u>\$ 146,360</u>	<u>\$ 1,326,512</u>	<u>\$ -</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

3. CAPITAL ASSETS

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

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Governmental Activities:				
Capital assets not depreciated:				
Land & improvements	\$ 1,511,207	\$ -	\$ -	\$ 1,511,207
Construction in process	<u>170,038</u>	<u>112,518</u>	<u>(84,259)</u>	<u>198,297</u>
Totals	<u>1,681,245</u>	<u>112,518</u>	<u>(84,259)</u>	<u>1,709,504</u>
Capital assets that are depreciated:				
Buildings and improvements	5,257,351	-	-	5,257,351
Vehicles	1,159,891	179,388	(57,095)	1,282,184
Equipment	782,141	48,430	(36,134)	794,437
SBITA - equipment	<u>38,120</u>	<u>-</u>	<u>-</u>	<u>38,120</u>
Totals	<u>7,237,503</u>	<u>227,818</u>	<u>(93,229)</u>	<u>7,372,092</u>
Total non-infrastructure assets	<u>8,918,748</u>	<u>340,336</u>	<u>(177,488)</u>	<u>9,081,596</u>
Infrastructure assets	<u>3,796,875</u>	<u>94,926</u>	<u>-</u>	<u>3,891,801</u>
Total capital assets	<u>12,715,623</u>	<u>435,262</u>	<u>(177,488)</u>	<u>12,973,397</u>
Less accumulated depreciation:				
Buildings and improvements	1,374,024	112,884	-	1,486,908
Vehicles	738,700	163,013	(57,095)	844,618
Equipment	706,371	28,765	(36,134)	699,002
Infrastructure assets	<u>2,896,871</u>	<u>158,256</u>	<u>-</u>	<u>3,055,127</u>
Totals	<u>5,715,966</u>	<u>462,918</u>	<u>(93,229)</u>	<u>6,085,655</u>
Less accumulated amortization	<u>13,342</u>	<u>7,627</u>	<u>-</u>	<u>20,969</u>
Total capital assets, net	<u>\$ 6,986,315</u>	<u>\$ (35,283)</u>	<u>\$ (84,259)</u>	<u>\$ 6,866,773</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

3. CAPITAL ASSETS (CONTINUED)

Depreciation and amortization expense was charged to the Governmental functions as follows:

Administration	\$ 3,778
Police	109,099
Maintenance and public works	76,129
Recreation	271,140
Building and grounds	<u>2,772</u>
Total depreciation expense	<u>\$ 462,918</u>

4. RECEIVABLES

General fund receivables at June 30, 2025, including the applicable allowance for uncollectible accounts are as follows:

Taxes	\$ 15,352
Licenses, permits, billings	928,662
Other	<u>299,957</u>
Gross receivables	1,243,971
Less: allowance for uncollectible	<u>(13,005)</u>
Net receivables	<u>\$ 1,230,966</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 totaled \$130,246 as of June 30, 2025.

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 mature 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, 2025, the interest rate was 3.00%. Deferred outflows of the defeasance on refunding totaled \$243,113 as of June 30, 2025.

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, 2025, the interest rate was 2.00%.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

In November 2019, the City financed a maintenance truck for \$51,804. The loan was for 60 months at an interest rate of 4.39%. The vehicle was paid off as of June 30, 2025.

In October 2020, the City financed a police cruiser for \$31,372. The loan was for 48 months at an interest rate of 3.99%. The vehicle was paid off as of June 30, 2025.

In February 2023, the City financed a police SUV for \$44,793. The loan is for 48 months at an interest rate of 7.05%. The police SUV, which as of June 30, 2025, had a net book value of \$23,890, is collateral on the loan, which had a balance of \$20,544.

In June 2023, the City financed a police SUV for \$46,140. The loan is for 48 months at an interest rate of 8.00%. The police SUV, which as of June 30, 2025, had a net book value of \$26,146, is collateral on the loan, which had a balance of \$25,282.

In August 2023, the City purchased a police SUV for \$53,430, with \$42,830 being financed. The loan is for 36 months at an interest rate of 8.00%. The police SUV, which as of June 30, 2025, had a net book value of \$34,730, is collateral on the loan, which had a balance of \$17,196.

