

CITY OF HODGENVILLE, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021

(With Independent Auditor's Report Thereon)

CITY OF HODGENVILLE, KENTUCKY

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Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH D. CLAUSON, CPA
SUSAN C. MOUSER, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Hodgenville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hodgenville, Kentucky as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Hodgenville, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hodgenville, Kentucky, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the budgetary comparison schedule on page 39, and select pension and OPEB information on pages 40 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hodgenville, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, on our consideration of the City of Hodgenville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hodgenville, Kentucky's internal control over financial reporting and compliance.

Clauser, Mouser & Co.

Certified Public Accountants
January 30, 2023

**CITY OF HODGENVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

The discussion and analysis of the City of Hodgenville, Kentucky's financial performance provides an overall review of the City's financial activities for the fiscal year ending June 30, 2021. The intent of this discussion and analysis is to review the City's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash balances of the City totaled \$3.7 million, which includes approximately \$866,000 of restricted cash and cash equivalents. This reflects an increase in cash during the year of approximately \$661,000.
- Governmental activities had \$2.44 million and business-type activities had \$1.73 million in revenue for the year.
- Governmental activities had \$2.12 million and business-type activities had \$1.94 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled approximately \$15.41 million.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes, occupational taxes, license fees and permits, insurance premiums taxes, user charges and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety (police), fire, parks and recreation, highways and streets, and cemetery. The business-type activities of the City include water and wastewater services. Fixed assets and related debt are also supported by the revenue sources mentioned above.

The government-wide financial statements can be found on pages 7-8 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds. The proprietary fund includes water and wastewater. All other activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9-15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-38 of this report.

THE CITY AS A WHOLE

The City's combined net position increased by approximately \$105,000, or almost 1 percent, from a year ago. Our analysis below focuses on the net position and changes in net position of the primary government.

Net Position June 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 2,891,470	\$ 2,341,316	\$ 1,368,510	\$ 1,444,788	\$ 4,259,980	\$ 3,786,104
Capital assets	3,680,149	3,837,846	11,731,796	11,946,098	15,411,945	15,783,944
Total Assets	6,571,619	6,179,162	13,100,306	13,390,886	19,671,925	19,570,048
Deferred Outflows	534,797	363,274	521,833	403,917	1,056,630	767,191
Long-term debt	11,126	21,725	4,907,185	5,195,700	4,918,311	5,217,425
Net pension and OPEB liabilities	1,800,248	1,367,206	1,750,303	1,480,285	3,550,551	2,847,491
Other liabilities	83,428	107,499	195,769	175,057	279,197	282,556
Total Liabilities	1,894,802	1,496,430	6,853,257	6,851,042	8,748,059	8,347,472
Deferred Inflows	180,082	245,277	249,612	299,080	429,694	544,357
Net Position						
Investment in capital assets (net of debt)	3,669,023	3,816,121	6,824,611	6,750,398	10,493,634	10,566,519
Restricted	20,945	12,293	752,901	837,296	773,846	849,589
Unrestricted	1,341,564	972,315	(1,058,242)	(943,013)	283,322	29,302
Total Net Position	\$ 5,031,532	\$ 4,800,729	\$ 6,519,270	\$ 6,644,681	\$ 11,550,802	\$ 11,445,410

The increase in net position is due to current year revenue exceeding current year expenses by approximately \$105,000. Increases in occupational taxes and intergovernmental revenue significantly impacted the increase in net position.

Approximately 7% of the City's net position is restricted as to the purpose it can be used for and approximately 91% is invested in capital assets, resulting in approximately a 2% unrestricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Changes in Net Position Years Ended June 30, 2021 and 2020						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
REVENUES:						
Program revenues:						
Charges for services	\$ 109,342	\$ 130,843	\$ 1,679,282	\$ 1,717,309	\$ 1,788,624	\$ 1,848,152
Operating grants and contributions	338,473	267,652	-	3,000	338,473	270,652
Capital grants and contributions	-	68,286	3,076	23,428	3,076	91,714
General revenues:						
Taxes	1,886,986	1,667,805	-	-	1,886,986	1,667,805
Licenses & Permits	30,138	30,897	-	-	30,138	30,897
Other revenues	70,104	48,302	48,467	58,365	118,571	106,667
Total revenues	2,435,043	2,213,785	1,730,825	1,802,102	4,165,868	4,015,887
EXPENSES:						
Governmental activities:						
General government	818,521	764,645	-	-	818,521	764,645
Police	1,108,833	896,215	-	-	1,108,833	896,215
Fire	51,085	59,996	-	-	51,085	59,996
Parks and recreation	32,112	36,787	-	-	32,112	36,787
Highways and streets	8,310	6,668	-	-	8,310	6,668
Cemetery	101,195	90,774	-	-	101,195	90,774
Water & wastewater	-	-	1,940,418	1,956,968	1,940,418	1,956,968
Total expenses	2,120,056	1,855,085	1,940,418	1,956,968	4,060,474	3,812,053
Transfers in (out)	(84,184)	16,374	84,184	(16,374)	-	-
Changes in net position	\$ 230,803	\$ 375,074	\$ (125,409)	\$ (171,240)	\$ 105,394	\$ 203,834

Other revenue includes investment income and other miscellaneous income.

Operating grants and contributions in governmental activities increased approximately \$71,000 with an offsetting decrease of approximately \$68,000 in capital grants and contributions. General revenues of taxes increased by approximately \$219,000, with the most significant increases being in occupational taxes. Charges for services in the business type activities decreased by approximately \$38,000. Expenses increased approximately \$248,000 for the City as a whole, with the most significant increases being in police.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions of the City.

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's Funds

As the City completed the year, its governmental fund balances, as presented in the balance sheet on page 9 increased approximately \$581,000.

General Fund-Budget Highlights

The City's budget is prepared according to Kentucky law. The most significant budgeted fund is the General Fund. For the General Fund, revenues were budgeted at \$1,334,500 with actual amounts of \$2,148,154. The variance between budgeted revenues and actual revenues is favorable. Budgeted expenditures of \$1,334,500 compare with actual expenditures of \$1,742,241. The variance between budgeted expenditures and actual expenditures is unfavorable but is more than offset by the favorable variance in revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the year ended June 30, 2021, the City had \$15.4 million invested in capital assets, net of depreciation. This represents a net decrease of approximately \$372,000 compared to last year. The decrease is principally attributable to current year depreciation expense of approximately \$733,000.

Long-term Debt

At the year ended June 30, 2021 the City had \$4.9 million outstanding on capital leases, revenues bonds, and notes payable compared to \$5.2 million at June 30, 2020. That is a decrease of approximately \$299,000 or 6%. The decrease is due to principal payments of \$1.16 million and new loan proceeds of approximately \$873,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES - GENERAL FUND

The largest source of revenue for the general fund is the occupational tax, which includes taxes at a current rate of .75 percent of wages and net profits, with FY 2021 revenue of \$881,617. The second largest general fund revenue source is the municipal insurance premium tax, which is at a current rate of 10 percent of premiums written in the City with FY 2021 revenue of \$562,482. The third largest source of revenue is property taxes. The 2020 property tax rate was 0.140 for \$100 of assessed value of real property and personal property with FY 2021 revenue of \$336,228. Franchise tax revenues for FY 2021 totaled \$114,343. Revenue for FY 2022 is budgeted at \$1,386,000 in total, with insurance premium tax is budgeted at \$475,000, occupational tax and licenses budgeted at \$500,000, and property taxes combined with franchise taxes budgeted at \$357,000.

General fund disbursements were budgeted at \$1,334,500 with actual expenditures of \$1,836,632 for FY 2021. Budgeted disbursements were increased to \$1,386,000 for FY 2022, which is an increase of \$51,500, with the most significant increase in general government.

