

**CITY OF HODGENVILLE, KENTUCKY**

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**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2017**

(With Independent Auditor's Report Thereon)

**CITY OF HODGENVILLE, KENTUCKY  
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## **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, 2017, 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.

### ***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, 2017, 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, budgetary comparison information and select pension information on pages 3 through 6 and 33 through 36 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 May 8, 2018, 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.

*Clauson, Mouser & Co.*

Certified Public Accountants  
May 8, 2018

**CITY OF HODGENVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

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, 2017. 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 \$2.14 million, which includes approximately \$815,000 of restricted cash and cash equivalents. This reflects a decrease in cash during the year of approximately \$328,000.
- Governmental activities had \$1.51 million and business-type activities had \$1.51 million in revenue for the year.
- Governmental activities had \$1.59 million and business-type activities had \$1.93 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled approximately \$15.39 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 16-32 of this report.

### THE CITY AS A WHOLE

The City's combined net position decreased approximately \$501,000, or 4 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, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,323,079	\$ 1,154,733	\$ 1,257,166	\$ 1,686,590	\$ 2,580,245	\$ 2,841,323
Capital assets	4,110,247	4,268,829	11,275,765	11,101,010	15,386,012	15,369,839
<b>Total Assets</b>	<b>5,433,326</b>	<b>5,423,562</b>	<b>12,532,931</b>	<b>12,787,600</b>	<b>17,966,257</b>	<b>18,211,162</b>
<b>Deferred Outflows</b>	<b>266,094</b>	<b>84,456</b>	<b>367,299</b>	<b>147,254</b>	<b>633,393</b>	<b>231,710</b>
Internal balances	130,382	135,321	(130,382)	(135,321)	-	-
Long-term debt	25,610	37,079	4,176,778	4,362,086	4,202,388	4,399,165
Net pension liability	688,009	392,091	907,771	599,694	1,595,780	991,785
Other liabilities	119,506	106,039	472,295	144,446	591,801	250,485
<b>Total Liabilities</b>	<b>833,125</b>	<b>535,209</b>	<b>5,556,844</b>	<b>5,106,226</b>	<b>6,389,969</b>	<b>5,641,435</b>
<b>Deferred Inflows</b>	<b>58,631</b>	<b>89,366</b>	<b>79,385</b>	<b>138,943</b>	<b>138,016</b>	<b>228,309</b>
<b>Net Position</b>						
Investment in capital assets (net of debt)	4,084,637	4,231,750	7,098,987	6,738,924	11,183,624	10,970,674
Restricted	1,390	6,981	739,331	1,049,160	740,721	1,056,141
Unrestricted	852,019	780,033	(704,699)	(233,720)	147,320	546,313
<b>Total Net Position</b>	<b>\$ 4,938,046</b>	<b>\$ 5,018,764</b>	<b>\$ 7,133,619</b>	<b>\$ 7,554,364</b>	<b>\$ 12,071,665</b>	<b>\$ 12,573,128</b>

The decrease in net position of approximately \$501,000 is due to the current year expenses exceeding current year revenues.

Approximately 6% of the City's net position is restricted as to the purpose it can be used for and approximately 93% is invested in capital assets.

The remaining 1% of the City's net position is unrestricted. Unrestricted net position can be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>REVENUES:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 79,357	\$ 81,828	\$ 1,489,276	\$ 1,517,498	\$ 1,568,633	\$ 1,599,326
Operating grants and contributions	128,581	111,996	-	-	128,581	111,996
<b>General revenues:</b>						
Taxes	1,266,920	1,013,789	-	-	1,266,920	1,013,789
Licenses & Permits	18,712	24,778	-	-	18,712	24,778
Other revenue	20,031	128,579	16,937	17,955	36,968	146,534
<b>Total revenues</b>	<b>1,513,601</b>	<b>1,360,970</b>	<b>1,506,213</b>	<b>1,535,453</b>	<b>3,019,814</b>	<b>2,896,423</b>
<b>EXPENSES:</b>						
<b>Governmental activities:</b>						
General government	592,262	555,639			592,262	555,639
Police	810,488	637,321			810,488	637,321
Fire	29,613	69,267			29,613	69,267
Parks and recreation	20,281	25,353			20,281	25,353
Highways and streets	58,710	45,922			58,710	45,922
Cemetery	82,965	76,273			82,965	76,273
Water & wastewater	-	-	1,926,958	1,745,234	1,926,958	1,745,234
<b>Total expenses</b>	<b>1,594,319</b>	<b>1,409,775</b>	<b>1,926,958</b>	<b>1,745,234</b>	<b>3,521,277</b>	<b>3,155,009</b>
Transfers in	-	43,548	-	61,763	-	105,311
Transfers out	-	(105,311)	-	-	-	(105,311)
Sale of assets	-	6,250	-	-	-	6,250
<b>Changes in net position</b>	<b>\$ (80,718)</b>	<b>\$ (104,318)</b>	<b>\$ (420,745)</b>	<b>\$ (148,018)</b>	<b>\$ (501,463)</b>	<b>\$ (252,336)</b>

Other revenue includes investment income and other miscellaneous income.

General revenues of taxes increased slightly as expected. Both the tax rate and tax premium base was increased for the municipal insurance premium tax. Charges for services in the business type activities decreased slightly, due primarily to discontinuing the billing for water usage to the water company. Expenses increased approximately \$366,000 for the City as a whole.

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 \$158,000.

**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 \$1,103,515 with actual amounts of \$1,403,434. The variance between budgeted revenues and actual revenues is favorable. Budgeted expenditures of \$1,369,400 compare with actual expenditures of \$1,229,850. The variance between budgeted expenditures and actual expenditures is favorable.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the year ended June 30, 2017, the City had \$15.39 million invested in capital assets. This represents a net increase of approximately \$16,000 compared to last year. The increase is attributable to capital asset additions of approximately \$740,000 less current year depreciation expense of approximately \$724,000.