In March 2024, the City financed a maintenance truck for \$32,900. The loan is for 60 months at an interest rate of 8.59%. The maintenance truck, which as of June 30, 2025, had a net book value of \$24,675, is collateral on the loan, which had a balance of \$26,145.

A. Changes in General Long-Term Debt

	June 30, 2024	Additions	Retirements	June 30, 2025	Current Portion
2016 GO Bond	\$ 2,120,000	\$ -	\$ 405,000	\$ 1,715,000	\$ 415,000
2017 GO Bond	3,705,000	-	195,000	3,510,000	200,000
2012 GO Bond	545,000	-	55,000	490,000	55,000
Direct placement debt:					
Vehicle loans payable	135,493	-	46,326	89,167	43,612
Total long-term debt	6,505,493	-	701,326	5,804,167	713,612
Add: premium (discount) on bond obligations	107,959	-	13,273	94,686	-
	<u>\$ 6,613,452</u>	<u>\$ -</u>	<u>\$ 714,599</u>	<u>\$ 5,898,853</u>	<u>\$ 713,612</u>

Other Long-Term Liabilities (Assets)

SBITA liabilities	\$ 24,409	\$ -	\$ 7,589	\$ 16,820	\$ 8,124
Net pension liability	3,918,237	-	255,883	3,662,354	-
Net OPEB liability	103,286	-	24,833	78,453	-
Totals	<u>\$ 4,045,932</u>	<u>\$ -</u>	<u>\$ 288,305</u>	<u>\$ 3,757,627</u>	<u>\$ 8,124</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

B. Debt Service Requirements

Fiscal Year	Principal	Interest	Total
2026	\$ 713,612	\$ 161,889	\$ 875,501
2027	726,709	142,444	869,153
2028	716,953	124,159	841,112
2029	726,893	107,087	833,980
2030	285,000	93,712	378,712
2031-2035	1,455,000	328,214	1,783,214
2036-2039	<u>1,180,000</u>	<u>87,011</u>	<u>1,267,011</u>
	<u>\$ 5,804,167</u>	<u>\$ 1,044,516</u>	<u>\$ 6,848,683</u>

BOND ORDINANCE REQUIREMENTS

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

Sinking Fund Reserve - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment by the 25th of each month. The minimum balance required to be in the reserve at June 30, 2025, was \$404,329. The actual reserve balance totaled \$915,675 at June 30, 2025.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2025, were levied in September 2024, 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, 2024
2. 10% penalty delinquent date	November 2, 2024

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 totaled \$1,018,990, which represented 43% of total payroll taxes collected.

8. SBITA LIABILITIES

Governmental activities

Effective October 1, 2022, the City entered into a SBITA for police body camera software and storage. The agreement calls for annual payments of \$9,310 over a period of 5 years. Upon adoption of GASB 96, the City recognized a subscription liability and a subscription asset related to the agreement totaling \$38,120. The City calculated the present value of future payments based on an incremental borrowing rate of 7.1%. The balance of the SBITA liability as of June 30, 2025 totaled \$16,820.

Annual requirements to maturity for all governmental long-term SBITA obligations are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 8,124	\$ 1,186	\$ 9,310
2027	<u>8,696</u>	<u>613</u>	<u>9,309</u>
Total	<u>\$ 16,820</u>	<u>\$ 1,799</u>	<u>\$ 18,619</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

9. 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.

