

CITY OF HODGENVILLE, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2018

(With Independent Auditor's Report Thereon)

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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, 2018, 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, 2018, 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

As discussed in Note S to the financial statements, during the year ended June 30, 2018, the City of Hodgenville, Kentucky adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017* and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the budgetary comparison schedule on page 38, and select pension and OPEB information on pages 39 through 44 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 13, 2019, on our consideration of the City of Hodgenville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hodgenville, Kentucky's internal control over financial reporting and compliance.

Clauser, Mouser & Co.

Certified Public Accountants
May 13, 2019

**CITY OF HODGENVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018. 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 \$2.53 million, which includes approximately \$871,000 of restricted cash and cash equivalents. This reflects an increase in cash during the year of approximately \$399,000.
- Governmental activities had \$1.75 million and business-type activities had \$2.06 million in revenue for the year.
- Governmental activities had \$1.84 million and business-type activities had \$1.98 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled approximately \$16.58 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 16-37 of this report.

THE CITY AS A WHOLE

The City's combined net position decreased slightly, by approximately \$4,000, or less than 1 percent, from a year ago. Our analysis below focuses on the net position and changes in net position of the primary government.

Net Position June 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,595,218	\$ 1,323,079	\$ 1,393,664	\$ 1,257,166	\$ 2,988,882	\$ 2,580,245
Capital assets	4,002,486	4,110,247	12,581,354	11,275,765	16,583,840	15,386,012
Total Assets	5,597,704	5,433,326	13,975,018	12,532,931	19,572,722	17,966,257
Deferred Outflows	589,666	266,094	622,708	367,299	1,212,374	633,393
Internal balances	133,633	130,382	(133,633)	(130,382)	-	-
Long-term debt	13,616	25,610	5,663,759	4,176,778	5,677,375	4,202,388
Net pension and OPEB liabilities	1,430,131	951,549	1,475,487	1,179,662	2,905,618	2,131,211
Other liabilities	121,693	119,505	235,696	472,281	357,389	591,786
Total Liabilities	1,565,440	1,096,664	7,374,942	5,828,721	8,940,382	6,925,385
Deferred Inflows	166,792	58,631	146,141	79,385	312,933	138,016
Net Position						
Investment in capital assets (net of debt)	3,988,870	4,084,637	6,917,595	7,098,987	10,906,465	11,183,624
Restricted	6,922	1,390	793,369	739,331	800,291	740,721
Unrestricted	592,979	588,480	(767,954)	(976,576)	(174,975)	(388,096)
Total Net Position	\$ 4,588,771	\$ 4,674,507	\$ 6,943,010	\$ 6,861,742	\$ 11,531,781	\$ 11,536,249

The slight decrease in net position is due to the restatement of the FY 2017 net position for OPEB liabilities not previously reported, and current year expenses being comparable to current year revenues.

Approximately 7% of the City's net position is restricted as to the purpose it can be used for and approximately 95% is invested in capital assets, resulting in a 2% deficit in unrestricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Changes in Net Position Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
REVENUES:						
Program revenues:						
Charges for services	\$ 93,023	\$ 79,357	\$ 1,630,156	\$ 1,489,276	\$ 1,723,179	\$ 1,568,633
Operating grants and contributions	229,856	128,581	3,000	-	232,856	128,581
Capital grants and contributions	-	-	360,343	-	360,343	-
General revenues:						
Taxes	1,373,841	1,266,920	-	-	1,373,841	1,266,920
Licenses & Permits	29,494	18,712	-	-	29,494	18,712
Other revenues	23,954	20,031	24,948	16,937	48,902	36,968
Total revenues	1,750,168	1,513,601	2,018,447	1,506,213	3,768,615	3,019,814
EXPENSES:						
Governmental activities:						
General government	690,554	592,262	-	-	690,554	592,262
Police	913,945	810,488	-	-	913,945	810,488
Fire	48,577	29,613	-	-	48,577	29,613
Parks and recreation	29,702	20,281	-	-	29,702	20,281
Highways and streets	11,990	58,710	-	-	11,990	58,710
Cemetery	97,680	82,965	-	-	97,680	82,965
Water & wastewater	-	-	1,980,635	1,926,958	1,980,635	1,926,958
Total expenses	1,792,448	1,594,319	1,980,635	1,926,958	3,773,083	3,521,277

Other revenue includes investment income and other miscellaneous income.

Charges for services in the business type activities increased by approximately \$141,000 due to rate increases to fund the new system improvement loans. Operating grants and contributions increased principally due to a \$100,000 gift to the cemetery permanent fund. Capital grants and contributions increased significantly due to the principal forgiveness provision in the water and wastewater system improvement loans. General revenues of taxes increased by approximately \$107,000, with the most significant increases being in franchise and occupational taxes. Expenses increased approximately \$252,000 for the City as a whole, with the most significant increases being in general government and police.

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

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's Funds

As the City completed the year, its governmental fund balances, as presented in the balance sheet on page 9 increased approximately \$246,000.

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 \$1,509,000 with actual amounts of \$1,541,737. The variance between budgeted revenues and actual revenues is favorable. Budgeted expenditures of \$1,509,000 compare with actual expenditures of \$1,497,751. The variance between budgeted expenditures and actual expenditures is also favorable.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the year ended June 30, 2018, the City had \$16.6 million invested in capital assets, net of depreciation. This represents a net increase of approximately \$1.2 million compared to last year. The increase is principally attributable to capital improvements to the water and wastewater system of approximately \$1.8 million, equipment and vehicle purchases of approximately \$129,000, less current year depreciation expense of approximately \$697,000.