#### **Long-term Debt**

At the year ended June 30, 2017 the City had \$4.2 million outstanding on capital leases, revenues bonds, and notes payable compared to \$4.4 million at June 30, 2016. That is a decrease of approximately \$197,000 or 4.5%. The decrease is due to principal payments on existing debt of approximately \$236,000 exceeding construction period draws on the water/wastewater Drinking Water State Revolving Fund loan for the water/wastewater rehabilitation project of approximately \$39,000.

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

The 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 2017 revenue of \$493,667. The second largest source of revenue for the general fund is the occupational licenses and tax, which includes licenses plus taxes at a current rate of .75 percent of wages and net profits, with FY 2017 revenue of \$449,389. The third largest source of revenue is property taxes. The 2015 property tax rate was 0.1360 for \$100 of assessed value of real property and personal property with FY 2017 revenue of \$272,799. Revenue for FY 2018 for insurance premium tax is budgeted at \$370,000, with occupational tax and licenses budgeted at \$385,000, and property taxes budgeted at \$356,000.

General fund disbursements were budgeted at \$1,369,400 with actual expenditures of \$1,229,850 for FY 2017. Budgeted disbursements were increased to \$1,380,000 for FY 2018, which is an increase of \$150,150, with increases in general government, fire, and cemetery.

#### **CITY PROJECTS**

In FYE 2017 the City:

- Expended approximately \$130,000 to complete the \$2.4 million upgrade and infrastructure replacement project to ensure the provision of safe drinking water to its customers. The project included the reconstruction of the water tower at the high school, improvements to water lines in that area, and improvements to sewer lines and the drainage system throughout the City. The project was financed by the Kentucky Infrastructure Authority (KIA).
- Began three additional long-term water and waste water improvement projects with a combined estimated cost of \$2.67 million. The projects will 1) replace existing waterline and connections in critical portions of the system, 2) include demolition of the Greensburg Water Tank and 3) continued rehabilitation of sanitary sewer lines and storm water sewer lines in the City. The Projects are part of previously planned capital improvements for the water and waste water system of the City and will also be financed by KIA. The City expended approximately \$454,000 on the projects in FYE 2017.
- Purchased Mobile 2 hardware & software for the water department at a cost of \$5,000.
- Provided equipment and improvements to the water / waste water system at a cost of \$27,966.
- Purchased a backhoe at a cost of \$54,400.
- Completed electrical improvements at the park at a cost of \$11,906.
- Purchased 2 new police vehicles, a sedan and a SUV, at a cost of \$65,136.

#### **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, P.O. Box 189, Hodgenville, Kentucky 42748.



**CITY OF HODGENVILLE, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

<b>ASSETS:</b>	Governmental Activities	Business- Type Activities	Total
<b>Current Assets</b>			
Cash & cash equivalents	\$ 1,020,151	\$ 300,381	\$ 1,320,532
Prepaid expenses	15,260	14,310	29,570
Accounts receivable:			
Taxes	272,229	-	272,229
Trade, net	-	128,936	128,936
Other	14,049	264	14,313
<b>Total Current Assets</b>	<b>1,321,689</b>	<b>443,891</b>	<b>1,765,580</b>
<b>Noncurrent Assets</b>			
Restricted cash & cash equivalents	1,390	813,275	814,665
Capital assets, net of depreciation	4,110,247	11,275,765	15,386,012
<b>Total Noncurrent Assets</b>	<b>4,111,637</b>	<b>12,089,040</b>	<b>16,200,677</b>
<b>TOTAL ASSETS</b>	<b>5,433,326</b>	<b>12,532,931</b>	<b>17,966,257</b>
<b>Deferred Outflows of Resources:</b>			
Debt issue costs, net	-	16,209	16,209
Deferred pension outflows	266,094	351,090	617,184
<b>Total Deferred Outflows</b>	<b>266,094</b>	<b>367,299</b>	<b>633,393</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts payable	28,940	3,921	32,861
Construction costs payable	-	343,966	343,966
Accrued expenses	45,119	30,549	75,668
Deferred revenue	26,880	-	26,880
Internal balances	(130,382)	130,382	-
Revenue bonds payable - current portion	-	91,500	91,500
Leases/notes payable - current portion	11,994	152,574	164,568
<b>Total Current Liabilities</b>	<b>(17,449)</b>	<b>752,892</b>	<b>735,443</b>
<b>Noncurrent Liabilities</b>			
Compensated absences	18,567	26,219	44,786
Revenue bonds payable, net of current portion	-	1,439,000	1,439,000
Leases/notes payable, net of current portion	13,616	2,493,704	2,507,320
Net pension liability	688,009	907,771	1,595,780
Customer deposits	-	67,640	67,640
<b>Total Noncurrent Liabilities</b>	<b>720,192</b>	<b>4,934,334</b>	<b>5,654,526</b>
<b>TOTAL LIABILITIES</b>	<b>702,743</b>	<b>5,687,226</b>	<b>6,389,969</b>
<b>Deferred Inflows of Resources:</b>			
Bond premium, net	-	2,026	2,026
Deferred inflows-pension	58,631	77,359	135,990
<b>Total Deferred Inflows</b>	<b>58,631</b>	<b>79,385</b>	<b>138,016</b>
<b>NET POSITION:</b>			
Invested in capital assets, net of related debt	4,084,637	7,098,987	11,183,624
Restricted for employee benefits	1,390	-	1,390
Restricted for debt service	-	439,184	439,184
Restricted for capital projects	-	300,147	300,147
Unrestricted	852,019	(704,699)	147,320
<b>TOTAL NET POSITION</b>	<b>\$ 4,938,046</b>	<b>\$ 7,133,619</b>	<b>\$ 12,071,665</b>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