Contributions – For the year ended June 30, 2025, 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, 2025, participating employers contributed 19.71% of each employee's wages for non-hazardous job classifications and 38.61% 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 10. Plan members contributed 19.71% to the pension trust for non-hazardous job classifications and 36.49% 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, 2025, the City contributed \$136,544, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$136,544 to the CERS pension fund and \$0 to the CERS insurance fund. The City contributed \$255,704, or 100% of the required contribution for hazardous job classifications, which was allocated \$241,664 to the CERS pension fund and \$14,040 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, 2025

9. 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, 2025, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
\$ <u>3,662,354</u>	\$ <u>1,240,759</u>	\$ <u>2,421,595</u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, 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, 2024, was as follows:

Non-hazardous	Hazardous
.0207%	.0941%

The proportionate share at June 30, 2024, increased .0001% for non-hazardous and decreased .0022% for hazardous compared to the proportionate share as of June 30, 2023.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

9. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2025, the City recognized pension expense of \$215,545. At June 30, 2025, 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	\$ 217,403	\$ -
Changes of assumptions	-	192,728
Net difference between projected and actual earnings on Plan investments	-	209,021
Changes in proportion and differences between City contributions and proportionate share of contributions	34,479	202,257
City contributions subsequent to the measurement date	<u>378,208</u>	<u>-</u>
Total	<u>\$ 630,090</u>	<u>\$ 604,006</u>

The \$378,208 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, 2026. 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,

2026	\$ (230,960)
2027	\$ 248
2027	\$ (75,405)
2028	\$ (46,007)

Actuarial Assumptions – The total pension liabilities in the June 30, 2024, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service, including inflation
Investment rate of return	6.50%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.50%
Salary increases	3.55% to 19.05%, varies by service, including inflation
Investment rate of return	6.50%, 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 2013-2022, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2023. 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, 2025

9. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024.

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
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Liquidity	20.00%	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	20.00%	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total	100.00%	4.69%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		7.19%

Discount Rate – The discount rate used to measure the total pension liability was 6.50%. 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 closed 27-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, 2025

9. 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 6.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	Non-hazardous		Hazardous	
		City's proportionate share of net pension liability		City's proportionate share of net pension liability
1% decrease	5.50%	\$ 1,599,540	5.50%	\$ 3,117,550
Current discount rate	6.50%	\$ 1,240,759	6.50%	\$ 2,421,595
1% increase	7.50%	\$ 943,064	7.50%	\$ 1,853,385

Payable to the Pension Plan – At June 30, 2025, the City reported a payable of \$36,269 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2025. The payable includes both the pension and insurance contribution allocation.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 9, 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 9, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2025, the employer's contribution was 0.00% to the insurance trust for non-hazardous job classifications and 2.12% 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.

For the year ended June 30, 2025, the City contributed \$0, or 100% of the required contribution for non-hazardous job classifications, and \$14,040, or 100% of the required contribution for hazardous job classifications.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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

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, 2025, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
OPEB Liability	Non-hazardous	Hazardous
\$ 78,453	\$ (35,922)	\$ 114,375

The net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2023, 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, 2024, was as follows:

Non-hazardous	Hazardous
.0208%	.0939%

The proportionate share at June 30, 2024, increased .0002% for non-hazardous and decreased .0024% for hazardous compared to the proportionate share as of June 30, 2024.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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

For the year ended June 30, 2025, the City recognized OPEB expense of \$(179,062). At June 30, 2025, 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	\$ 50,776	\$ 699,571
Changes of assumptions	109,813	125,594
Net difference between projected and actual earnings on Plan investments	-	104,359
Changes in proportion and differences between City contributions and proportionate share of contributions	56,337	102,518
City contributions subsequent to the measurement date	<u>25,957</u>	<u>-</u>
Total	<u>\$ 242,883</u>	<u>\$ 1,032,042</u>

The \$25,957 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, 2026. Adjustments of \$9,738 for the nonhazardous implicit subsidy and \$(1,567) 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,

2026	\$ (259,392)
2027	\$ (211,226)
2029	\$ (247,497)
2029	\$ (101,513)
2030	\$ 4,512

Actuarial Assumptions – The total OPEB liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.50%
Salary increases	3.30 to 10.30%, varies by service, including inflation
Investment rate of return	6.50%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.

Post – 65: Initial trend starting at 8.00% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 9 years.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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

Hazardous

Inflation	2.50%
Salary increases	3.55 to 19.05%, varies by service, including inflation
Investment rate of return	6.50%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.

Post – 65: Initial trend starting at 8.00% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 9 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 2013-2022, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2023. 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, 2024, valuation were based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024.