CITY PROJECTS

In FYE 2021 the City:

- Began new construction (in progress) on water and wastewater line replacements of \$179,548.
- Completed water and wastewater system improvements of \$7,665.
- Purchased a maintenance utility truck for \$23,696 to be utilized by both the water and wastewater fund and the general administration department. Cost was allocated at \$11,848 and \$11,848 respectively.
- Improvements to City roads and streets in the amount of \$14,145.
- Began construction on the stadium at Creekfront Park for \$3,462.
- Completed repairs to fire trucks and purchased equipment for the fire department for \$45,156.
- Purchased Chevy Blazer for the city for \$4,625.
- Purchased equipment and turn out gear for the fire department for \$64,073.
- Purchased 2021 Dodge Charger and other equipment for the police department for \$32,510.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Hodgenville, and P.O. Box 189, Hodgenville, Kentucky 42748.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business- Type Activities	Total
<u>ASSETS:</u>			
Current Assets			
Cash & cash equivalents	\$ 2,472,365	\$ 376,607	\$ 2,848,972
Prepaid expenses	9,041	7,835	16,876
Accounts receivable:			
Taxes	376,087	-	376,087
Trade, net	-	139,084	139,084
Other	13,032	200	13,232
Total Current Assets	<u>2,870,525</u>	<u>523,726</u>	<u>3,394,251</u>
Noncurrent Assets			
Restricted cash & cash equivalents	20,945	844,784	865,729
Capital assets, net of depreciation	3,680,149	11,731,796	15,411,945
Total Noncurrent Assets	<u>3,701,094</u>	<u>12,576,580</u>	<u>16,277,674</u>
TOTAL ASSETS	<u>6,571,619</u>	<u>13,100,306</u>	<u>19,671,925</u>
<u>Deferred Outflows of Resources:</u>			
Debt issue costs, net	-	29,152	29,152
Deferred outflows related to pension	319,274	288,534	607,808
Deferred outflows related to OPEB	215,523	204,147	419,670
Total Deferred Outflows	<u>534,797</u>	<u>521,833</u>	<u>1,056,630</u>
<u>LIABILITIES:</u>			
Current Liabilities			
Accounts payable	18,614	46,854	65,468
Accrued expenses	53,191	54,635	107,826
Revenue bonds payable - current portion	-	102,083	102,083
Leases/notes payable - current portion	11,126	297,474	308,600
Total Current Liabilities	<u>82,931</u>	<u>501,046</u>	<u>583,977</u>
Noncurrent Liabilities			
Compensated absences	11,623	16,850	28,473
Revenue bonds payable, net of current portion	-	1,062,917	1,062,917
Leases/notes payable, net of current portion	-	3,444,711	3,444,711
Net pension liability	1,369,283	1,331,295	2,700,578
Net OPEB liability	430,965	419,008	849,973
Customer deposits	-	77,430	77,430
Total Noncurrent Liabilities	<u>1,811,871</u>	<u>6,352,211</u>	<u>8,164,082</u>
TOTAL LIABILITIES	<u>1,894,802</u>	<u>6,853,257</u>	<u>8,748,059</u>
<u>Deferred Inflows of Resources:</u>			
Bond premium, net	-	74,525	74,525
Deferred inflows related to pension	71,180	69,206	140,386
Deferred inflows related to OPEB	108,902	105,881	214,783
Total Deferred Inflows	<u>180,082</u>	<u>249,612</u>	<u>429,694</u>
<u>NET POSITION:</u>			
Invested in capital assets, net of related debt	3,669,023	6,824,611	10,493,634
Restricted for employee benefits	8,663	-	8,663
Restricted for police department	12,282	-	12,282
Restricted for debt service	-	339,627	339,627
Restricted for capital projects	-	413,274	413,274
Unrestricted	1,341,564	(1,058,242)	283,322
TOTAL NET POSITION	<u>\$ 5,031,532</u>	<u>\$ 6,519,270</u>	<u>\$ 11,550,802</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 818,521	\$ 20,667	\$ 223,179	\$ -	\$ (574,675)	\$ -	\$ (574,675)
Police	1,108,833	44,875	34,008	-	(1,029,950)	-	(1,029,950)
Fire	51,085	-	11,000	-	(40,085)	-	(40,085)
Parks and recreation	32,112	-	-	-	(32,112)	-	(32,112)
Highways and streets	8,310	-	62,313	-	54,003	-	54,003
Cemetery	101,195	43,800	7,973	-	(49,422)	-	(49,422)
Total governmental activities	2,120,056	109,342	338,473	-	(1,672,241)	-	(1,672,241)
Business-type activities:							
Water and wastewater	1,940,418	1,679,282	-	3,076	-	(258,060)	(258,060)
TOTAL	\$ 4,060,474	\$ 1,788,624	\$ 338,473	\$ 3,076	(1,672,241)	(258,060)	(1,930,301)
General revenues:							
Property taxes					328,544	-	328,544
Insurance premium taxes					562,482	-	562,482
Occupational taxes					881,617	-	881,617
Franchise taxes					114,343	-	114,343
License and permits					30,138	-	30,138
Interest income					38,966	14,450	53,416
Other revenue					31,138	34,017	65,155
Total general revenues					1,987,228	48,467	2,035,695
Transfers in (out)					(84,184)	84,184	-
Change in net position					230,803	(125,409)	105,394
Net position - beginning					4,800,729	6,644,679	11,445,408
Net position - ending					<u>\$ 5,031,532</u>	<u>\$ 6,519,270</u>	<u>\$ 11,550,802</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash & cash equivalents	\$ 1,686,387	\$ 785,978	\$ 2,472,365
Prepaid expenses	9,041	-	9,041
Receivables:			
Taxes	374,963	-	374,963
Other	13,032	-	13,032
Restricted cash	20,945	-	20,945
 TOTAL ASSETS	 <u>\$ 2,104,368</u>	 <u>\$ 785,978</u>	 <u>\$ 2,890,346</u>
 <u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts payable	\$ 18,614	\$ -	\$ 18,614
Accrued expenses	52,075	1,116	53,191
 TOTAL LIABILITIES	 <u>70,689</u>	 <u>1,116</u>	 <u>71,805</u>
 <u>FUND BALANCES:</u>			
Nonspendable	9,041	-	9,041
Restricted	20,945	280,241	301,186
Committed	11,623	331,556	343,179
Assigned	-	173,065	173,065
Unassigned	1,992,070	-	1,992,070
 TOTAL FUND BALANCES	 <u>2,033,679</u>	 <u>784,862</u>	 <u>2,818,541</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 2,104,368</u>	 <u>\$ 785,978</u>	 <u>\$ 2,890,346</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2021

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS			\$ 2,818,541
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:			
Property taxes receivable not collected within 60 days are not reported in the fund financial statements because they are not measurable and available, but they are presented in the statement of net position.			
			1,124
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Capital asset cost	7,321,167		
Net of accumulated depreciation	<u>(3,641,018)</u>	3,680,149	
Compensated absences are not reported in the fund financial statements because they are not due and payable in the current period, but they are presented in the statement of net position.			
			(11,623)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods, therefore, are not reported in the governmental fund financial statements but are reported in the statement of net position.			
Deferred outflows related to pension	319,274		
Deferred outflows related to OPEB	215,523		
Deferred inflows related to pension	(71,180)		
Deferred inflows related to OPEB	<u>(108,902)</u>	354,715	
Long-term liabilities including net pension liability are not due and payable in the current period, therefore, are not reported in the governmental fund financial statements, but are reported in the statement of net position.			
Net pension liability	(1,369,283)		
Net OPEB liability	(430,965)		
Capital lease payable	<u>(11,126)</u>	<u>(1,811,374)</u>	
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES			<u>\$ 5,031,532</u>