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	\$ (592,262)	\$ 35,452	\$ 6,505	\$ -	\$ (550,305)	\$ -	\$ (550,305)
Police	(810,488)	3,205	42,984	-	(764,299)	-	(764,299)
Fire	(29,613)	-	11,000	-	(18,613)	-	(18,613)
Parks and recreation	(20,281)	-	-	-	(20,281)	-	(20,281)
Highways and streets	(58,710)	-	64,552	-	5,842	-	5,842
Cemetery	(82,965)	40,700	3,540	-	(38,725)	-	(38,725)
Total governmental activities	(1,594,319)	79,357	128,581	-	(1,386,381)	-	(1,386,381)
Business-type activities:							
Water and wastewater system	(1,926,958)	1,489,276	-	-	-	(437,682)	(437,682)
<b>TOTAL</b>	<b><u>\$(3,521,277)</u></b>	<b><u>\$ 1,568,633</u></b>	<b><u>\$ 128,581</u></b>	<b><u>\$ -</u></b>	<b><u>(1,386,381)</u></b>	<b><u>(437,682)</u></b>	<b><u>(1,824,063)</u></b>
General revenues:							
Property taxes				272,799	-	272,799	
Franchise taxes				69,777	-	69,777	
Insurance premium taxes				493,667	-	493,667	
Occupational taxes				430,677	-	430,677	
License and permits				18,712	-	18,712	
Investment earnings				10,360	12,600	22,960	
Other revenue				9,671	4,337	14,008	
Total general revenues				<u>1,305,663</u>	<u>16,937</u>	<u>1,322,600</u>	
Change in net position				(80,718)	(420,745)	(501,463)	
Net position - beginning				<u>5,018,764</u>	<u>7,554,364</u>	<u>12,573,128</u>	
Net position - ending				<u>\$ 4,938,046</u>	<u>\$ 7,133,619</u>	<u>\$ 12,071,665</u>	

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS:</u></b>			
Cash & cash equivalents	\$ 557,787	\$ 462,364	\$ 1,020,151
Prepaid expenses	14,498	762	15,260
Receivables:			
Taxes	267,080	-	267,080
Other	8,050	5,999	14,049
Due from other funds	130,382	63,336	193,718
Restricted cash	1,390	-	1,390
TOTAL ASSETS	<u>\$ 979,187</u>	<u>\$ 532,461</u>	<u>\$ 1,511,648</u>
<b><u>LIABILITIES AND FUND BALANCES:</u></b>			
Liabilities:			
Accounts payable	\$ 28,940	\$ -	\$ 28,940
Accrued expenses	44,367	752	45,119
Deferred revenue	26,880	-	26,880
Due to other funds	4,133	59,203	63,336
TOTAL LIABILITIES	<u>104,320</u>	<u>59,955</u>	<u>164,275</u>
<b><u>FUND BALANCES:</u></b>			
Nonspendable	14,498	762	15,260
Restricted	1,390	-	1,390
Committed	-	281,954	281,954
Assigned	-	196,754	196,754
Unassigned	858,979	(6,964)	852,015
TOTAL FUND BALANCES	<u>874,867</u>	<u>472,506</u>	<u>1,347,373</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 979,187</u>	<u>\$ 532,461</u>	<u>\$ 1,511,648</u>

**CITY OF HODGENVILLE, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 1,347,373
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>		
<p>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.</p>		5,149
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital asset cost of \$6,862,028, net of depreciation of \$2,751,781.</p>		4,110,247
<p>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.</p>		(18,567)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods, therefore, are not reported in the governmental fund financial statements but are reported in the statement of net position.</p>		
CERS deferred outflows	266,094	
CERS deferred inflows	<u>(58,631)</u>	207,463
<p>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.</p>		
Net pension liability	(688,009)	
Bond and capital lease payables	<u>(25,610)</u>	<u>(713,619)</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		 <u><u>\$ 4,938,046</u></u>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b><u>REVENUES:</u></b>			
Property taxes	\$ 273,066	\$ -	\$ 273,066
Insurance premium taxes	493,667	-	493,667
Intergovernmental revenue	55,350	64,552	119,902
Franchise taxes	69,777	-	69,777
Licenses and permits	18,712	-	18,712
Occupational taxes	430,677	-	430,677
Other revenue	53,468	44,239	97,707
Interest income	8,717	1,643	10,360
	<u>1,403,434</u>	<u>110,434</u>	<u>1,513,868</u>
<b><u>EXPENDITURES:</u></b>			
Current:			
General government	431,279	-	431,279
Police	700,565	-	700,565
Fire	8,467	-	8,467
Parks and recreation	17	-	17
Highways and streets	-	52,779	52,779
Cemetery	-	73,121	73,121
Capital outlay	77,042	-	77,042
Debt service:			
Principal	11,469	-	11,469
Interest and fees	1,011	-	1,011
	<u>1,229,850</u>	<u>125,900</u>	<u>1,355,750</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Transfers in	-	72,678	72,678
Transfers out	(72,678)	-	(72,678)
	<u>(72,678)</u>	<u>72,678</u>	<u>-</u>
TOTAL REVENUES OVER (UNDER) EXPENDITURES	100,906	57,212	158,118
FUND BALANCES - beginning	773,961	415,294	1,189,255
FUND BALANCES - ending	<u>\$ 874,867</u>	<u>\$ 472,506</u>	<u>\$ 1,347,373</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, 2017**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 158,118
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.		(267)
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	77,042	
Depreciation expense	<u>(235,624)</u>	(158,582)
Governmental funds report general obligation bond payments as debt service expense. However, in the statement of activities, they are recorded as reductions in long term liabilities.		11,469
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.		(7,911)
Governmental funds report pension contributions as expenditures. In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Pension contributions	54,014	
Cost of benefits earned	<u>(137,559)</u>	<u>(83,545)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (80,718)</u>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