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
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Liquidity	20.00%	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	20.00%	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total		4.69%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		7.19%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.99% and 6.02% 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 22-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.97%, 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 (Asset) to Changes in the Discount Rate – The following presents the City's proportionate share of the net OPEB liability (asset) calculated using the discount rate as well as what the City's proportionate share of the net OPEB liability (asset) 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 (asset)		Discount rate	City's proportionate share of net OPEB liability (asset)	
1% decrease	4.99%	\$ 48,573		5.02%	\$ 314,789	
Current discount rate	5.99%	\$ (35,922)		6.02%	\$ 114,375	
1% increase	6.99%	\$ (106,969)		7.02%	\$ (53,967)	

Sensitivity of the City's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability (asset) 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 (asset)		City's proportionate share of net OPEB liability (asset)	
1% decrease	\$ (86,429)		\$ (17,658)	
Current trend rate	\$ (35,922)		\$ 114,375	
1% increase	\$ 22,910		\$ 267,679	

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, 2025

11. 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.

12. 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, 2025, in the Development Area. The City has restricted \$187,471 based on the Incremental Revenues collected as of June 30, 2025.

13. RESTATEMENT OF NET POSITION

During 2023, the City implemented GASB Statement No. 101, *Compensated Absences*, as described more fully in Note 1. As outlined in GASB Statement No. 101, accrued compensated absences were restated for remeasurement of accrued vacation leave, accrued sick leave and the employer portion of FICA and Medicare taxes related to compensated absences for the year ended June 30, 2025.

Restated beginning net position/fund balance is summarized as follows:

Governmental activities	
Net position, at beginning of year	\$ 1,159,108
Increase in accrued compensated absences	<u>(48,531)</u>
Net position, at beginning of year, as restated	<u>\$ 1,110,577</u>
General Fund	
Fund balance, at beginning of year	\$ 4,643,761
Increase in accrued compensated absences	<u>(48,531)</u>
Fund balance, at beginning of year, as restated	<u>\$ 4,595,230</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2025

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes				
Property taxes	\$ 557,000	\$ 583,000	\$ 599,849	\$ 16,849
Tangible tax	40,000	40,000	51,827	11,827
Bank share	70,000	70,000	77,881	7,881
Penalties and interest	13,000	13,000	16,301	3,301
Total taxes	<u>680,000</u>	<u>706,000</u>	<u>745,858</u>	<u>39,858</u>
Licenses, permits and billings				
Occupational license fees	2,150,000	2,150,000	2,493,726	343,726
Franchise	320,000	320,000	376,092	56,092
Insurance premium license fee	810,000	922,100	998,020	75,920
Telecommunications	80,000	80,000	80,403	403
Net profit license fee	485,000	485,000	506,594	21,594
Building permits	5,000	5,000	-	(5,000)
Other permits and fees	7,900	7,900	8,495	595
Total licenses, permits and billings	<u>3,857,900</u>	<u>3,970,000</u>	<u>4,463,330</u>	<u>493,330</u>
Intergovernmental revenues				
Police incentive pay	70,000	70,000	74,903	4,903
District court revenue	8,000	8,000	14,521	6,521
American Rescue Plan	350,000	520,000	388,320	(131,680)
Other grants	-	-	31,500	31,500
Total intergovernmental revenues	<u>428,000</u>	<u>598,000</u>	<u>509,244</u>	<u>(88,756)</u>
Fines and forfeitures				
Parking fines	58,700	58,700	5,414	(53,286)
Animal control fines	-	-	25	25
Total fines and forfeitures	<u>58,700</u>	<u>58,700</u>	<u>5,439</u>	<u>(53,261)</u>
Charges for service				
Waste collection	<u>315,000</u>	<u>315,000</u>	<u>308,558</u>	<u>(6,442)</u>
Total charges for service	<u>315,000</u>	<u>315,000</u>	<u>308,558</u>	<u>(6,442)</u>
Other revenues				
Other	-	-	108,942	108,942
Total other revenue	<u>-</u>	<u>-</u>	<u>108,942</u>	<u>108,942</u>
Total revenue	<u>\$ 5,339,600</u>	<u>\$ 5,647,700</u>	<u>\$ 6,141,371</u>	<u>\$ 493,671</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2025