Long-term Debt

At the year ended June 30, 2018 the City had \$5.7 million outstanding on capital leases, revenues bonds, and notes payable compared to \$4.2 million at June 30, 2017. That is an increase of approximately \$1.5 million, or 36%. The increase is due to construction period draws on the water/wastewater loans for the water/wastewater rehabilitation project of approximately \$2.1 million, less principal forgiveness of \$360,000 and principal payments on existing debt of approximately \$245,000.

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 2018 revenue of \$486,179. 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 2018 revenue of \$480,906. The third largest source of revenue is property taxes. The 2017 property tax rate was 0.141 for \$100 of assessed value of real property and personal property with FY 2018 revenue of \$296,078. Franchise tax revenues for FY 2018 totaled \$114,266. Revenue for FY 2019 for insurance premium tax is budgeted at \$475,000, with occupational tax and licenses budgeted at \$430,000, and property taxes combined with franchise taxes conservatively budgeted at \$345,000.

General fund disbursements were budgeted at \$1,509,000 with actual expenditures of \$1,497,751 for FY 2018. Budgeted disbursements were decreased to \$1,319,000 for FY 2019, which is a decrease of \$190,000, with the most significant decreases in general government, police and fire.

CITY PROJECTS

In FYE 2018 the City:

- Continued three long-term water and wastewater improvement projects, which began in FY 2017, 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 wastewater system of the City and will also be financed by KIA. The City expended \$1,766,275 on the projects in FYE 2018.
- Purchased computers and tablets for general administration at a cost of \$5,587.
- Provided a trailer for city projects at a cost of \$1,195.
- Purchased equipment and turnout gear for the fire department at a cost of \$11,397.
- Purchased a 1997 pumper truck at a cost of \$43,500.
- Purchased two 2018 police cruisers at a cost of \$59,597.
- Purchased two small trucks, an ATV and a computer for the water department at a cost of \$7,676.

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, 2018

ASSETS:	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash & cash equivalents	\$ 1,291,516	\$ 371,920	\$ 1,663,436
Prepaid expenses	6,903	16,059	22,962
Accounts receivable:			
Taxes	275,705	-	275,705
Trade, net	-	141,104	141,104
Other	14,172	288	14,460
Total Current Assets	1,588,296	529,371	2,117,667
Noncurrent Assets			
Restricted cash & cash equivalents	6,922	864,293	871,215
Capital assets, net of depreciation	4,002,486	12,581,354	16,583,840
Total Noncurrent Assets	4,009,408	13,445,647	17,455,055
TOTAL ASSETS	5,597,704	13,975,018	19,572,722
Deferred Outflows of Resources:			
Debt issue costs, net	-	14,339	14,339
Deferred outflows related to pension	488,429	503,924	992,353
Deferred outflows related to OPEB	101,237	104,445	205,682
Total Deferred Outflows	589,666	622,708	1,212,374
LIABILITIES:			
Current Liabilities			
Accounts payable	68,208	21,906	90,114
Construction costs payable	-	95,000	95,000
Accrued expenses	38,606	25,710	64,316
Internal balances	(133,633)	133,633	-
Revenue bonds payable - current portion	-	91,500	91,500
Leases/notes payable - current portion	12,545	236,554	249,099
Total Current Liabilities	(14,274)	604,303	590,029
Noncurrent Liabilities			
Compensated absences	14,879	26,585	41,464
Revenue bonds payable, net of current portion	-	1,347,500	1,347,500
Leases/notes payable, net of current portion	1,071	3,988,205	3,989,276
Net pension liability	1,064,513	1,098,284	2,162,797
Net OPEB liability	365,618	377,203	742,821
Customer deposits	-	66,495	66,495
Total Noncurrent Liabilities	1,446,081	6,904,272	8,350,353
TOTAL LIABILITIES	1,431,807	7,508,575	8,940,382
Deferred Inflows of Resources:			
Bond premium, net	-	1,791	1,791
Deferred revenue	26,880	-	26,880
Deferred inflows related to pension	120,770	124,601	245,371
Deferred inflows related to OPEB	19,142	19,749	38,891
Total Deferred Inflows	166,792	146,141	312,933
NET POSITION:			
Invested in capital assets, net of related debt	3,988,870	6,917,595	10,906,465
Restricted for employee benefits	6,922	-	6,922
Restricted for debt service	-	450,774	450,774
Restricted for capital projects	-	342,595	342,595
Unrestricted	592,979	(767,954)	(174,975)
TOTAL NET POSITION	\$ 4,588,771	\$ 6,943,010	\$ 11,531,781

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 690,554	\$ 44,551	\$ 8,485	\$ -	\$ (637,518)	\$ -	\$ (637,518)
Police	913,945	11,872	36,227	-	(865,846)	-	(865,846)
Fire	48,577	-	14,200	-	(34,377)	-	(34,377)
Parks and recreation	29,702	-	-	-	(29,702)	-	(29,702)
Highways and streets	11,990	-	64,823	-	52,833	-	52,833
Cemetery	97,680	36,600	106,121	-	45,041	-	45,041
Total governmental activities	1,792,448	93,023	229,856	-	(1,469,569)	-	(1,469,569)
Business-type activities:							
Water and wastewater system	1,980,635	1,630,156	3,000	360,343	-	12,864	12,864
TOTAL	\$ 3,773,083	\$ 1,723,179	\$ 232,856	\$ 360,343	(1,469,569)	12,864	(1,456,705)
General revenues:							
Property taxes					292,490	-	292,490
Insurance premium taxes					486,179	-	486,179
Occupational taxes					480,906	-	480,906
Franchise taxes					114,266	-	114,266
License and permits					29,494	-	29,494
Interest income					20,707	24,130	44,837
Other revenue					3,247	818	4,065
Total general revenues					1,427,289	24,948	1,452,237
Transfers in (out)					(43,456)	43,456	-
Change in net position					(85,736)	81,268	(4,468)
Net position - beginning					4,938,047	7,133,633	12,071,680
Restatement for adoption of GASB 75					(263,540)	(271,891)	(535,431)
Net position - ending					\$ 4,588,771	\$ 6,943,010	\$ 11,531,781