**ASSETS:**

Current Assets	
Cash & cash equivalents	\$ 300,381
Prepaid expenses	14,310
Trade receivables	128,936
Other receivables	264
Total Current Assets	<u>443,891</u>
Noncurrent Assets	
Restricted cash & cash equivalents	<u>813,275</u>
Capital assets:	
Land and improvements	555,895
Construction in progress	454,216
Distribution and collections systems	18,139,490
Buildings and equipment	555,013
Less accumulated depreciation	<u>(8,428,849)</u>
Net Capital Assets	<u>11,275,765</u>
TOTAL ASSETS	<u>12,532,931</u>

**DEFERRED OUTFLOWS:**

Debt issue costs, net	16,209
Deferred outflows-pension	351,090
Total Deferred Outflows	<u>367,299</u>

**LIABILITIES:**

Current Liabilities	
Accounts payable	3,921
Construction costs payable	343,966
Accrued expenses	30,549
Due to other funds	130,382
Revenue bonds payable-current portion	91,500
Notes payable-current portion	152,574
Total Current Liabilities	<u>752,892</u>
Noncurrent Liabilities	
Compensated absences	26,219
Revenue bonds payable, net of current portion	1,439,000
Notes payable, net of current portion	2,493,704
Net pension liability	907,771
Customer deposits	67,640
Total Noncurrent Liabilities	<u>4,934,334</u>
TOTAL LIABILITIES	<u>5,687,226</u>

**DEFERRED INFLOWS:**

Bond premium, net	2,026
Deferred inflows-pension	77,359
Total Deferred Inflows	<u>79,385</u>

**NET POSITION:**

Invested in capital assets, net of related debt	7,098,987
Restricted for debt service	439,184
Restricted for capital projects	300,147
Unrestricted	<u>(704,699)</u>
TOTAL NET POSITION	<u>\$ 7,133,619</u>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2017**

**OPERATING REVENUES:**

Charges for services	
Water and wastewater fees	\$ 1,433,379
Other charges for services	55,897
Miscellaneous income	4,337
TOTAL OPERATING REVENUES	<u>1,493,613</u>

**OPERATING EXPENSES:**

Personnel costs	817,060
Repairs and maintenance	156,670
Utilities	102,236
Insurance	94,885
Chemicals	75,806
Other expenses	73,121
Depreciation	488,801
TOTAL OPERATING EXPENSES	<u>1,808,579</u>

Operating loss	<u>(314,966)</u>
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**NON-OPERATING REVENUES (EXPENSES):**

Interest income	12,600
Interest expense	(110,433)
Amortization	(1,871)
Loan fees	(6,075)
TOTAL NON-OPERATING REVENUE (EXPENSE), net	<u>(105,779)</u>

CHANGE IN NET POSITION	(420,745)
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NET POSITION - beginning	<u>7,554,364</u>
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NET POSITION - ending	<u><u>\$ 7,133,619</u></u>
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**CITY OF HODGENVILLE, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers and users	\$ 1,489,094
Cash payments for personnel costs	(782,522)
Cash payments for operating expenses	(542,227)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	164,345
	<hr/>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(87,366)
Paid for construction in progress	(232,225)
Proceeds from long-term debt	39,097
Principal paid on long-term debt	(224,404)
Interest and fees paid on long-term debt	(116,741)
	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(621,639)
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	12,600
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	12,600
	<hr/>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (444,694)

CASH AND CASH EQUIVALENTS - beginning 

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1,558,350

CASH AND CASH EQUIVALENTS - ending 

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\$ 1,113,656

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

Operating loss	\$ (314,966)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	488,801
Pension expense in excess of pension payments	26,836
Change in assets and liabilities:	
(Increase) decrease in:	
Trade receivables	(12,076)
Other receivables	1,282
Prepaid expenses	(4,475)
Increase (decrease) in:	
Accounts payable	(30,313)
Accrued expenses	1,474
Due to other funds	(4,939)
Compensated absences	6,446
Customer deposits	6,275
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 164,345</u>

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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 are included in the City's reporting entity because of the significance of their 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: municipal road aid and cemetery.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Permanent Fund – The permanent fund is used to report resources that are legally restricted to allow only the earnings and not the principal to be used for purposes that support the reporting government's programs. The City reports one nonmajor permanent fund (Red Hill Cemetery Fund) which accounts for assets held for the permanent maintenance and beautification of Red Hill Cemetery.

**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, 2017**

**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, 2017**

**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, 2017**

**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, as capital outlay or as 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 are available to be issued.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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 of 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, 2017 the City had deposits with financial institutions with carrying amounts of \$2,135,197. The bank balances with the financial institutions were \$2,164,991. Of these balances, \$545,459 were covered by federal deposit insurance and \$1,557,527 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. Deposits in the amount of \$62,005 were uninsured and unsecured.

**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, 2017**

**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, 2017, delinquent property taxes totaling \$21,518 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.

<u>Year</u>	<u>Government-wide Financial Statements</u>	<u>Fund Financial Statements</u>
2007-2012	\$ 8,721	\$ 8,721
2013	1,501	1,501
2014	3,159	3,159
2015	<u>1,800</u>	<u>1,800</u>
	15,181	15,181
Less: Allowance for Doubtful Accounts	<u>(9,751)</u>	<u>(14,900)</u>
Balance	<u>\$ 5,430</u>	<u>\$ 281</u>

An additional \$5,149 of property taxes receivable collected within one year, but after the 60 day period, is added to the accrual in the government-wide financial statements.