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>			
Property taxes	\$ 336,228	\$ -	\$ 336,228
Insurance premium taxes	562,482	-	562,482
Occupational taxes	881,617	-	881,617
Franchise taxes	114,343	-	114,343
Licenses and permits	30,138	-	30,138
Intergovernmental revenue	263,594	62,313	325,907
Contributions	4,592	7,973	12,565
Other revenue	63,586	50,274	113,860
Interest income	31,810	7,156	38,966
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	2,288,390	127,716	2,416,106
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES:</u>			
Current:			
General government	616,378	-	616,378
Police	910,482	3,951	914,433
Fire	16,967	-	16,967
Parks and recreation	11,442	-	11,442
Highways and streets	-	1,050	1,050
Cemetery	58,775	27,971	86,746
Capital outlay	116,518	14,145	130,663
Debt service:			
Principal	10,599	-	10,599
Interest and fees	1,080	-	1,080
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	1,742,241	47,117	1,789,358
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES (USES):</u>			
Sale of assets	39,192	-	39,192
Transfers in	10,088	455	10,543
Transfers out	(94,391)	(336)	(94,727)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(45,111)	119	(44,992)
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES OVER (UNDER) EXPENDITURES	501,038	80,718	581,756
	<hr/>	<hr/>	<hr/>
FUND BALANCES - beginning	1,532,641	704,145	2,236,786
	<hr/>	<hr/>	<hr/>
FUND BALANCES - ending	<u>\$ 2,033,679</u>	<u>\$ 784,863</u>	<u>\$ 2,818,542</u>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS			\$ 581,756
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:			
Property taxes collected more than 60 days after year end are not reported in the fund financial statement until received, but are accrued in the period for which it is earned in the statement of activities.			
			(7,684)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.			
Capital asset purchases	130,663		
Depreciation expense	<u>(275,789)</u>	(145,126)	
Total proceeds from the sale of capital assets is recognized as revenue in the fund financial statements, but is reported as gain on sale of assets, net of accumulated depreciation, in the statement of activities.			
			(12,571)
Governmental funds report general obligation bond payments and lease payments as expense. However, in the statement of activities, they are recorded as reductions in long term liabilities.			
			10,599
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the change in compensated absences payable.			
			154
Governmental funds report pension and OPEB contributions as expenditures. In the statement of activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.			
Pension contributions	114,947		
OPEB contributions	28,349		
Cost of pension benefits earned	(275,318)		
Cost of OPEB benefits earned	<u>(64,303)</u>	<u>(196,325)</u>	
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES			<u>\$ 230,803</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

ASSETS:

Current Assets

Cash & cash equivalents	\$ 376,607
Prepaid expenses	7,835
Trade receivables	139,084
Other receivables	200
Total Current Assets	<u>523,726</u>

Noncurrent Assets

Restricted cash & cash equivalents	<u>844,784</u>
Capital assets:	
Land and improvements	555,895
Construction in progress	2,601,052
Distribution and collections systems	18,239,454
Buildings and equipment	645,829
Less accumulated depreciation	<u>(10,310,434)</u>
Net Capital Assets	<u>11,731,796</u>
TOTAL ASSETS	<u>13,100,306</u>

DEFERRED OUTFLOWS:

Debt issue costs, net	29,152
Deferred outflows related to pension	288,534
Deferred outflows related to OPEB	<u>204,147</u>
Total Deferred Outflows	<u>521,833</u>

LIABILITIES:

Current Liabilities

Accounts payable	46,854
Accrued expenses	54,635
Revenue bonds payable-current portion	102,083
Notes payable-current portion	<u>297,474</u>
Total Current Liabilities	<u>501,046</u>

Noncurrent Liabilities

Compensated absences	16,850
Revenue bonds payable, net of current portion	1,062,917
Notes payable, net of current portion	3,444,711
Net pension liability	1,331,295
Net OPEB liability	419,008
Customer deposits	<u>77,430</u>
Total Noncurrent Liabilities	<u>6,352,211</u>
TOTAL LIABILITIES	<u>6,853,257</u>

DEFERRED INFLOWS:

Bond premium, net	74,525
Deferred inflows related to pension	69,206
Deferred inflows related to OPEB	<u>105,881</u>
Total Deferred Inflows	<u>249,612</u>

NET POSITION:

Invested in capital assets, net of related debt	6,824,611
Restricted for debt service	339,627
Restricted for capital projects	353,345
Unrestricted	<u>(998,313)</u>
TOTAL NET POSITION	<u>\$ 6,519,270</u>

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

OPERATING REVENUES:

Charges for services	
Water and wastewater fees	\$ 1,632,718
Other charges for services	48,392
Miscellaneous income	35,265
TOTAL OPERATING REVENUES	<u>1,716,375</u>

OPERATING EXPENSES:

Personnel costs	837,613
Repairs and maintenance	176,849
Utilities	125,202
Insurance	62,176
Chemicals	85,800
Other expenses	87,590
Depreciation	456,911
TOTAL OPERATING EXPENSES	<u>1,832,141</u>

OPERATING LOSS	<u>(115,766)</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest income	14,450
Interest expense	(97,934)
Amortization	(1,390)
Loan fees	(8,954)
Transfers in	94,273
Transfers out	(10,088)
TOTAL NON-OPERATING REVENUES (EXPENSES), net	<u>(9,643)</u>

CHANGE IN NET POSITION	(125,409)
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NET POSITION - beginning	<u>6,644,679</u>
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NET POSITION - ending	<u>\$ 6,519,270</u>
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**CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 1,710,393
Cash payments for personnel costs	(761,263)
Cash payments for operating expenses	(504,926)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	444,204
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(63,061)
Paid for construction in progress	(179,548)
Proceeds from long-term debt	64,000
Principal paid on long-term debt	(318,015)
Interest and fees paid on long-term debt	(93,038)
	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(589,662)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	14,470
Cash provided by customer deposits	4,125
Net transfers	84,185
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	102,780
	<hr/>

NET DECREASE IN CASH AND CASH EQUIVALENTS (42,678)

CASH AND CASH EQUIVALENTS - beginning 1,264,069

CASH AND CASH EQUIVALENTS - ending \$ 1,221,391

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (115,766)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	456,911
Pension expense in excess of pension payments	71,681
OPEB expense less than OPEB payments	8,497
Change in assets and liabilities:	
(Increase) decrease in:	
Prepaid expenses	7,373
Trade receivables	26,207
Increase (decrease) in:	
Accounts payable	18,483
Accrued expenses	10,802
Deferred revenue	(32,189)
Compensated absences	(7,795)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 444,204</u></u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction – The financial statements of the City of Hodgenville, Kentucky (City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities.

Financial Reporting Entity – The City of Hodgenville, Kentucky, operates under a Mayor-Council form of government and provides the following services: public safety (police and fire), parks and recreation, highways and streets, cemetery maintenance, and general administrative services. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Hodgenville, Kentucky (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit Reported with the Primary Government – Red Hill Cemetery Commission manages the City Cemetery. The cemetery fund provides for the operating activities of Red Hill Cemetery Commission. The component unit was created by ordinance. The officers of this unit are filled by the appointment of the Mayor and the City has financial accountability for the component unit. The operating activities of Red Hill Cemetery Commission are included in the special revenue fund. The component unit of the City does not issue separate financial statements.

Government-Wide Financial Statements – The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than on reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds – All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The City reports the following governmental fund types:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources and expenditures of the general government, except those required to be accounted for in another fund. This is a major fund for the City.

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. These funds include: police drug enforcement, road and cemetery.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental Fund Balance Classifications – Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact. This amount includes prepaid expenses.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditor, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. This amount includes restricted cash.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution or ordinance) of the City Council. This amount includes the cemetery perpetual care permanent fund.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Proprietary Funds – Proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in these funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of all the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following proprietary fund:

Water and Wastewater Fund – The proprietary fund accounts for the activities of the City's water and wastewater functions. This is a major fund for the City.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting – The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues are recognized in the year for which they are due. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Program revenues include charges paid by recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

The governmental fund financial statements are prepared using the modified accrual basis of accounting for governmental fund types. Revenues are recognized as soon as they are both measurable and available. Measurable means the amount can be determined. Available means collectible within the period or soon enough thereafter to pay current liabilities. The City considers property taxes to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures (general obligation bond principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, insurance premium tax, net profits tax, occupational taxes, intergovernmental revenues, interest income and charges for services.