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash & cash equivalents	\$ 623,489	\$ 668,027	\$ 1,291,516
Prepaid expenses	6,093	810	6,903
Receivables:			
Taxes	274,144	-	274,144
Other	8,021	6,151	14,172
Due from other funds	133,633	-	133,633
Restricted cash	6,922	-	6,922
TOTAL ASSETS	<u>\$ 1,052,302</u>	<u>\$ 674,988</u>	<u>\$ 1,727,290</u>
<u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts payable	\$ 68,208	\$ -	\$ 68,208
Accrued expenses	38,361	245	38,606
Deferred revenue	26,880	-	26,880
TOTAL LIABILITIES	<u>133,449</u>	<u>245</u>	<u>133,694</u>
<u>FUND BALANCES:</u>			
Nonspendable	6,093	810	6,903
Restricted	6,922	-	6,922
Committed	14,879	324,384	339,263
Assigned	-	254,198	254,198
Unassigned	890,959	95,351	986,310
TOTAL FUND BALANCES	<u>918,853</u>	<u>674,743</u>	<u>1,593,596</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,052,302</u>	<u>\$ 674,988</u>	<u>\$ 1,727,290</u>

CITY OF HODGENVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 1,593,596
<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>		1,561
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Capital asset cost	6,983,304	
Net of accumulated depreciation	<u>(2,980,818)</u>	4,002,486
<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>		(14,879)
<p>Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods, therefore, are not reported in the governmental fund financial statements but are reported in the statement of net position.</p>		
Deferred outflows related to pension	488,429	
Deferred outflows related to OPEB	101,237	
Deferred inflows related to pension	(120,770)	
Deferred inflows related to OPEB	<u>(19,142)</u>	449,754
<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	(1,064,513)	
Net OPEB liability	(365,618)	
Capital lease payable	<u>(13,616)</u>	<u>(1,443,747)</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		 <u><u>\$ 4,588,771</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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>			
Property taxes	\$ 296,078	\$ -	\$ 296,078
Insurance premium taxes	486,179	-	486,179
Occupational taxes	480,906	-	480,906
Franchise taxes	114,266	-	114,266
Licenses and permits	29,494	-	29,494
Intergovernmental revenue	56,072	64,823	120,895
Contributions	-	106,121	106,121
Other revenue	62,510	36,600	99,110
Interest income	16,232	4,475	20,707
	<u>1,541,737</u>	<u>212,019</u>	<u>1,753,756</u>
<u>EXPENDITURES:</u>			
Current:			
General government	486,100	-	486,100
Police	720,529	-	720,529
Fire	27,674	-	27,674
Parks and recreation	9,643	-	9,643
Highways and streets	-	8,170	8,170
Cemetery	-	77,858	77,858
Capital outlay	121,276	-	121,276
Debt service:			
Principal	11,994	-	11,994
Interest and fees	834	-	834
	<u>1,378,050</u>	<u>86,028</u>	<u>1,464,078</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers in	-	135,448	135,448
Transfers out	(119,701)	(59,203)	(178,904)
	<u>(119,701)</u>	<u>76,245</u>	<u>(43,456)</u>
TOTAL REVENUES OVER EXPENDITURES	43,986	202,236	246,222
FUND BALANCES - beginning	874,867	472,507	1,347,374
FUND BALANCES - ending	<u>\$ 918,853</u>	<u>\$ 674,743</u>	<u>\$ 1,593,596</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, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 246,222	
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.		(3,588)
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	121,276	
Depreciation expense	<u>(229,037)</u>	(107,761)
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.		11,994
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.		3,688
Governmental funds report pension and OPEB contributions as expenditures. In the statement of activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as pension and OPEB expense.		
Pension contributions	66,794	
OPEB contributions	21,681	
Cost of pension benefits earned	(283,102)	
Cost of OPEB benefits earned	<u>(41,664)</u>	<u>(236,291)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (85,736)</u>

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

ASSETS:

Current Assets

Cash & cash equivalents	\$ 371,920
Prepaid expenses	16,059
Trade receivables	141,104
Other receivables	288
Total Current Assets	<u>529,371</u>

Noncurrent Assets

Restricted cash & cash equivalents	<u>864,293</u>
Capital assets:	
Land and improvements	555,895
Construction in progress	2,220,491
Distribution and collections systems	18,139,490
Buildings and equipment	562,688
Less accumulated depreciation	<u>(8,897,210)</u>
Net Capital Assets	<u>12,581,354</u>
TOTAL ASSETS	<u>13,975,018</u>

DEFERRED OUTFLOWS:

Debt issue costs, net	14,339
Deferred outflows related to pension	503,924
Deferred outflows related to OPEB	104,445
Total Deferred Outflows	<u>622,708</u>