**NOTE D – RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY**

Interfund receivables and payables for short-term financing between general, special revenue, permanent and proprietary funds are presented in fund financial statements. For the government wide financial statements, only the balances between the general fund and the proprietary funds are presented. Interfund receivables and payables at June 30, 2017 consist of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Proprietary Fund</u>
<b>Receivables:</b>			
Due to Road from General	\$ -	\$ 4,133	\$ -
Due to General from Proprietary	130,382	-	-
Due to Permanent from Cemetery	-	59,203	-
	<u>\$ 130,382</u>	<u>\$ 63,336</u>	<u>\$ -</u>
<b>Payables:</b>			
Due to Road from General	\$ 4,133	\$ -	\$ -
Due to General from Proprietary	-	-	130,382
Due to Permanent from Cemetery	-	59,203	-
	<u>\$ 4,133</u>	<u>\$ 59,203</u>	<u>\$ 130,382</u>

The Interfund receivables and payables are the result of either 1) revenues deposited to one fund but earned by a different fund, 2) expenditures paid by one fund but charged to a different fund, or 3) borrowing from the general fund to meet current operating obligations. The loans are not expected to be paid within one year.



**CITY OF HODGENVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE E – CAPITAL ASSETS AND DEPRECIATION**

**Capital asset activity for governmental activities for the year ended June 30, 2017, was as follows:**

Governmental activities:	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Land and buildings	\$ 633,133	\$ -	\$ -	\$ 633,133
Improvements/infrastructure	4,493,763	11,906	-	4,505,669
Equipment	1,299,162	-	-	1,299,162
Vehicles	358,928	65,136	-	424,064
	<u>6,784,986</u>	<u>77,042</u>	<u>-</u>	<u>6,862,028</u>
Accumulated depreciation	<u>(2,516,157)</u>	<u>(235,624)</u>	<u>-</u>	<u>(2,751,781)</u>
Net capital assets	<u>\$ 4,268,829</u>	<u>\$ (158,582)</u>	<u>\$ -</u>	<u>\$ 4,110,247</u>

Depreciation was charged to functions as follows:

General government	\$ 146,450
Police	39,563
Fire	21,146
Parks and recreation	19,253
Highways and streets	5,931
Cemetery	3,281
Total governmental activities depreciation expense	<u>\$ 235,624</u>

**Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:**

Business-type activities:	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Land and improvements	\$ 555,895	\$ -	\$ -	\$ 555,895
Distribution and collection systems:				
Construction in progress	2,318,809	(1,864,592)	-	454,217
Plant, lines and extensions	13,965,043	2,468,749	(224,575)	16,209,217
Dam and reservoir	1,930,273	-	-	1,930,273
Total distribution and collection system	<u>18,214,125</u>	<u>604,157</u>	<u>(224,575)</u>	<u>18,593,707</u>
Buildings and equipment	<u>803,904</u>	<u>59,400</u>	<u>(308,292)</u>	<u>555,012</u>
Totals at historical cost	<u>19,573,924</u>	<u>663,557</u>	<u>(532,867)</u>	<u>19,704,614</u>
Accumulated depreciation	<u>(8,472,915)</u>	<u>(488,801)</u>	<u>532,867</u>	<u>(8,428,849)</u>
Net capital assets	<u>\$ 11,101,009</u>	<u>\$ 174,756</u>	<u>\$ -</u>	<u>\$ 11,275,765</u>

Depreciation in the amount of \$488,801 was charged to the business-type activities function.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE F – LONG TERM DEBT**

**The following is a summary of long-term debt for governmental activities at June 30, 2017:**

\$120,000 Kentucky League of Cities Funding Trust Program Pooled Lease to finance renovation of the City pool. Interest at 2.0%. Principal and interest payable in monthly installments, began in June 2007, averaging \$1,040 in FY 17.	<u>\$ 25,610</u>
Long term debt for governmental activities	25,610
Less: amounts due within one year	<u>(11,994)</u>
Amounts due in more than one year	<u><u>\$ 13,616</u></u>

**The following is a summary of long-term debt for business-type activities at June 30, 2017:**

\$422,000 Water and Sewer serial bonds; principal due in annual installments of \$4,500 to \$22,000 though May 1, 2038; plus interest at 4.5%; secured by the revenues of the system.	\$ 312,500
\$801,000 Water and Sewer serial bonds; principal due in annual installments of \$8,000 to \$43,000 through May 1, 2039; plus interest at 4.5%; secured by the revenues of the system.	613,000
\$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>605,000</u>
Revenue bonds payable	<u>1,530,500</u>
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan A11-17 for water and wastewater system improvements. 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.	1,429,246

(Continued next page)

**CITY OF HODGENVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE F – LONG TERM DEBT, Continued**

Draws under an assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF Draw Loan A11-13 for the water and wastewater improvement project in progress dated March 1, 2013. The loan was still in the draw phase at June 30, 2016.

756,642

Assistance agreement with Kentucky Infrastructure Authority under federally assisted Wastewater Revolving Loan Program (Fund A) 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.

460,390

Notes Payable

2,646,278

Long term debt for business-type activities

4,176,778

Less: amounts due within one year

(244,074)

Amounts due in more than one year

\$ 3,932,704

**NOTE G – CHANGES IN LONG-TERM DEBT**

Long-term debt activity for governmental activities for the year ended June 30, 2017:

	Capital Lease Payable
Beginning balance	\$ 37,079
Reductions	(11,469)
Additions	-
Ending balance	<u>25,610</u>
Less current portion	<u>(11,994)</u>
Long-term debt	<u>\$ 13,616</u>

Interest and fees were charged as follows:

Governmental activities:

Parks and recreation	<u>\$ 1,011</u>
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**CITY OF HODGENVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE G – CHANGES IN LONG-TERM DEBT, Continued**

Long-term debt for business-type activities for the year ended June 30, 2017:

	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Total</u>
Beginning balance	\$ 1,620,500	\$ 2,741,586	\$ 4,362,086
Reductions	(90,000)	(134,405)	(224,405)
Additions	-	39,097	39,097
Ending balance	1,530,500	2,646,278	4,176,778
Less current portion	(91,500)	(152,574)	(244,074)
Long-term debt	<u>\$ 1,439,000</u>	<u>\$ 2,493,704</u>	<u>\$ 3,932,704</u>