The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Budget Policy and Practice – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are held to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance.
4. Budgets are adopted for the general fund, the road fund and the enterprise funds.
5. Budgeted amounts are as originally adopted by the City Council, adjusted by amendments to the budget, if any. Any revisions to the budget that would alter total revenues and expenditures must be approved by the Council.
6. Budgets are adopted on a basis consistent with the basis of accounting used in preparation of the fund financial statements.
7. All annual appropriations lapse at fiscal year end.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deposits and Investments – For purposes of the statement of cash flows, cash and cash equivalents include amounts in demand deposits, certificates of deposits, and short-term investments (including restricted cash) with initial maturities of three months or less from the date acquired by the City.

KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and all 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 corporations of the United States government, bonds or certificates of indebtedness of this State, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which 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).

Property Tax Calendar – Property taxes are levied as of January 1 on property values assessed as of the same day. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1.

Interfund receivables and payables – During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due to/from other funds” on the balance sheet. Internal balances are netted in preparation of the government-wide financial statements. All other interfund transactions are treated as transfers.

Capital Assets – General capital assets of the governmental funds are reported net of accumulated depreciation in the governmental activities column of the government-wide statement of net position, but are reported as capital outlay expenditures in the fund financial statements.

Capital assets used by the proprietary fund are reported net of accumulated depreciation in the business-type activities column of the government-wide statement of net position and in the proprietary fund statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a minimum capitalization threshold of \$1,000. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets.

Buildings	40 years
Building Improvements	10-20 years
Public Domain Infrastructure	40-50 years
Vehicles	5 years
Equipment	3-10 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government- wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-term Obligations – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Fund Equity - Net position is the difference between assets and liabilities. Net position invested in capital assets, net of related debt is capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Operating Revenues and Expenses – Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities.

Expenditures/Expenses – In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures/expenses are classified as follows:

Governmental funds – by character (as current expenditures by function, capital outlay or debt service).

Proprietary fund – by operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses related to use of economic resources.

Interfund Transactions – Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events – Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE B – SECURED DEPOSITS AND INVESTMENTS

Secured Deposits – The primary government maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits – At June 30, 2021 the City had deposits with financial institutions with carrying amounts of \$3,714,701. The bank balances with the financial institutions were \$3,732,198. Of these balances, \$568,436 were covered by federal deposit insurance and \$3,163,762 were collateralized with securities held by the pledging financial institution's trust department or agent in the name of the City or applicable public trust.

Investment Policies – Investment policies for the City's reporting entity are maintained by the City Clerk / Treasurer. Summarizations follow in the subsequent section of this note.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investment activities are managed under the custody of the City Clerk / Treasurer. Investing is performed in accordance with investment policies complying with State Statutes and the City Ordinance. City funds may be invested in: (1) direct obligations of the U.S. government, its agencies or instrumentalities to the payment of which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the State of Kentucky is pledged; (2) obligations of the Government National Mortgage Association, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation, or any Federal farm credit bank, Federal land bank, or Federal home loan bank notes or bonds; (3) collateralized or insured certificates of deposit and other evidences of deposits at banks, savings and loan associations, and credit unions located in the City when secured by appropriate collateral; (4) repurchase agreements that have underlying collateral of obligations of the U.S. government, its agencies, and instrumentalities; (5) money market funds regulated by the Securities and Exchange Commission which consist of authorized domestic securities with restrictions as specified in state law; (6) State and Local Government Series (SLGS); and (7) City direct debt obligations for which an ad valorem tax may be levied.

Interest rate risk – This 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.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

For investments, 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 its investment or collateral securities in the possession of an outside party. City policy provides that investment collateral is held by a third-party custodian with whom the City has a current custodial agreement in the City's name or be held in the name of both parties by the Federal Reserve Bank servicing Kentucky. The City follows the requirements of Kentucky as written in KRS 41.240.

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE C – PROPERTY TAX

Taxes are levied on January 1 and payable on December 31. The City bills and collects its own property taxes. City Property tax revenues are recognized when levied to the extent that they result in current receivables.

At June 30, 2021, delinquent property taxes totaling \$11,233 plus penalties, interest and advertising costs remain uncollected. Due to the uncertainty of collection, an allowance for doubtful accounts has been provided for all delinquent property taxes not collected within 60 days after year end, for the fund financial statements.

Year	Government-wide Financial Statements	Fund Financial Statements
2008-2016	\$ 3,477	\$ 3,477
2017	570	570
2018	1,446	1,446
2019	1,937	1,937
2020	<u>3,802</u>	<u>3,802</u>
	11,233	11,233
Less: Allowance for Doubtful Accounts	<u>(4,420)</u>	<u>(5,544)</u>
Balance	<u>\$ 6,813</u>	<u>\$ 5,689</u>

An additional \$1,124 of property taxes receivable considered to be collectible within one year, but after the 60-day period, is added to the accrual in the government-wide financial statements.

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for governmental activities for the year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Governmental activities:				
Land and buildings	\$ 633,133	\$ 3,462	\$ -	\$ 636,595
Improvements/infrastructure	4,655,732	14,145	-	4,669,877
Equipment	1,457,768	66,969	(27,081)	1,497,656
Vehicles	536,997	46,087	(66,045)	517,039
	<u>7,283,630</u>	<u>130,663</u>	<u>(93,126)</u>	<u>7,321,167</u>
Accumulated depreciation	<u>(3,445,064)</u>	<u>(275,789)</u>	<u>80,555</u>	<u>(3,640,298)</u>
Net capital assets	<u>\$ 3,838,566</u>	<u>\$ (145,126)</u>	<u>\$ (12,571)</u>	<u>\$ 3,680,869</u>

Depreciation was charged to functions as follows:

General government	\$ 143,400
Police	68,752
Fire	33,038
Parks and recreation	20,670
Highways and streets	7,260
Cemetery	<u>2,669</u>
Total governmental activities depreciation expense	<u>\$ 275,789</u>

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE D – CAPITAL ASSETS AND DEPRECIATION, Continued

Capital asset activity for business-type activities for the year ended June 30, 2021 was as follows:

Business-type activities:	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Land and improvements	\$ 555,895	\$ -	\$ -	\$ 555,895
Construction in progress	69,513	179,548	-	249,061
Distribution and collection systems:				
Plant, lines and extensions	18,641,659	19,513	-	18,661,172
Dam and reservoir	1,930,273	-	-	1,930,273
Total distribution and collection system	20,571,932	19,513	-	20,591,445
Buildings and equipment	602,281	43,548	-	645,829
Totals at historical cost	21,799,621	242,609	-	22,042,230
Accumulated depreciation	(9,853,523)	(456,911)	-	(10,310,434)
Net capital assets	<u>\$ 11,946,098</u>	<u>\$ (214,302)</u>	<u>\$ -</u>	<u>\$ 11,731,796</u>

Depreciation in the amount of \$456,911 was charged to the business-type activities function.
There were no asset retirements in the year ended June 30, 2021.

NOTE E – LONG TERM DEBT

The following is a summary of long-term debt for governmental activities at June 30, 2020:

\$43,500 lease with Magnolia Bank, Inc. to finance the purchase of a fire truck. Interest at 4.97%. Principal and interest payable in annual installments of \$11,678 began in July 2018.