LIABILITIES:

Current Liabilities

Accounts payable	21,906
Construction costs payable	95,000
Accrued expenses	25,710
Due to other funds	133,633
Revenue bonds payable-current portion	91,500
Notes payable-current portion	236,554
Total Current Liabilities	<u>604,303</u>

Noncurrent Liabilities

Compensated absences	26,585
Revenue bonds payable, net of current portion	1,347,500
Notes payable, net of current portion	3,988,205
Net pension liability	1,098,284
Net OPEB liability	377,203
Customer deposits	66,495
Total Noncurrent Liabilities	<u>6,904,272</u>
TOTAL LIABILITIES	<u>7,508,575</u>

DEFERRED INFLOWS:

Bond premium, net	1,791
Deferred inflows related to pension	124,601
Deferred inflows related to OPEB	19,749
Total Deferred Inflows	<u>146,141</u>

NET POSITION:

Invested in capital assets, net of related debt	6,917,595
Restricted for debt service	450,774
Restricted for capital projects	342,595
Unrestricted	<u>(767,954)</u>
TOTAL NET POSITION	<u>\$ 6,943,010</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, 2018

OPERATING REVENUES:

Charges for services	
Water and wastewater fees	\$ 1,560,999
Other charges for services	69,157
Miscellaneous income	3,818
TOTAL OPERATING REVENUES	<u>1,633,974</u>

OPERATING EXPENSES:

Personnel costs	874,910
Repairs and maintenance	139,608
Utilities	127,216
Insurance	94,555
Chemicals	72,826
Other expenses	80,918
Depreciation	468,361
TOTAL OPERATING EXPENSES	<u>1,858,394</u>

Operating loss	<u>(224,420)</u>
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NON-OPERATING REVENUES (EXPENSES):

Loan principal forgiveness	360,343
Transfers in	43,456
Interest income	24,130
Interest expense	(113,082)
Amortization	(1,870)
Loan fees	(7,289)
TOTAL NON-OPERATING REVENUE (EXPENSE), net	<u>305,688</u>

CHANGE IN NET POSITION	81,268
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NET POSITION - beginning	7,133,633
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Restatement for adoption of GASB 75	<u>(271,891)</u>
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NET POSITION - ending	<u>\$ 6,943,010</u>
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**CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 1,620,661
Cash payments for personnel costs	(774,691)
Cash payments for operating expenses	(451,491)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	394,479
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(7,676)
Paid for construction in progress	(2,015,241)
Proceeds from long-term debt	2,091,398
Principal paid on long-term debt	(244,074)
Interest and fees paid on long-term debt	(120,435)
	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(296,028)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	24,106
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	24,106
	<hr/>

NET INCREASE IN CASH AND CASH EQUIVALENTS 122,557

CASH AND CASH EQUIVALENTS - beginning	1,113,656
	<hr/>
CASH AND CASH EQUIVALENTS - ending	\$ 1,236,213
	<hr/> <hr/>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (224,420)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	468,361
Pension expense in excess of pension payments	84,921
OPEB expense in excess of OPEB payments	20,616
Insurance expense paid by general fund	43,456
Change in assets and liabilities:	
(Increase) decrease in:	
Trade receivables	(12,168)
Prepaid expenses	(1,749)
Increase (decrease) in:	
Accounts payable	18,000
Accrued expenses	(5,010)
Due to other funds	3,251
Compensated absences	366
Customer deposits	(1,145)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 394,479
	<hr/> <hr/>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018**

NOTE 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, 2018**

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, 2018**

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, 2018**

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, 2018**

NOTE B – SECURED DEPOSITS AND INVESTMENTS

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

Custodial Credit Risk – Deposits – At June 30, 2018 the City had deposits with financial institutions with carrying amounts of \$2,534,651. The bank balances with the financial institutions were \$2,571,850. Of these balances, \$545,092 were covered by federal deposit insurance and \$1,936,969 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 \$89,789 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, 2018**

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, 2018, delinquent property taxes totaling \$15,484 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>
2007-2014	\$ 7,661	\$ 7,661
2015	1,881	1,881
2016	1,059	1,059
2017	<u>4,883</u>	<u>4,883</u>
	15,484	15,484
Less: Allowance for Doubtful Accounts	<u>(7,078)</u>	<u>(8,639)</u>
Balance	<u>\$ 8,406</u>	<u>\$ 6,845</u>

An additional \$1,561 of property taxes receivable considered to be collectible within one year, but after the 60 day period, is added to the accrual in the government-wide financial statements.

NOTE D – 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 governmental and proprietary funds are presented. Interfund receivables and payables at June 30, 2018 consist of the following:

	<u>General Fund</u>	<u>Proprietary Fund</u>
Receivables:		
Due from Proprietary to General	<u>\$ 133,633</u>	<u>\$ -</u>
Payables:		
Due to General from Proprietary	<u>\$ -</u>	<u>\$ 133,633</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, 2018**

NOTE E – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for governmental activities for the year ended June 30, 2018, was as follows:

Governmental activities:	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Land and buildings	\$ 633,133	\$ -	\$ -	\$ 633,133
Improvements/infrastructure	4,505,669	-	-	4,505,669
Equipment	1,299,162	61,679	-	1,360,841
Vehicles	424,064	59,597	-	483,661
	<u>6,862,028</u>	<u>121,276</u>	<u>-</u>	<u>6,983,304</u>
Accumulated depreciation	<u>(2,751,781)</u>	<u>(229,037)</u>	<u>-</u>	<u>(2,980,818)</u>
Net capital assets	<u>\$ 4,110,247</u>	<u>\$ (107,761)</u>	<u>\$ -</u>	<u>\$ 4,002,486</u>