Interest in the amount of \$110,667, less bond discount amortization of \$234, and fees in the amount of \$6,075, 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	<u>Revenue Bonds</u>		<u>Leases/Notes Payable</u>		<u>Total</u>	<u>Total</u>	<u>Total</u>
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	\$ 91,500	\$ 58,019	\$ 164,568	\$ 49,557	\$ 256,068	\$ 107,576	\$ 363,644
2019	91,500	55,331	167,691	46,364	259,191	101,695	360,886
2020	94,500	52,644	158,835	43,195	253,335	95,839	349,174
2021	99,500	49,461	160,431	40,426	259,931	89,887	349,818
2022	101,000	46,534	163,145	37,609	264,145	84,143	348,288
2023-2027	448,000	180,051	804,455	144,167	1,252,455	324,218	1,576,673
2028-2032	222,000	116,911	656,947	76,252	878,947	193,163	1,072,110
2033-2037	276,500	63,069	395,816	15,091	672,316	78,160	750,476
2038-2039	106,000	7,650	-	-	106,000	7,650	113,650
Total	<u>\$ 1,530,500</u>	<u>\$ 629,670</u>	<u>\$ 2,671,888</u>	<u>\$ 452,661</u>	<u>\$ 4,202,388</u>	<u>\$ 1,082,331</u>	<u>\$ 5,284,719</u>

**NOTE H – PENSION PLAN**

**Plan Description** - The City participates in the County Employees Retirement System (CERS) pension plan (Plan). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in each county and school board, and any additional eligible local agencies electing to participate in the Kentucky Retirement System (KRS). The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by visiting [www.kyret.ky.gov](http://www.kyret.ky.gov).

**Benefits Provided** - CERS provides for retirement, disability and death benefits to system members through its pension fund. Retirement benefits may be extended to beneficiaries of Plan members under circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at the age of 65 with at least 48 months of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at the age of 57 if the member's age and years of service equals 87, or at the age of 65 with at least 60 months of service credit. Plan members with a participating date on or after January 1, 2014 are eligible for retirement benefits under the provisions established for a hybrid Cash Balance Plan.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE H – PENSION PLAN, Continued**

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.

CERS also provides for retiree medical benefits through its insurance fund. Generally accepted accounting and financial reporting principles do not currently require recognition and reporting of the liabilities, deferred outflows of resources, deferred inflows of resources, and expenses associated with this post-employment benefit. Therefore, such information has not been reflected in these financial statements.

**Contributions** - Plan members employed before September 1, 2008 are required to contribute 5% of their annual creditable compensation. Those hired on or after September 1, 2008 are required to contribute 6% of their annual creditable compensation with the additional 1% deposited into the KRS Insurance Fund. The City is required to contribute at an actuarially determined rate. Per Kentucky Revised Statute, normal contribution and past service contribution rates shall be determined by the Kentucky Retirement System's Board of Trustees on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2017, total employer contributions for the City were \$167,761 based on a rate of 18.68% for Non-Hazardous members through covered payroll, with an additional \$4,612 paid for unused sick leave and spiking. The contribution rate of 18.68% for Non-Hazardous is comprised of amounts for pension and insurance benefits; 13.95% or \$125,282 was dedicated to pensions and 4.73% or \$42,479 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.

**Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions and Pension Expense** - At June 30, 2017, the City reported a liability of \$1,595,780 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was 0.03241 percent.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

**CITY OF HODGENVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE H – PENSION PLAN, Continued**

The following table provides a summary of the deferred outflows as of the measurement date:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 6,967	\$ -
Changes of assumptions	84,536	-
Net differences between projected and actual earnings on plan investments	150,020	-
Change in employer proportionate share of net pension liability	250,380	135,990
Employer contributions subsequent to the measurement date	125,281	-
Total	<u>\$ 617,184</u>	<u>\$ 135,990</u>

Deferred outflows of resources of \$125,281 resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
2017	\$ 182,715	\$ 50,513
2018	122,241	33,795
2019	119,062	32,916
2020	67,885	18,766
	<u>\$ 491,903</u>	<u>\$ 135,990</u>

For the year ended June 30, 2017, the City recognized pension expense of \$235,662.

**Actuarial Assumptions** - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation date – June 30, 2016
- Experience study – July 1, 2008 through June 30, 2013
- Inflation – 3.25 percent
- Salary increases – 4.00 percent, average, including inflation
- Investment rate of return – 7.50 percent, net of pension plan investment expense, including inflation

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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four 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.

**CITY OF HODGENVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE H – PENSION PLAN, Continued**

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**Assumed Asset Allocation** – The target asset allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

**Sensitivity of The City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

– The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

Non-Hazardous		
1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
\$ 1,988,560	\$ 1,595,780	\$ 1,259,030

**Pension Plan Fiduciary Net Position** - Detailed information about the Plan's fiduciary net position is available in the separately issued CERS financial report. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort Kentucky, 40601.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE I – FUND BALANCES**

Governmental fund balances at June 30, 2017, are classified as follows:

Nonspendable – Nonspendable fund balance in the amount of \$15,260 represents prepaid expenses.

Restricted – Restricted fund balance in the amount of \$1,390 represents restricted cash in the employee benefit (HRA) account.

Committed – Committed fund balance in the amount of \$281,954 is committed for the purpose of perpetual cemetery care.

Assigned – Assigned fund balance in the amount of \$196,754 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 municipal road improvements.

**NOTE J – CLAIMS AND JUDGMENTS**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. 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 K – CONTINGENT LIABILITIES**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**NOTE L – RISK MANAGEMENT**

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; 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, 2017 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 M – RESTRICTED ASSETS**

**General Fund**

Restricted cash includes \$1,390 in an employee benefit (HRA) account at June 30, 2017.