\$ 11,126

Total long term debt for governmental activities

11,126

Less: amounts due within one year

(11,126)

Amounts due in more than one year

\$ -

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE E – LONG TERM DEBT, Continued

The following is a summary of long-term debt for business-type activities at June 30, 2021:

\$825,000 Water and Sewer serial bonds; principal due in annual installments of \$20,000 to \$60,000 through February 1, 2039; plus interest at 3%; secured by the revenues of the system.	\$ 825,000
\$850,000 Water and Sewer 2013B refunding bonds; principal due in annual installments of \$50,000 to \$75,000 through February 1, 2016; plus interest at 2.3% to 3.05%; secured by the revenues of the system.	<u>340,000</u>
Revenue bonds payable	<u>1,165,000</u>
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF draw loan A04-10 for water and wastewater system improvements, dated February 1, 2005. Principal due in semi-annual installments of \$21,356 to \$26,676 through June 1, 2026; plus interest at 1%; secured by the revenues of the system.	260,865
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan A11-17 for water and wastewater system improvements, dated March 1, 2014. Principal due in semi-annual installments of \$33,445 to \$49,302 through June 1, 2034; plus interest at 2%; secured by the revenues of the system.	1,135,085
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F11-13 for water and wastewater system improvements, dated March 1, 2015. Principal due in semi-annual installments of \$15,801 to \$23,293 through December 1, 2036; plus interest at 2%; secured by the revenues of the system.	624,413
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF draw loan A20-025 for water and wastewater system improvements, dated May 13, 2020. Principal payments due semi-annually with an interest rate of 2.50%	47,500

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CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE E – LONG TERM DEBT, Continued

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F16-008 for water and wastewater improvements dated May 1, 2017. The \$889,872 agreement has been reduced by a 25% principal forgiveness provision. Payments in the amount of \$17,687 to \$18,447, due semi-annually including interest at 0.75%, began December 1, 2018. 573,551

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF draw loan A16-029 for water and wastewater improvements dated May 1, 2017, in the amount of \$753,630. Payments are projected at \$26,160, semi-annually including interest at 0.75%, and are expected to begin in FY 21. 718,568

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F16-042 for water and wastewater improvements dated May 1, 2017. The \$592,994 agreement has been reduced by a 25% principal forgiveness provision. Payments in the amount of \$12,009 to \$12,555, due semi-annually including interest at 0.75%, began December 1, 2018. 382,203

Notes Payable 3,742,185

Total long term debt for business-type activities 4,907,185

Less: amounts due within one year (399,557)

Amounts due in more than one year \$ 4,507,628

NOTE F – CHANGES IN LONG-TERM DEBT

Long-term debt activity for governmental activities for the year ended June 30, 2021:

	Capital Lease Payable
Beginning balance	\$ 21,725
Additions	-
Reductions	(10,599)
Ending balance	11,126
Less current portion	(11,126)
Long-term debt	\$ -

Interest and fees were charged as follows:

Governmental activities:

Fire	\$ 1,080
	\$ 1,080

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE F – CHANGES IN LONG-TERM DEBT, Continued

Long-term activity debt for business-type activities for the year ended June 30, 2021:

	Revenue Bonds	Notes Payable	Total
Beginning balance	\$ 1,253,000	\$ 3,942,701	\$ 5,195,701
Additions	825,000	47,500	872,500
Reductions	(913,000)	(248,016)	(1,161,016)
Ending balance	1,165,000	3,742,185	4,907,185
Less current portion	(102,083)	(297,474)	(399,557)
Long-term debt	<u>\$ 1,062,917</u>	<u>\$ 3,444,711</u>	<u>\$ 4,507,628</u>

Additions and reductions of revenue bonds include the refinancing of water and wastewater bonds 1999 Series 91-07 in the amount of \$560,000 and 1988 Series 91-08 in the amount of \$283,000; with revenue bonds Series 2021B in the amount of \$825,000. Interest in the amount of \$97,934, plus fees in the amount of \$8,954, totaling \$106,888 were charged to the business-type activities function.

The annual requirements to retire the City's long-term debt for governmental and business-type activities are as follows:

Year	Revenue Bonds		Leases/Notes Payable		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$ 90,000	\$ 29,176	\$ 261,926	\$ 50,476	\$ 351,926	\$ 79,652	\$ 431,578
2023	105,000	32,116	254,221	46,398	359,221	78,514	437,735
2024	115,000	29,106	257,698	42,817	372,698	71,923	444,621
2025	115,000	25,713	261,232	39,176	376,232	64,889	441,121
2026	90,000	22,225	264,825	35,480	354,825	57,705	412,530
2027-2031	220,000	84,600	1,153,378	127,159	1,373,378	211,759	1,585,137
2032-2036	260,000	49,350	988,683	45,178	1,248,683	94,528	1,343,211
2037-2040	170,000	10,200	311,348	4,048	481,348	14,248	495,596
Total	<u>\$ 1,165,000</u>	<u>\$ 282,486</u>	<u>\$ 3,753,311</u>	<u>\$ 390,732</u>	<u>\$ 4,918,311</u>	<u>\$ 673,218</u>	<u>\$ 5,591,529</u>

NOTE G – FUND BALANCES

Governmental fund balances at June 30, 2021, are classified as follows:

Nonspendable – Nonspendable fund balance in the amount of \$9,041 represents prepaid expenses.

Restricted – General fund restricted fund balance in the amount of \$20,945 represents restricted cash in the employee benefit (HRA) account and in the police asset forfeiture account of \$8,663 and \$12,282 respectively. Restricted fund balance in other governmental funds in the amount of \$280,241 is restricted for municipal road improvements.

Committed – Committed fund balance in the general fund, in the amount of \$11,623, is committed for the purpose of funding compensated absences. Committed fund balance in other governmental funds, in the amount of \$331,556, is committed for the purpose of perpetual cemetery care.

Assigned – Assigned fund balance in the amount of \$173,065 represents amounts which are intended to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance is intended to be used for police drug enforcement in the amount of \$5,953 and for the cemetery in the amount of \$167,112.

Unassigned – Remaining fund balance is unassigned in the amount of \$1,992,070.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE H – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2021, the City has three items that qualify for reporting in this category: Bond issuance costs, net of amortization, in the amount of \$29,152. Pension deferred outflows of \$607,808 and the other post-employment benefit deferred outflows of \$419,670. The pension deferred outflows are described in Note J to the financial statements. The other post-employment benefit deferred outflows are described in Note K.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2021 the City has three items that qualified for reporting in this category: Bond premium, net of amortization, in the amount of \$74,525. Pension deferred inflows of \$140,386, and other post-employment benefit deferred inflows of \$214,783. The pension deferred inflows are described in Note J to the financial statements. The other post-employment benefit deferred outflows are described in Note K.

NOTE I – OPERATING LEASE, CITY AS LESSOR

The City entered into an antenna co-location lease agreement to lease space on Greensburg Street water tower for the operation of a communications center in September, 2010. Terms of the lease are five years, commencing July 1, 2010. The agreement provides for automatic renewal for 2 additional extensions of 5 years. Rental fees are to be adjusted at the end of each term by a 12% increase. Rental income of \$32,189 is included in the government wide statement of activities, business type activities as other revenue. It is included as miscellaneous income in the statement of revenues, expenses and changes in net position – proprietary funds.

NOTE J – PENSION PLAN

Plan Description. Employees of City of Hodgenville, Kentucky are provided a defined benefit pension plan through the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA). The City of Hodgenville, Kentucky employees participate in Non-Hazardous. The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute Section 61.645 as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available financial report that can be obtained by writing to Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits Provided. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute, there are currently three benefit Tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE J – PENSION PLAN, Continued

Benefits Provided – Non-Hazardous. Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the KPPA Board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living-adjustments if, in its judgement, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

General Information about the Pension Plan

Contributions. Contributions for employees are established in the statutes governing the KPPA and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% of salary if they were plan members prior to September 1, 2008. Non-Hazardous employees that entered the plan after September 1, 2008 are required to contribute 6%, of their annual creditable compensation. The additional 1% is deposited into to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2021, total employer contributions for the City were \$255,338 based on a rate of 24.06% for Non-Hazardous members through covered payroll. The contribution rate of 24.06% for Non-Hazardous is comprised of amounts for pension and insurance benefits; 19.30% or \$204,822 was dedicated to pensions and 4.76% or \$50,516 was allocated to insurance.