Depreciation was charged to functions as follows:

General government	\$ 141,727
Police	40,081
Fire	20,903
Parks and recreation	19,225
Highways and streets	3,820
Cemetery	3,281
	<u>229,037</u>
Total governmental activities depreciation expense	<u>\$ 229,037</u>

Capital asset activity for business-type activities for the year ended June 30, 2018 was as follows:

Business-type activities:	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Land and improvements	\$ 555,895	\$ -	\$ -	\$ 555,895
Distribution and collection systems:				
Construction in progress	454,217	1,766,275	-	2,220,492
Plant, lines and extensions	16,209,217	-	-	16,209,217
Dam and reservoir	1,930,273	-	-	1,930,273
Total distribution and collection system	<u>18,593,707</u>	<u>1,766,275</u>	<u>-</u>	<u>20,359,982</u>
Buildings and equipment	555,012	7,676	-	562,688
Totals at historical cost	<u>19,704,614</u>	<u>1,773,951</u>	<u>-</u>	<u>21,478,565</u>
Accumulated depreciation	<u>(8,428,849)</u>	<u>(468,362)</u>	<u>-</u>	<u>(8,897,211)</u>
Net capital assets	<u>\$ 11,275,765</u>	<u>\$ 1,305,589</u>	<u>\$ -</u>	<u>\$ 12,581,354</u>

Depreciation in the amount of \$468,362 was charged to the business-type activities function.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE F – LONG TERM DEBT

The following is a summary of long-term debt for governmental activities at June 30, 2018:

\$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 18.	<u>\$ 13,616</u>
Long term debt for governmental activities	13,616
Less: amounts due within one year	<u>(12,545)</u>
Amounts due in more than one year	<u><u>\$ 1,071</u></u>

The following is a summary of long-term debt for business-type activities at June 30, 2018:

\$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.	\$ 303,000
\$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.	596,000
\$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>540,000</u>
Revenue bonds payable	<u>1,439,000</u>
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF draw loan A04-10 for water and wastewater system improvements, dated February 1, 2005. Principal due in semi-annual installments of \$21,356 to \$26,676 through June 1, 2026; plus interest at 1%; secured by the revenues of the system.	411,253
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan A11-17 for water and wastewater system improvements, dated March 1, 2014. Principal due in semi-annual installments of \$33,445 to \$49,302 through June 1, 2034; plus interest at 2%; secured by the revenues of the system.	1,357,887
Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F11-13 for water and wastewater system improvements, dated March 1, 2015. Principal due in semi-annual installments of \$15,801 to \$23.293 through December 1, 2036; plus interest at 2%; secured by the revenues of the system.	724,565

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**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE F – LONG TERM DEBT, Continued

<p>Draws under an assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF Draw Loan F16-008 for the water and wastewater improvement project in progress dated May 1, 2017. The loan was still in the draw phase at June 30, 2018. The \$889,872 agreement has a 25% principal forgiveness provision. Payments in the amount of \$17,665, due semi-annually including interest at 0.75%, to begin December 1, 2018.</p>	636,278
<p>Draws under an assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF Draw Loan A16-029 for the water and wastewater improvement project in progress dated May 1, 2017. The \$970,000 agreement was still in the draw phase at June 30, 2018. Payments are projected at \$26,160, semi-annually including interest at 0.75%, and are expected to begin in FY 19.</p>	650,030
<p>Draws under an assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF Draw Loan F16-042 for the water and wastewater improvement project in progress dated May 1, 2017. The \$592,994 agreement has a 25% principal forgiveness provision, resulting in \$444,745 principal repayment. Payments in the amount of \$11,994, due semi-annually including interest at 0.75%, to begin December 1, 2018.</p>	<u>444,745</u>
Notes Payable	<u>4,224,759</u>
Long term debt for business-type activities	5,663,759
Less: amounts due within one year	<u>(328,054)</u>
Amounts due in more than one year	<u><u>\$ 5,335,705</u></u>

NOTE G – CHANGES IN LONG-TERM DEBT

Long-term debt activity for governmental activities for the year ended June 30, 2018:

	Capital Lease Payable
Beginning balance	\$ 25,610
Reductions	(11,994)
Additions	-
Ending balance	<u>13,616</u>
Less current portion	<u>(12,545)</u>
Long-term debt	<u><u>\$ 1,071</u></u>

Interest and fees were charged as follows:

Governmental activities:	
Parks and recreation	<u><u>\$ 834</u></u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE G – CHANGES IN LONG-TERM DEBT, Continued

Long-term activity debt for business-type activities for the year ended June 30, 2018:

	Revenue Bonds	Notes Payable	Total
Beginning balance	\$ 1,530,500	\$ 2,646,278	\$ 4,176,778
Reductions	(91,500)	(152,574)	(244,074)
Additions	-	2,091,398	2,091,398
Principal forgiveness	-	(360,343)	(360,343)
Ending balance	1,439,000	4,224,759	5,663,759
Less current portion	(91,500)	(236,554)	(328,054)
Long-term debt	<u>\$ 1,347,500</u>	<u>\$ 3,988,205</u>	<u>\$ 5,335,705</u>

Interest in the amount of \$113,316, less bond discount amortization of \$234, plus fees in the amount of \$7,289, totaling \$120,371 were charged to the business-type activities function.