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES				
Administration				
Salaries	\$ 316,000	\$ 316,000	\$ 329,961	\$ 13,961
Payroll expenses	140,500	140,500	148,177	7,677
Advertisement	2,500	2,500	2,031	(469)
Legal and accounting	57,000	57,000	34,457	(22,543)
Professional fees/tech/other	40,000	40,000	46,777	6,777
Codification	-	-	2,310	2,310
PVA charges	22,000	22,000	21,899	(101)
Other contractual	114,000	114,000	101,427	(12,573)
Bank fees	15,000	15,000	20,177	5,177
Maintenance contracts and repairs	65,500	65,500	18,781	(46,719)
Travel and training	3,000	3,000	1,421	(1,579)
Utilities	16,000	16,000	18,411	2,411
Postage and shipping	5,500	5,500	3,233	(2,267)
Website/internet	20,000	20,000	898	(19,102)
Insurance and bonds	60,600	60,600	60,223	(377)
Office supplies	10,000	54,000	83,082	29,082
Dues and subscriptions	13,000	13,000	13,871	871
Paycor charges	8,000	8,000	8,802	802
Animal control	12,000	12,000	10,122	(1,878)
Other	27,500	27,500	17,489	(10,011)
Total administration	<u>948,100</u>	<u>992,100</u>	<u>943,549</u>	<u>(48,551)</u>
Police				
Salaries	1,274,000	1,274,000	1,407,563	133,563
Payroll expenses	701,500	701,500	573,208	(128,292)
Uniforms	21,000	21,000	23,743	2,743
Cruiser expense	92,000	92,000	72,838	(19,162)
Maintenance and repairs	-	-	12,626	12,626
Insurance	55,000	55,000	47,527	(7,473)
Travel and training	35,000	35,000	36,027	1,027
Equipment expense	26,000	26,000	35,079	9,079
Office supplies	2,500	2,500	13,113	10,613
Dues and subscriptions	23,000	23,000	24,620	1,620
Communication/postage	16,300	16,300	24,557	8,257
New Cruisers (ARPA)	-	83,585	-	(83,585)
Other expenses	25,000	25,000	8,084	(16,916)
Total police	<u>2,271,300</u>	<u>2,354,885</u>	<u>2,278,985</u>	<u>(75,900)</u>
Maintenance and public works				
Salaries	307,000	307,000	351,407	44,407
Payroll expenses	155,100	155,100	147,543	(7,557)
Repairs and contracts	10,000	10,000	14,846	4,846
Travel and training	2,000	2,000	2,495	495
Uniforms	6,000	6,000	5,651	(349)
Vehicle expenses	29,000	29,000	20,262	(8,738)
Grounds maintenance	40,000	40,000	26,694	(13,306)
Insurance	7,000	7,000	5,920	(1,080)
Materials and supplies	15,500	77,803	11,387	(66,416)
Miscellaneous	5,500	105,500	16,517	(88,983)
Total maintenance and public works	<u>\$ 577,100</u>	<u>\$ 739,403</u>	<u>\$ 602,722</u>	<u>\$ (136,681)</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2025

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Waste collection				
Waste collections	\$ 312,000	\$ 312,000	\$ 254,841	\$ (57,159)
Building and grounds				
Utilities	98,000	98,000	100,450	2,450
Total building and grounds	98,000	98,000	100,450	2,450
Recreation				
Materials and supplies	7,000	7,000	34,904	27,904
Total recreation	7,000	7,000	34,904	27,904
Planning and zoning				
Salaries	12,000	12,000	6,912	(5,088)
Professional fees	44,000	121,600	2,156	(119,444)
Travel and training	2,000	2,000	-	(2,000)
Supplies	7,900	7,900	1,020	(6,880)
Board of Adjustments	-	-	25,426	25,426
Total planning and zoning	65,900	143,500	35,514	(107,986)
Capital outlay	409,200	59,200	345,502	286,302
Debt service	824,467	824,467	881,714	57,247
Total expenditures	5,513,067	5,530,555	5,478,181	(52,374)
Other financing sources				
Loan proceeds	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balance	<u>\$ (173,467)</u>	<u>\$ 117,145</u>	<u>\$ 663,190</u>	<u>\$ 546,045</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
MUNICIPAL ROAD AID FUND
for the year ended June 30, 2025