By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date as of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. The City's proportion of the collective net pension liability and pension expense was determined using the employers' actual contributions for Fiscal Year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020 the City's proportion was .035210% percent for Non-Hazardous, which was an increase of .002535 percent from its proportion measured as of June 30, 2019.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE J – PENSION PLAN, Continued

Actuarial Assumptions. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018.” The total pension liability as of June 30, 2020, was determined using these updated assumptions.

The assumptions are:

- Inflation – 2.30%
- Payroll growth rate – 2.00%
- Salary increases – 3.30% to 10.30%, varies by service for Non-Hazardous
3.55% to 19.05%, varies by service for Hazardous
- Investment rate of return – 6.25%

During the 2018 legislative session, House Bill 185 was recommended, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member’s final rate of pay to 75% of the member’s average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member’s final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

Net Pension Liability

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the 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 the MP-2014 mortality improvement scale using a base year of 2010.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE J – PENSION PLAN, Continued

The long-term expected return was determined by using a building block method in which best estimate ranges of expected future real rates 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 table below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
U.S. Equity	18.75%	4.50%
Non-U.S. Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Discount rate. The projection of cash flows used to determine the discount rate of 6.25% for CERS Hazardous and Non-hazardous assumes the local employers would contribute with required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the KPPA financial report.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the City calculated using the discount rate of 6.25 percent, as well as the net pension liability (asset) if calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

<i>City of Hodgenville's net pension liability</i>	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 3,330,400	\$ 2,700,578	\$ 2,179,061
Total	\$ 3,330,400	\$ 2,700,578	\$ 2,179,061

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KPPA financial report.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE J – PENSION PLAN, Continued

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2021, the City recognized pension expense of \$436,874.

Deferred outflows of resources and deferred inflows of resources. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources on the following table:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 67,344	\$ -
Changes of assumptions	105,453	-
Net differences between projected and actual earnings on plan investments	117,061	49,482
Change in employer proportionate share of net pension liability	113,128	90,904
Employer contributions subsequent to the measurement date	204,822	-
Total	<u>\$ 607,808</u>	<u>\$ 140,386</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2020” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	<u>Pension Expense</u>
2022	\$ 96,486
2023	98,877
2024	40,096
2025	27,141
	<u>\$ 262,600</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS

General Information about the OPEB Plan

Plan Description. Employees of the City are provided hospital and medical insurance through the Kentucky Public Pensions Authority's County Employees' Retirement Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KPPA was created by State statute under Kentucky Revised Statute Section 61.645. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available financial report that can be obtained by writing to Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE K – OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

General Information about the OPEB Plan

Benefits Provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgement, the welfare of the Commonwealth so demands.

Contributions. Contribution requirements of the participating employers are established and may be amended by the CERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2021, was 4.76 percent of annual creditable compensation for Non-Hazardous. Contributions to the Insurance Fund from the City were \$50,516 for the year ended June 30, 2021. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020 the City's proportion for Non-Hazardous was .035200 percent, which was an increase of .002533 percent from its proportion measured as of June 30, 2019.

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2020 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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

Investment rate of return	6.25%
Projected salary increases	3.30% to 10.30%, varies by service for Non-Hazardous 3.55% to 19.05%, varies by service for Hazardous
Inflation rate	2.30%
Payroll growth rate	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-64	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Net OPEB Liability

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the 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 the MP-2014 mortality improvement scale using a base year of 2010.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
U.S. Equity	18.75%	4.50%
Non-U.S. Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Discount rate. The discount rate used to measure the total OPEB liability was 5.34% for Non-hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance future benefit payments of current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Net OPEB Liability

However, the cost associated with the implicit employer subsidy was not included in the calculation of the retirement plan's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the retirement plan's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the KPPA financial report.

Changes in the Net OPEB Liability

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the collective net OPEB liability as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
Non-hazardous	\$ 1,091,966	\$ 849,973	\$ 651,216
Total net OPEB Liability	<u>\$ 1,091,966</u>	<u>\$ 849,973</u>	<u>\$ 651,216</u>

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Non-hazardous	\$ 658,092	\$ 849,973	\$ 1,082,826
Total	<u>\$ 658,092</u>	<u>\$ 849,973</u>	<u>\$ 1,082,826</u>

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

OPEB Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense. For the year ended June 30, 2021, the City recognized OPEB expense of \$94,966.

Deferred outflows of resources and deferred inflows of resources. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources on the following table:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 142,013	\$ 142,124
Changes of assumptions	147,845	899
Net differences between projected and actual earnings on plan investments	45,595	17,344
Change in employer proportionate share of net pension liability	33,702	54,416
Employer contributions subsequent to the measurement date	50,515	-
Total	<u>\$ 419,670</u>	<u>\$ 214,783</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2020" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	OPEB Expense
2022	\$ 42,033
2023	50,394
2024	34,391
2025	32,798
2026	(5,244)
	<u>\$ 154,372</u>

NOTE L – TRANSFERS

Transfers between funds included in the fund financial statements consist of:

<u>From</u>	<u>To</u>	<u>Amount</u>
Water & Wastewater Fund	General Fund	\$10,088
General Fund	Water & Wastewater Fund	94,273
General Fund	Law Enforcement	118
Road Fund	Law Enforcement	226
Cemetery Fund	Law Enforcement	111
		<u>\$104,816</u>

Interfund transfers to the General Fund were to reimburse for expenses paid for the corresponding fund and for the transfer of ARPA funds from the General Fund to the Water & Wastewater Fund.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE M – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE N – RISK MANAGEMENT and CONTINGENT LIABILITIES

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. The City has obtained insurance coverage through a commercial insurance company. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2021 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provisions for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE O – RESTRICTED ASSETS

General Fund

Restricted cash in the amount of \$20,945 at June 30, 2021, includes \$8,663 in an employee benefit (HRA) account and \$12,282 in the police asset forfeiture account.

Proprietary Fund

The ordinance authorizing the Kentucky Bond Corporation Series 2021B bond issue requires a monthly sinking fund deposit of one-twelfth the annual bond requirement and one-sixth the semi-annual interest requirement. The sinking fund is fully funded at June 30, 2021 in the amount of \$5,163. The bond issue requires an additional \$16,500 be maintained in a reserve sinking fund. This requirement is fully funded at June 30, 2021.

The ordinance authorizing the Kentucky Rural Water Series 2013 B requires a monthly sinking fund deposit of one-twelfth the annual bond requirement and one-sixth the semi-annual interest requirement. The sinking fund is fully funded at June 30, 2021 in the amount of \$40,129. The ordinance also requires a depreciation fund in an amount considered prudent, and is continued in the amount of \$153,800 as required by the prior 2004 A series. The depreciation fund is fully at June 30, 2021.

The ordinance authorizing the Kentucky Infrastructure Authority (KIA) assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A04-10 requires a maintenance and replacement reserve be funded in the amount of \$65,978 at June 30, 2021. The original agreement requirement of \$775,040 was reduced to \$65,978 on June 24, 2016. The maintenance and replacement reserve is fully funded in the amount of \$65,978 at June 30, 2021.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A11-17 requires a maintenance and replacement reserve be funded with an annual deposit of \$4,000 until the reserve balance reaches \$40,000. The maintenance and replacement reserve requirement of \$28,000 is funded in the required amount at June 30, 2021.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A11-13 requires a maintenance and replacement reserve be funded with an annual deposit of \$1,900 until the reserve balance reaches \$19,000. The maintenance and replacement reserve requirement of \$7,600 is funded in the required amount at June 30, 2021.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F16-008 requires a maintenance and replacement reserve be funded with an annual deposit of \$2,400 until the reserve balance reaches \$24,000. The maintenance and replacement reserve requirement of \$7,200 is funded in the required amount at June 30, 2021.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A16-029 requires a maintenance and replacement reserve be funded with an annual deposit of \$2,400 until the reserve balance reaches \$24,000. The maintenance and replacement reserve requirement of \$2,400 is funded in the required amount at June 30, 2021.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE O – RESTRICTED ASSETS, Continued

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F16-042 requires a maintenance and replacement reserve be funded with an annual deposit of \$1,500 until the reserve balance reaches \$15,000. The maintenance and replacement reserve requirement of \$4,500 is funded in the required amount at June 30, 2021.