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

Year	Revenue Bonds		Leases/Notes Payable		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest			
2019	\$ 91,500	\$ 55,331	\$ 249,099	\$ 59,302	\$ 340,599	\$ 114,633	\$ 455,232
2020	94,500	52,644	240,855	55,554	335,355	108,198	443,553
2021	99,500	49,461	243,066	52,170	342,566	101,631	444,197
2022	101,000	46,534	246,404	48,732	347,404	95,266	442,670
2023	102,500	43,179	249,791	45,240	352,291	88,419	440,710
2024-2028	386,000	164,075	1,193,723	172,784	1,579,723	336,859	1,916,582
2029-2033	232,500	106,921	1,115,475	89,620	1,347,975	196,541	1,544,516
2034-2038	288,500	51,571	699,962	17,460	988,462	69,031	1,057,493
2039	43,000	1,935	-	-	43,000	1,935	44,935
Total	<u>\$ 1,439,000</u>	<u>\$ 571,651</u>	<u>\$ 4,238,375</u>	<u>\$ 540,862</u>	<u>\$ 5,677,375</u>	<u>\$ 1,112,513</u>	<u>\$ 6,789,888</u>

NOTE H – PENSION PLAN

Plan Description - The City of Hodgenville, Kentucky participates in the County Employees Retirement System (CERS), a component unit of the Commonwealth of Kentucky. CERS covers substantially all regular full-time members and is a cost-sharing multiple-employer defined benefit pension plan. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by visiting 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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE H – PENSION PLAN, Continued

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.

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

Contributions – For the fiscal year ended June 30, 2018, 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 Section 78.545(33), 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, 2018, total employer contributions for the City were \$179,756 based on a rate of 19.18% for non-hazardous members through covered payroll. The City does not participate in the hazardous plan. The contribution rate of 19.18% is comprised of amounts for pension and insurance benefits; 14.48% or \$135,707 was dedicated to pensions and 4.70% or \$44,049 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, 2018, the City reported a liability of \$2,162,797 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City's proportion was 0.03695%, which was an increase of 0.00454% from its proportion measured as of June 30, 2016.

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. The following table provides a summary of the deferred outflows and inflows as of the measurement date.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE H – PENSION PLAN, Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,683	\$ 54,901
Changes of assumptions	399,095	-
Net differences between projected and actual earnings on plan investments	171,291	144,540
Change in employer proportionate share of net pension liability	283,577	45,930
Employer contributions subsequent to the measurement date	135,707	-
Total	<u>\$ 992,353</u>	<u>\$ 245,371</u>

Deferred outflows of resources of \$135,707 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Pension Expense
2018	\$ 278,109
2019	260,964
2020	99,972
2021	(27,770)
	<u>\$ 611,275</u>

For the year ended June 30, 2018, the City recognized pension expense of \$436,936.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation – 2.30 percent

Salary increases – 3.05 percent, average, including inflation

Investment rate of return – 6.25 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013 and adopted by the Board on December 4, 2014.

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 rate of return assumption, including long-term historical data, estimates inherent in current market data,

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE H – PENSION PLAN, Continued

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
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash Equivalent	2%	1.88%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual financial report. 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 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25 percent) or 1 percentage point higher (7.25 percent) than the current rate:

<i>City of Hodgenville's net pension liability</i>	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 2,727,755	\$ 2,162,797	\$ 1,690,214

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE I - OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description - The City of Hodgenville, Kentucky participates in the County Employees Retirement System (CERS), a component unit of the Commonwealth of Kentucky. CERS covers substantially all regular full-time members and is a cost-sharing multiple-employer defined benefit pension plan. CERS provides other post-employment benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by visiting www.kyret.ky.gov.

The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits Provided - For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Member participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions - For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last 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. The City's contractually required rate for the year ended June 30, 2018 was 4.70% of annual creditable compensation. Contributions to the plan from the City were \$44,049.

OPEB liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEBs - At June 30, 2018, the City reported a liability of \$742,821 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was 0.03695%, which was an increase of 0.00454%, from its proportion measured as of June 30, 2016.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE I - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

For the year ended June 30, 2018, the City recognized OPEB expense of \$84,648. At June 30, 2018, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,063
Changes of assumptions	161,633	-
Net differences between projected and actual earnings on plan investments	-	35,105
Change in employer proportionate share of net pension liability	-	1,723
Employer contributions subsequent to the measurement date	44,049	-
Total	<u>\$ 205,682</u>	<u>\$ 38,891</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$44,049 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year ending June 30,	OPEB Expense
2018	\$ 21,119
2019	21,119
2020	21,119
2021	21,119
2022	29,896
Thereafter	8,370
	<u>\$ 122,742</u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE I - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Actuarial Assumptions - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate: Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.84%

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 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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on the 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 by the target asset allocation percentage and then adding expected inflation. The capital market assumption developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. 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 return in future years.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE I - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash Equivalent	2%	1.88%
Total	100%	

The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The City's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

- The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84% non-hazardous and 5.96% hazardous, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% / 4.96%) or 1-percentage-point higher (6.84% / 6.96%) than the current discount rate:

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease (4.84%)	Current Discount Rate (5.84%)	1% Increase (6.84%)
Non-hazardous	\$ 945,199	\$ 742,821	\$ 574,411

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE I - OTHER POST-EMPLOYMENT BENEFIT PLANS, continued

Sensitivity Of The City's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates - The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Non-hazardous	\$ 562,972	\$ 742,821	\$ 967,762

OPEB Plan Fiduciary Net Position - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE J – FUND BALANCES

Governmental fund balances at June 30, 2018, are classified as follows:

Nonspendable – Nonspendable fund balance in the amount of \$6,903 represents prepaid expenses.