**Proprietary Fund**

The ordinances authorizing the following Rural Economic and Community Development (RECD) bond issues require a monthly sinking fund deposit on one-twelfth of the annual bond requirement and one-sixth the semi-annual interest requirement. All accounts are fully funded at June 30, 2017 in the following amounts:

Bond issue of 1998 (91-08)	3,926
Bond issue of 1999 (91-07)	7,430

The RECD bond issues require an additional \$94,200 be maintained in the reserve sinking fund. The RECD bond issue of 1998 requires a funded depreciation reserve in the amount of \$23,400 in addition to any prior bond ordinances. The RECD bond issue of 1999 requires a funded depreciation reserve in the amount of \$44,400 in addition to any prior bond ordinances. These requirements are fully funded at June 30, 2017.

The ordinance authorizing the Kentucky Rural Water Series 2013 B requires a monthly deposit of one-twelfth the annual bond requirement and one-sixth the semi-annual requirement. The sinking fund is fully funded at June 30, 2017 in the amount of \$34,050. 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 funded in the amount of \$153,800 at June 30, 2017.



**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE M – RESTRICTED ASSETS, Continued**

The ordinance authorizing the Kentucky Infrastructure Authority (KIA) assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan # A 04-10 requires a maintenance and replacement reserve be funded in the amount of \$65,978 at June 30, 2017. 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, 2017.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan # A 11-17 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 is \$12,000 at June 30, 2017 and is funded in the amount of \$12,000 at June 30, 2017.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan # A 11-13 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 initial funding begins subsequent to year end and is scheduled to begin December 1, 2017.

Restricted cash also includes \$73,944 customer deposits in escrow and \$300,147 of excess deposits at June 30, 2017.

**NOTE N – WATER AND WASTEWATER CASH ACCOUNTS**

Unrestricted:	
Revenue fund	\$ 23,219
Operations and maintenance	231,453
Wasterwater	23,793
Wasterwater rehabilitation	18,167
Other	3,749
	<u>\$ 300,381</u>
Restricted:	
Customer deposits escrow	\$ 73,944
Operations and maintenance funds	30,000
Depreciation funds	281,572
Sinking funds	427,759
	<u>\$ 813,275</u>

**NOTE O – 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. The annual rent was increased to \$26,880 effective July 1, 2015. Rental income of \$26,880 is included in the government wide statement of activities as charges for services for the general government. It is included as other revenue in the statement of revenues, expenditures and changes in fund balances. The government wide statement of net position and the governmental funds balance sheet include \$26,880, prepaid in May 2017, as deferred revenue as of June 30, 2017.

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE P – 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, 2017, in the general fund, expenditures for police exceeded appropriations by \$26,701. The over-expenditure was funded by revenues exceeding budgeted amounts, and appropriations exceeding expenditures in other departments. Total appropriations exceeded expenditures by \$139,550.

**NOTE Q – RELATED PARTY TRANSACTIONS**

The City paid \$21,436 during the fiscal year ended June 30, 2017, 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 R – SUBSEQUENT EVENTS**

**Construction in Progress and Long-term Debt**

In May 2013, the City began a long-term construction project with an estimated cost of approximately 2.4 million dollars to upgrade and replace infrastructure to ensure the provision of safe drinking water to its customers. Approximately \$804,000 was used to reconstruct the water tower at the high school and improve the water lines in the area. Approximately \$1.64 million was used for the improvement of sewer lines and the drainage system throughout the City. The project was financed by two Kentucky Infrastructure Authority (KIA) assistance agreements under the Drinking Water State Revolving Fund with interest at 2 percent. In January of 2013, the City increased its water and wastewater rates by 8 percent to provide the funds to repay the debt. The projects were complete at June 30, 2017 with a final cost of \$2,440,783. Loan funds drawn for the project through June 30, 2017, were \$2,407,443.

The City began three long-term water and wastewater construction projects during FY 2017 as follows:

- The City is replacing approximately 4,000 linear ft. of existing waterline and connections around the County Schools adjacent to S. Lincoln Blvd. and Hwy. 1618. The project will improve critical infrastructure in an important portion of the system. The project is planned to include demolition of the existing Greensburg Water Tank, which is no longer in service. The City has received approval of a \$962,000 State Revolving Loan from KIA with a 1% rate over 20 years with \$240,500 of the loan being in the form of principal forgiveness (grant) funds.
- The City is replacing approximately 6,100 linear ft. of existing waterline and connections along S Lincoln Blvd., as part of a system-wide critical infrastructure improvement project. The City has received approval of a State Revolving Loan from KIA for \$593,000 at 1% over 20 years with \$148,250 being in the form of principal forgiveness (grant) funds. The City is anticipating providing local funding of approximately \$147,000 from replacement and reserve accounts to complete the project.
- The City is undertaking the rehabilitation of approximately 7,000 linear ft. of sanitary sewer line and 1,100 linear ft. of storm water sewer lines as part of a continuation of a long-term sewer collection and storm water improvement project. The City has received approval of a \$970,000 State Revolving Loan from KIA with a rate of 1% over 20 years with \$242,500 in principal forgiveness (grant) funds.

These projects are part of previously planned capital improvements for the water and sewer system of the City designed to meet current needs and replace inadequate infrastructure critical to ongoing services in the City of Hodgenville. The City has approved a 5 year rate increase schedule to provide the funds to repay the debt.