Restricted cash also includes \$91,882 customer deposits in escrow; and, \$421,632 of excess funds considered restricted for capital projects, at June 30, 2021.

NOTE P – WATER AND WASTEWATER CASH ACCOUNTS

Unrestricted:	
Revenue fund	\$ 350,421
Operations and maintenance	(3,258)
Wastewater	4,094
Wastewater rehabilitation	25,041
	<u>\$ 376,298</u>
Restricted:	
Customer deposits escrow	\$ 91,882
Operations and maintenance funds	30,000
Depreciation funds	383,275
Sinking funds	339,627
	<u>\$ 844,784</u>

NOTE Q – NONCASH TRANSACTIONS EXCLUDED FROM THE STATEMENT OF CASH FLOWS

The City refinanced the 1999 Series 91-07 and 1988 Series 91-08 water and wastewater bonds with a new Series 2021B. Noncash transactions recorded that resulted from the refinancing are as follows: net decrease in bonds payable of \$18,000, bond costs \$20,519, debt service reserve \$16,500 and interest expense of \$18,757; offset by bond premium recorded at \$73,776.

NOTE R – REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures may not legally exceed the total budgeted appropriations. Any revisions to the budget that would alter total revenues and expenditures of the funds adopting budgets must be approved by the City Council. All appropriations lapse at fiscal year-end. For the year ended June 30, 2021, in the general fund, expenditures for general government, police, fire, cemetery and transfers out exceeded appropriations by \$204,802, \$221,117, \$30,605, \$4,775 and \$54,391 respectively. The over-expenditure was funded by revenues exceeding budgeted amounts, and appropriations exceeding expenditures in other departments. Total revenues exceeded budgeted amounts by \$1,003,170 and total expenditures exceeded budgeted amounts by \$502,132.

NOTE S – RELATED PARTY TRANSACTIONS

The City paid \$22,968 during the fiscal year ended June 30, 2021, for cemetery related tent set up fee, grave openings, equipment usage and other contract services to an individual who is salaried employee to the City. These expenditures for contract services are considered related party transactions due to the contractor's employment status with the City.

NOTE T – SUBSEQUENT EVENTS

Construction in Progress

Two new projects were in progress at June 30, 2020, and are described as follows: The City is proactively engaging in repairing and maintaining water and sewer lines all throughout the City. In FY 20, the City began a new sewer line project at Walter's Street and began installation of new water lines for the Shepherdsville Road Water Project and at the Saddle Club. The FY 20 project costs were \$34,746 and \$34,767, respectively. These projects continued in FY 21, with additional costs of \$169,400 and \$10,148 respectively.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE U – RECENT PRONOUNCEMENTS

Standards that will Become Effective for FY 2022 and Later Year Financial Statements

Statement No. 87, *Leases*, the objective of which is to better meet the information needs financial statement users by improving accounting and financial reporting for leases by governments. (FY 2022)

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, this Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. Thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. (FY 2022)

Statement No. 91, *Conduit Debt Obligations*, the primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement establishes that a conduit debt obligation is not a liability of the issuer. (FY 2022)

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides and is effective immediately.

The Government has not yet determined the effect, if any, that the adoption of these Statements may have on its financial statements.

CITY OF HODGENVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2021

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Budgetary fund balance, July 1, 2020	\$ -	\$ -	\$ 1,532,641	\$ 1,532,641
REVENUES (inflows):				
Occupational taxes	450,000	450,000	881,617	431,617
Property and franchise taxes	357,000	357,000	450,571	93,571
Insurance premium tax	475,000	475,000	562,482	87,482
Intergovernmental revenue	27,500	27,500	263,594	236,094
Other revenue	25,000	25,000	179,406	154,406
Long-term debt proceeds	-	-	-	-
TOTAL REVENUES	1,334,500	1,334,500	2,337,670	1,003,170
AMOUNTS AVAILABLE FOR APPROPRIATION	1,334,500	1,334,500	3,870,311	2,535,811
EXPENDITURES (outflows):				
General government	470,500	470,500	675,302	(204,802)
Police	725,000	725,000	946,117	(221,117)
Fire	20,000	20,000	50,605	(30,605)
Parks and recreation	25,000	25,000	11,442	13,558
Cemetery	54,000	54,000	58,775	(4,775)
Contingency	40,000	40,000	94,391	(54,391)
TOTAL EXPENDITURES	1,334,500	1,334,500	1,836,632	(502,132)
Budgetary fund balance, June 30, 2021	\$ -	\$ -	\$ 2,033,679	\$ 2,033,679

See accompanying independent auditor's report.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2021**

Last 10 Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Proportion of net pension liability	0.035210%	0.03268%	0.03676%	0.03695%	0.03241%
Proportionate share of net pension liability	<u>\$ 2,700,578</u>	<u>\$ 2,298,047</u>	<u>\$ 2,238,857</u>	<u>\$ 2,162,797</u>	<u>\$ 1,595,780</u>
Covered employee payroll	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>	<u>\$ 898,080</u>
Proportionate share of net pension liability as percentage of covered payroll	254.65%	242.94%	260.73%	230.77%	177.69%
Plan fiduciary net position as a percentage of total pension liability	47.81%	50.45%	53.54%	53.33%	55.50%
	<u>2016</u>	<u>2015</u>			
Proportion of net pension liability	0.02307%	0.03183%			
Proportionate share of net pension liability	<u>\$ 991,785</u>	<u>\$ 1,033,000</u>			
Covered employee payroll	<u>\$ 774,880</u>	<u>\$ 538,193</u>			
Proportionate share of net pension liability as percentage of covered payroll	127.99%	191.94%			
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%			

*Fiscal year 2015 was the first year of implementation; therefore, only seven years are shown.

See accompanying independent auditor's report.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET OPEB LIABILITY
YEAR ENDED JUNE 30, 2021**

Last 10 Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of net OPEB liability	0.035200%	0.03267%	0.03676%	0.03695%
Proportionate share of net OPEB liability	<u>\$ 849,973</u>	<u>\$ 549,444</u>	<u>\$ 652,666</u>	<u>\$ 742,821</u>
Covered employee payroll	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>
Proportionate share of net OPEB liability as percentage of covered payroll	80.15%	58.08%	76.01%	79.26%
Plan fiduciary net position as a percentage of total OPEB liability	51.67%	60.44%	57.62%	52.40%

*Fiscal year 2018 was the first year of implementation; therefore, only four years are shown.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO PENSION
YEAR ENDED JUNE 30, 2021**

Last 10 Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution (actuarially determined)	\$ 204,822	\$ 182,565	\$ 139,277	\$ 135,707	\$ 125,281
Contribution in relation to the actuarially determined contributions	<u>204,822</u>	<u>182,565</u>	<u>139,277</u>	<u>135,707</u>	<u>125,281</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>	<u>\$ 898,080</u>
Contributions as a percentage of covered employee payroll	19.30%	19.30%	16.22%	14.48%	13.95%
	<u>2016</u>	<u>2015</u>			
Contractually required contribution (actuarially determined)	\$ 96,487	\$ 68,620			
Contribution in relation to the actuarially determined contributions	<u>96,487</u>	<u>68,620</u>			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Covered employee payroll	<u>\$ 774,880</u>	<u>\$ 538,193</u>			
Contributions as a percentage of covered employee payroll	12.42%	12.75%			

*Fiscal year 2015 was the first year of implementation; therefore, only seven years are shown.