Restricted – Restricted fund balance in the amount of \$6,922 represents restricted cash in the employee benefit (HRA) account.

Committed – Committed fund balance in the general fund, in the amount of \$14,879, is committed for the purpose of funding compensated absences. Committed fund balance in other governmental funds, in the amount of \$324,384, is committed for the purpose of perpetual cemetery care.

Assigned – Assigned fund balance in the amount of \$254,198 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 K – 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 L – RISK MANAGEMENT and CONTINGENT LIABILITIES

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. The City has obtained insurance coverage through a commercial insurance company. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2018 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.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE M – RESTRICTED ASSETS

General Fund

Restricted cash includes \$6,922 in an employee benefit (HRA) account at June 30, 2018.

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, 2018 in the following amounts:

Bond issue of 1998 (91-08)	3,856
Bond issue of 1999 (91-07)	7,304

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, 2018.

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, 2018 in the amount of \$39,936. The ordinance also requires a depreciation fund in an amount considered prudent, and is continued in the amount of \$153,800 as required by the prior 2004 A series. The depreciation fund is fully at June 30, 2018.

The ordinance authorizing the Kentucky Infrastructure Authority (KIA) assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A04-10 requires a maintenance and replacement reserve be funded in the amount of \$65,978 at June 30, 2018. 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, 2018.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A11-17 requires a maintenance and replacement reserve be funded with an annual deposit of \$4,000 until the reserve balance reaches \$40,000. The maintenance and replacement reserve requirement of \$16,000 is funded in the required amount at June 30, 2018.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A11-13 requires a maintenance and replacement reserve be funded with an annual deposit of \$1,900 until the reserve balance reaches \$19,000. The maintenance and replacement reserve requirement of \$1,900 is funded in the required amount at June 30, 2018.

Restricted cash also includes \$70,924 customer deposits in escrow; and, \$342,595 of excess funds considered restricted for capital projects, at June 30, 2018.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE N – WATER AND WASTEWATER CASH ACCOUNTS

Unrestricted:	
Revenue fund	\$ 60,459
Operations and maintenance	227,173
Wasterwater	77,079
Wasterwater rehabilitation	7,209
	<u>\$ 371,920</u>
Restricted:	
Customer deposits escrow	\$ 70,924
Operations and maintenance funds	30,000
Depreciation funds	307,107
Sinking funds	456,262
	<u>\$ 864,293</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 2018, as deferred revenue as of June 30, 2018.

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, 2018, in the general fund, expenditures for the fire department and the cemetery exceeded appropriations by \$7,571 and \$35,245 respectively. The over-expenditure was funded by revenues exceeding budgeted amounts, and appropriations exceeding expenditures in other departments. Total appropriations exceeded expenditures by \$11,249.

NOTE Q – RELATED PARTY TRANSACTIONS

The City paid \$21,616 during the fiscal year ended June 30, 2018, 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.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE R – SUBSEQUENT EVENTS

Construction in Progress and Long-term Debt

The City began three long-term water and wastewater construction projects during FY 2017 which were still in progress at June 30, 2018, 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 an \$889,872 State Revolving Loan from KIA with a 0.75% rate over 20 years with a 25%, or \$222,468, principal forgiveness provision.
- 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 0.75% rate over 20 years.
- 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 \$592,994 with a 0.75% rate over 20 years with a 25%, or \$148,249, principal forgiveness provision. The City is anticipating providing local funding of approximately \$147,000 from replacement and reserve accounts to complete the project.

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.

NOTE S – RESTATEMENT OF BEGINNING NET POSITION

During fiscal year 2018, the city adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement to beginning net position. Beginning net position for governmental activities, as originally reported of \$4,938,047, has been decreased by \$263,540, resulting in a restated beginning net position of \$4,674,507. Beginning net position for business-type activities (and proprietary funds), as originally reported of \$7,133,633, has been decreased by \$271,891, resulting in a restated beginning net position of \$6,861,742.

NOTE T – IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the City's financial statements.

In March of 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

In May of 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

Recently Issued Accounting Pronouncements

In June of 2017, the GASB issued Statement 87, *Leases*, to improve accounting and financial reporting for leases by governments, by establishing standards for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset, thus requiring lessees to recognize a lease liability and an intangible right-to-use lease asset, and lessors to recognize a lease receivable and a deferred inflow of resources. The Statement is effective for reporting periods beginning after December 15, 2019. The City is currently evaluating the impact that the standard will have on its financial statements.