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental revenue	\$ 160,000	\$ 160,000	\$ 146,852	\$ (13,148)
Expenditures				
Operating expenditures	175,000	175,000	209,119	34,119
Capital outlay	<u>-</u>	<u>-</u>	<u>5,033</u>	<u>5,033</u>
Total expenditures	<u>175,000</u>	<u>175,000</u>	<u>214,152</u>	<u>39,152</u>
Net change in fund balance	<u>\$ (15,000)</u>	<u>\$ (15,000)</u>	<u>\$ (67,300)</u>	<u>\$ (52,300)</u>

CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS
Last Ten Fiscal Years

Reporting Fiscal Year (Measurement Date)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)	2024 (2023)	2025 (2024)
City's proportion of the net pension liability (asset)	0.0099%	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%	0.0159%	0.0203%	0.0206%	0.0207%
City's proportionate share of the net pension liability (asset)	\$ 424,216	\$ 502,481	\$ 597,330	\$ 638,751	\$ 785,169	\$ 987,348	\$ 1,011,901	\$ 1,465,755	\$ 1,321,223	\$ 1,240,759
City's covered employee payroll	\$ 368,333	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620	\$ 594,451	\$ 651,329
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	115.17%	132.42%	164.22%	203.91%	230.90%	257.42%	219.70%	236.56%	222.26%	190.50%
Plan fiduciary net position as a percentage of the total pension liability (asset)	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%	61.61%

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

Reporting Fiscal Year (Measurement Date)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)	2024 (2023)	2025 (2024)
City's proportion of the net pension liability (asset)	0.1208%	0.1230%	0.1208%	0.1242%	0.1191%	0.1165%	0.1104%	0.0943%	0.0963%	0.0942%
City's proportionate share of the net pension liability (asset)	\$ 1,854,320	\$ 2,111,391	\$ 2,703,527	\$ 3,003,385	\$ 3,289,977	\$ 3,511,875	\$ 2,940,035	\$ 2,878,318	\$ 2,597,014	\$ 2,421,595
City's covered employee payroll	\$ 586,291	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298	\$ 690,017	\$ 689,362
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	316.28%	333.53%	400.76%	434.15%	485.02%	503.68%	454.23%	468.55%	376.37%	351.28%
Plan fiduciary net position as a percentage of the total pension liability (asset)	57.52%	53.95%	49.78%	49.26%	46.63%	44.11%	52.26%	47.11%	52.96%	57.05%

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 47,096	\$ 50,741	\$ 45,358	\$ 55,156	\$ 74,027	\$ 88,893	\$ 131,173	\$ 139,101	\$ 152,020	\$ 136,544
Contributions relative to contractually required employer contribution	<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>	<u>139,101</u>	<u>152,020</u>	<u>136,544</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	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620	\$ 594,451	\$ 651,329	\$ 692,763
Employer contributions as a percentage of covered-employee payroll	12.41%	13.95%	14.48%	16.22%	19.30%	19.30%	21.17%	23.40%	23.34%	19.71%

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 128,255	\$ 146,454	\$ 153,576	\$ 168,696	\$ 209,591	\$ 194,564	\$ 208,001	\$ 295,397	\$ 283,396	\$ 241,664
Contributions relative to contractually required employer contribution	<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>	<u>295,397</u>	<u>283,396</u>	<u>241,664</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	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298	\$ 690,017	\$ 689,362	\$ 662,275
Employer contributions as a percentage of covered-employee payroll	20.26%	21.71%	22.20%	24.87%	30.06%	30.06%	33.86%	42.81%	41.11%	36.49%