See accompanying independent auditor's report.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO OPEB
YEAR ENDED JUNE 30, 2021**

Last 10 Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 50,516	\$ 45,027	\$ 45,167	\$ 44,049
Contribution in relation to the actuarially determined contributions	<u>50,516</u>	<u>45,027</u>	<u>45,167</u>	<u>44,049</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>
Contributions as a percentage of covered employee payroll	4.76%	4.76%	5.26%	4.70%

*Fiscal year 2018 was the first year of implementation; therefore, only four years are shown.

See accompanying independent auditor's report.

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
JUNE 30, 2021

CERS PENSION

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2014 through 2020.

Changes of assumption (as of June 30 for the year of the measurement date):

2014:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2015 and 2016:

- No changes.

2017:

- The assumed investment return was changed from 7.50% to 6.25%.
- The price inflation assumption was changed from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.
- The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2018:

- No changes.

2019:

- Salary increase was changed from 3.05% to a range from 3.30% to 11.55% which varies by service.

2020:

- Salary increase was changed from a range of 3.30% to 11.55% to a range of 3.30% to 10.30% varying by service for nonhazardous.
- Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
JUNE 30, 2021

CERS OPEB

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2017 through 2020.

Changes of assumption (as of June 30 for the year of the measurement date) :

2017:

- The assumed investment rate of return was changed from 7.50% to 6.25%.
- The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.
- The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.
- For the Non-Hazardous plan, the single discount rate changed from 6.89% to 5.84%.
- For the Hazardous plan, the single discount rate changed from 7.37% to 5.96%.

2018:

- No changes.

2019:

- Salary increase was changed from 3.05% to a range from 3.30% to 11.55% which varies by service
- Health care trends for Pre-65 initial trend changed from 7.00% to 7.25% on January 1, 2019, the period was increased by 1 year to 13 years
- Health care trends for Post-65 initial trend changed from 5.00% to 5.10% on January 1, 2019, the period was increased by 1 year to 11 years

2020:

- For the Non-Hazardous Plan, the single discount rate changed from 5.68% to 5.34%.
- Salary increase was changed from a range of 3.30% to 11.55% to a range of 3.30% to 10.30% varying by service for nonhazardous.
- Healthcare trend rates for Pre-65 initial trend changed from 7.25% to 6.40% on January 1, 2022. The period increased by 1 year to 14 years.
- Healthcare trend rates for Post-64 initial trend changed from 5.10% to 2.90% at January 1, 2022 and increasing to 6.30% in 2023. The period increased by 1 year to 14 years.
- Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.
- The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

**CITY OF HODGENVILLE, KENTUCKY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2021**

	Special Revenue			Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery		
<u>ASSETS:</u>					
Cash & cash equivalents	\$ 5,953	\$ 280,241	\$ 168,228	\$ 331,556	\$ 785,978
Accounts Receivable	-	-	-	-	-
TOTAL ASSETS	\$ 5,953	\$ 280,241	\$ 168,228	\$ 331,556	\$ 785,978
<u>LIABILITIES AND FUND BALANCES:</u>					
Liabilities:					
Accrued expenses	\$ -	\$ -	\$ 1,116	\$ -	\$ 1,116
TOTAL LIABILITIES	-	-	1,116	-	1,116
<u>FUND BALANCES:</u>					
Restricted	-	280,241	-	-	280,241
Committed	-	-	-	331,556	331,556
Assigned	5,953	-	167,112	-	173,065
TOTAL FUND BALANCES	5,953	280,241	167,112	331,556	784,862
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,953	\$ 280,241	\$ 168,228	\$ 331,556	\$ 785,978

See accompanying independent auditor's report.

CITY OF HODGENVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	Special Revenue				Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery	Cemetery Perpetual Care	
REVENUES:					
Intergovernmental revenue	\$ -	\$ 62,313	\$ -	\$ -	\$ 62,313
Contributions	-	-	7,973	-	7,973
Other revenue	2,400	4,074	43,800	-	50,274
Interest income	11	1,169	3,719	2,257	7,156
TOTAL REVENUES	2,411	67,556	55,492	2,257	127,716
EXPENDITURES:					
Current:					
Police	3,951	-	-	-	3,951
Highways and streets	-	1,050	-	-	1,050
Cemetery	-	-	27,971	-	27,971
Capital outlay	-	14,145	-	-	14,145
TOTAL EXPENDITURES	3,951	15,195	27,971	-	47,117
OTHER FINANCING SOURCES (USES):					
Transfers in	455				455
Transfers out	-	(226)	(110)	-	(336)
TOTAL OTHER FINANCING SOURCES (USES)	455	(226)	(110)	-	119
TOTAL REVEUES OVER (UNDER) EXPENDITURES	(1,085)	52,135	27,411	2,257	80,718
FUND BALANCES - beginning	7,038	228,106	139,701	329,299	704,144
FUND BALANCES - ending	\$ 5,953	\$ 280,241	\$ 167,112	\$ 331,556	\$ 784,862

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and
Members of the City Council
City of Hodgenville, 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, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hodgenville, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise City of Hodgenville, Kentucky's basic financial statements and have issued our report thereon dated January 30, 2023.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-2, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hodgenville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Certain other matters are described in the accompanying schedule of findings and responses as item 2021-3.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, Continued**

City of Hodgenville, Kentucky's Response to Findings

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

Purpose of this Report

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

Clauson, Mouser & Co.

Certified Public Accountants
January 30, 2023

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

REPORTABLE CONDITIONS

MATERIAL WEAKNESS:

Item 2021-1 Financial Statement Adjustments

Criteria: The City's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As a part of the audit we noted that material adjustments were not identified by the City's internal control.

Cause: The City did not make all necessary adjustments.

Effect: The design of the internal controls over financial reporting did not allow the City to identify all necessary adjustments.

Recommendation: We recommend City Management and financial personnel continue to develop internal control policies to ensure that necessary adjustments are made.

Management response: The City will implement procedures to ensure that adjustments are identified and recorded prior to year-end audit.

SIGNIFICANT DEFICIENCY:

Item 2021-2 Capital Assets

Criteria: To maintain effective internal control over the City's tangible capital assets, control procedures should include performing periodic physical inventories of its tangible capital assets.

Condition: Periodic physical inventories are not performed then reconciled to the City's accounting capital asset records.

Cause: The City has not implemented a policy requiring periodic reconciliation of capital asset records.

Effect: Without periodic physical inventories reconciled to detail property records, the City's tangible capital assets are at risk of misappropriation or misuse.

Recommendation: The City should perform a physical inventory of its tangible capital assets, either simultaneously or on a rotating basis for various departments, so that all tangible capital assets are physically accounted for at least once every three years.

Management response: We have obtained a copy of the capital asset schedules and will implement a policy for a periodic physical inventory and reconciliation. We will also update the schedule throughout each fiscal year for additions and deletions.

OTHER MATTER:

Item 2021-3 Financial Statement Preparation

Criteria: The City's management is responsible for establishing and maintaining internal control and for the fair presentation of the financial position, results of operations and disclosures in the financial statements.

Condition: As a part of the audit, the City requested the auditor's prepare a draft of the financial statements, including related note disclosures.

Cause: The size of the organization precludes having personnel with the expertise necessary to prepare the government-wide and fund financial statements and to draft the required notes to the financial statements.

Effect: The City does not have a system of internal control to enable management to conclude the financial statements and related disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend the City consider the cost versus the benefit of outsourcing the financial statement preparation as a part of the audit process.

Management response: We have considered the cost versus the benefit of outsourcing the financial statement preparation and have requested our auditor's prepare a draft of the financial statements, including related note disclosures.