**CITY OF HODGENVILLE, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Budgetary fund balance, July 1, 2016	\$ 265,885	\$ 265,885	\$ 773,961	\$ 508,076
<b>REVENUES (inflows):</b>				
Occupational taxes	361,000	361,000	430,677	69,677
Property and franchise taxes	339,000	339,000	342,843	3,843
Insurance premium tax	335,000	335,000	493,667	158,667
Intergovernmental revenue	44,000	44,000	55,350	11,350
Other revenue	24,515	24,515	80,897	56,382
<b>TOTAL REVENUES</b>	<b>1,103,515</b>	<b>1,103,515</b>	<b>1,403,434</b>	<b>299,919</b>
<b>AMOUNTS AVAILABLE FOR APPROPRIATION</b>	<b>1,369,400</b>	<b>1,369,400</b>	<b>2,177,395</b>	<b>807,995</b>
<b>EXPENDITURES (outflows):</b>				
General government	556,600	556,600	431,279	125,321
Police	739,000	739,000	765,701	(26,701)
Fire	18,800	18,800	8,467	10,333
Parks and recreation	25,000	25,000	24,403	597
Contingency	30,000	30,000	-	30,000
<b>TOTAL EXPENDITURES</b>	<b>1,369,400</b>	<b>1,369,400</b>	<b>1,229,850</b>	<b>139,550</b>
Transfers out	-	-	(72,678)	(72,678)
Budgetary fund balance, June 30, 2017	\$ -	\$ -	\$ 874,867	\$ 874,867

**CITY OF HODGENVILLE, KENTUCKY  
SCHEDULE OF CITY'S PROPORTIONATE SHARE  
OF THE CERS NET PENSION LIABILITY  
YEAR ENDED JUNE 30, 2017**

Last 10 Years *	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of net pension liability	0.03241%	0.02307%	0.03183%
Proportionate share of net pension liability	<u>\$ 1,595,780</u>	<u>\$ 991,785</u>	<u>\$ 1,033,000</u>
Covered employee payroll	<u>\$ 898,080</u>	<u>\$ 774,880</u>	<u>\$ 538,193</u>
Proportionate share of net pension liability as percentage of covered payroll	177.69%	127.99%	191.94%
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%

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

**CITY OF HODGENVILLE, KENTUCKY  
SCHEDULE OF CONTRIBUTIONS TO CERS  
YEAR ENDED JUNE 30, 2017**

Last 10 Years *	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 125,281	\$ 96,487	\$ 68,620
Contribution in relation to the actuarially determined contributions	<u>125,281</u>	<u>96,487</u>	<u>68,620</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 898,080</u>	<u>\$ 774,880</u>	<u>\$ 538,193</u>
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%

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

**CITY OF HODGENVILLE, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2017**

**Changes of benefit terms:** The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

**Changes of assumption :** The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

2015:

- 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.

**CITY OF HODGENVILLE, KENTUCKY  
COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	Special Revenue			Permanent Fund	Total Nonmajor Governmental Funds
	Road	Cemetery	Total	Cemetery Perpetual Care	
<b><u>ASSETS:</u></b>					
Cash & cash equivalents	\$ 186,622	\$ 52,991	\$ 239,613	\$ 222,751	\$ 462,364
Prepaid expenses	-	762	762	-	762
Receivables:					
Other	5,999	-	5,999	-	5,999
Due from other funds	4,133	-	4,133	59,203	63,336
TOTAL ASSETS	<u>\$ 196,754</u>	<u>\$ 53,753</u>	<u>\$ 250,507</u>	<u>\$ 281,954</u>	<u>\$ 532,461</u>
<b><u>LIABILITIES AND FUND BALANCES:</u></b>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	-	752	752	-	752
Due to other funds	-	59,203	59,203	-	59,203
TOTAL LIABILITIES	<u>-</u>	<u>59,955</u>	<u>59,955</u>	<u>-</u>	<u>59,955</u>
<b><u>FUND BALANCES:</u></b>					
Nonspendable	-	762	762	-	762
Committed	-	-	-	281,954	281,954
Assigned	196,754	-	196,754	-	196,754
Unassigned	-	(6,964)	(6,964)	-	(6,964)
TOTAL FUND BALANCES	<u>196,754</u>	<u>(6,202)</u>	<u>190,552</u>	<u>281,954</u>	<u>472,506</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 196,754</u>	<u>\$ 53,753</u>	<u>\$ 250,507</u>	<u>\$ 281,954</u>	<u>\$ 532,461</u>

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 30,2017**

	Special Revenue			Permanent Fund	Total Nonmajor Governmental Funds
	Road	Cemetery	Total	Cemetery Perpetual Care	
<b><u>REVENUES:</u></b>					
Intergovernmental revenue	\$ 64,552	\$ -	\$ 64,552	\$ -	\$ 64,552
Other revenue	-	44,239	44,239	-	44,239
Interest income	455	521	976	667	1,643
TOTAL REVENUES	65,007	44,760	109,767	667	110,434
<b><u>EXPENDITURES:</u></b>					
Current:					
Highways and streets	52,779	-	52,779	-	52,779
Cemetery	-	73,121	73,121	-	73,121
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	52,779	73,121	125,900	-	125,900
<b><u>OTHER FINANCING SOURCES (USES):</u></b>					
Transfers in	-	72,678	72,678	-	72,678
TOTAL OTHER FINANCING SOURCES (USES)	-	72,678	72,678	-	72,678
TOTAL REVEUES OVER (UNDER) EXPENDITURES	12,228	44,317	56,545	667	57,212
FUND BALANCES - beginning	184,526	(50,519)	134,007	281,287	415,294
FUND BALANCES - ending	\$ 196,754	\$ (6,202)	\$ 190,552	\$ 281,954	\$ 472,506

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, 2017, 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 May 8, 2018.

**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 accompanying schedule of findings and responses as item 2017-1 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 2017-2, 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 2017-3.

**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

May 8, 2018

CITY OF HODGENVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2017

**REPORTABLE CONDITIONS**

**MATERIAL WEAKNESS:**

**Item 2017-1 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 2017-2 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 2017-3 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.