**CITY OF HIGHLAND HEIGHTS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE THE NET OPEB LIABILITY (ASSET) - NONHAZARDOUS
Last Nine Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)	2024 (2023)	2025 (2024)
City's proportion of the net OPEB liability (asset)	0.0102%	0.0102%	0.0105%	0.0112%	0.0129%	0.0159%	0.0203%	0.0206%	0.0208%
City's proportionate share of the net OPEB liability (asset)	\$ 160,918	\$ 205,155	\$ 186,212	\$ 187,723	\$ 310,747	\$ 303,785	\$ 400,090	\$ (28,427)	\$ (35,922)
City's covered employee payroll	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620	\$ 594,451	\$ 651,329
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%	64.57%	-4.78%	-5.52%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%	104.89%

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

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

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)	2024 (2023)	2025 (2024)
City's proportion of the net OPEB liability (asset)	0.1208%	0.1208%	0.1242%	0.1191%	0.1164%	0.1104%	0.0943%	0.0963%	0.0939%
City's proportionate share of the net OPEB liability (asset)	\$ 596,909	\$ 998,950	\$ 885,446	\$ 881,025	\$ 1,076,047	\$ 892,957	\$ 803,055	\$ 131,713	\$ 114,375
City's covered employee payroll	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298	\$ 690,017	\$ 689,362
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%	130.73%	19.09%	16.59%
Plan fiduciary net position as a percentage (asset) of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%	66.81%	64.13%	92.27%	93.53%

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

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 17,594	\$ 17,205	\$ 14,723	\$ 17,886	\$ 18,258	\$ 21,924	\$ 35,814	\$ 20,152	\$ -	\$ -
Contributions relative to contractually required employer contribution	<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>	<u>20,152</u>	<u>-</u>	<u>-</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	\$ 379,449	\$ 363,739	\$ 313,249	\$ 340,048	\$ 383,562	\$ 460,587	\$ 619,620	\$ 594,451	\$ 651,329	\$ 692,763
Employer contributions as a percentage of covered-employee payroll	4.64%	4.73%	4.70%	5.26%	4.76%	4.76%	5.78%	3.39%	0.00%	0.00%

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 80,333	\$ 63,075	\$ 64,682	\$ 71,019	\$ 66,378	\$ 61,618	\$ 53,628	\$ 46,783	\$ 14,040	\$ 17,786
Contributions relative to contractually required employer contribution	<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>53,628</u>	<u>46,783</u>	<u>14,040</u>	<u>17,786</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	\$ 633,045	\$ 674,595	\$ 691,782	\$ 678,311	\$ 697,244	\$ 647,251	\$ 614,298	\$ 690,017	\$ 689,362	\$ 662,275
Employer contributions as a percentage of covered-employee payroll	12.69%	9.35%	9.35%	10.47%	9.52%	9.52%	8.73%	6.78%	2.04%	2.69%

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2025

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, 2024 – Pension and OPEB - Hazardous and Nonhazardous

There were no changes in assumptions in the valuation of pension. The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2024, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.80% to 7.10%. The initial healthcare trend rate for post-65 was changed from 8.50% to 8.00%.

June 30, 2023 – 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, 2023, for pension:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The Tier 3 cash balance interest crediting rate assumption was increased to 6.75% for the CERS pension funds.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.8%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

CITY OF HIGHLAND HEIGHTS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2025

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2022 – 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, 2022, for OPEB:

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

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension.

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, 2025

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.



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**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, 2025, 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 January 9, 2026.

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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001, that we consider to be a material weakness.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 2025-002.

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 responses. The City of Highland Heights, Kentucky's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

RFH

RFH, PLLC
Lexington, Kentucky
January 9, 2026

CITY OF HIGHLAND HEIGHTS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2025

FINDING: 2025-001 (Recurring)

Criteria: The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures and certain accrual entries, in compliance with generally accepted accounting principles.

Condition: Management was unable to prepare draft financial statements, including the related notes to the financial statements and certain accrual entries.

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

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

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

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

FINDING: 2025-002 (Recurring)

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

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

Cause: The City did not amend the budget prior to spending in excess of the unamended budget.

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

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

RESPONSE: The City is actively monitoring expenditures throughout the year to ensure that they are within budget.