CITY OF HODGENVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Budgetary fund balance, July 1, 2017	\$ 200,000	\$ 200,000	\$ 874,867	\$ 674,867
REVENUES (inflows):				
Occupational taxes	385,000	463,000	480,906	17,906
Property and franchise taxes	356,000	392,000	410,344	18,344
Insurance premium tax	370,000	522,000	486,179	(35,821)
Intergovernmental revenue	44,000	59,000	56,072	(2,928)
Other revenue	25,000	73,000	108,236	35,236
TOTAL REVENUES	1,180,000	1,509,000	1,541,737	32,737
AMOUNTS AVAILABLE FOR APPROPRIATION	1,380,000	1,709,000	2,416,604	707,604
EXPENDITURES (outflows):				
General government	521,000	521,000	492,882	28,118
Police	740,000	790,000	780,126	9,874
Fire	19,000	75,000	82,571	(7,571)
Parks and recreation	25,000	25,000	22,471	2,529
Cemetery	35,000	41,000	76,245	(35,245)
Contingency	40,000	57,000	43,456	13,544
TOTAL EXPENDITURES	1,380,000	1,509,000	1,497,751	11,249
Budgetary fund balance, June 30, 2018	\$ -	\$ 200,000	\$ 918,853	\$ 718,853

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2018**

Last 10 Years *	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of net pension liability	0.03695%	0.03241%	0.02307%	0.03183%
Proportionate share of net pension liability	<u>\$ 2,162,797</u>	<u>\$ 1,595,780</u>	<u>\$ 991,785</u>	<u>\$ 1,033,000</u>
Covered employee payroll	<u>\$ 937,205</u>	<u>\$ 898,080</u>	<u>\$ 774,880</u>	<u>\$ 538,193</u>
Proportionate share of net pension liability as percentage of covered payroll	230.77%	177.69%	127.99%	191.94%
Plan fiduciary net position as a percentage of total pension liability	53.33%	55.50%	59.97%	66.80%

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET OPEB LIABILITY
YEAR ENDED JUNE 30, 2018**

Last 10 Years *	<u>2018</u>
Proportion of net OPEB liability	0.03695%
Proportionate share of net OPEB liability	<u>\$ 742,821</u>
Covered employee payroll	<u>\$ 937,205</u>
Proportionate share of net OPEB liability as percentage of covered payroll	79.26%
Plan fiduciary net position as a percentage of total OPEB liability	52.40%

*Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO PENSION
YEAR ENDED JUNE 30, 2018**

Last 10 Years *	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 135,707	\$ 125,281	\$ 96,487	\$ 68,620
Contribution in relation to the actuarially determined contributions	<u>135,707</u>	<u>125,281</u>	<u>96,487</u>	<u>68,620</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 937,205</u>	<u>\$ 898,080</u>	<u>\$ 774,880</u>	<u>\$ 538,193</u>
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO OPEB
YEAR ENDED JUNE 30, 2018**

Last 10 Years *	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 44,049
Contribution in relation to the actuarially determined contributions	<u>44,049</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 937,205</u>
Contributions as a percentage of covered employee payroll	4.70%

*Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
JUNE 30, 2018**

CERS PENSION

Changes of benefit terms: There were no changes in benefit terms for 2015 through 2018

Changes of assumption :

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.

2016 and 2017:

- No changes

2018:

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

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
JUNE 30, 2018

CERS OPEB

Changes of benefit terms: There were no changes in benefit terms for 2018

Changes of assumption :

2018:

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

**CITY OF HODGENVILLE, KENTUCKY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue			Permanent Fund	Total Nonmajor Governmental Funds
	Road	Cemetery	Total	Cemetery Perpetual Care	
<u>ASSETS:</u>					
Cash & cash equivalents	\$ 248,047	\$ 95,596	\$ 343,643	\$ 324,384	\$ 668,027
Prepaid expenses	-	810	810	-	810
Receivables:					
Other	6,151	-	6,151	-	6,151
	\$ 254,198	\$ 96,406	\$ 350,604	\$ 324,384	\$ 674,988
<u>LIABILITIES AND FUND BALANCES:</u>					
Liabilities:					
Accrued expenses	\$ -	\$ 245	\$ 245	\$ -	\$ 245
	-	245	245	-	245
<u>FUND BALANCES:</u>					
Nonspendable	-	810	810	-	810
Committed	-	-	-	324,384	324,384
Assigned	254,198	-	254,198	-	254,198
Unassigned	-	95,351	95,351	-	95,351
	254,198	96,161	350,359	324,384	674,743
TOTAL LIABILITIES AND FUND BALANCES	\$ 254,198	\$ 96,406	\$ 350,604	\$ 324,384	\$ 674,988

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, 2018

	Special Revenue			Permanent Fund	Total Nonmajor Governmental Funds
	Road	Cemetery	Total	Cemetery Perpetual Care	
<u>REVENUES:</u>					
Intergovernmental revenue	\$ 64,823	\$ -	\$ 64,823	\$ -	\$ 64,823
Contributions		6,121	6,121	100,000	106,121
Other revenue	-	36,600	36,600	-	36,600
Interest income	790	2,052	2,842	1,633	4,475
TOTAL REVENUES	65,613	44,773	110,386	101,633	212,019
<u>EXPENDITURES:</u>					
Current:					
Highways and streets	8,170	-	8,170	-	8,170
Cemetery	-	77,858	77,858	-	77,858
TOTAL EXPENDITURES	8,170	77,858	86,028	-	86,028
<u>OTHER FINANCING SOURCES (USES):</u>					
Transfers in	-	135,448	135,448	-	135,448
Transfers out	-	-	-	(59,203)	(59,203)
TOTAL OTHER FINANCING SOURCES (USES)	-	135,448	135,448	(59,203)	76,245
TOTAL REVENUES OVER (UNDER) EXPENDITURES	57,443	102,363	159,806	42,430	202,236
FUND BALANCES - beginning	196,755	(6,202)	190,553	281,954	472,507
FUND BALANCES - ending	\$ 254,198	\$ 96,161	\$ 350,359	\$ 324,384	\$ 674,743

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, 2018, 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 13, 2019.

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 2018-1 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 2018-2, 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 2018-3.

**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 13, 2019

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

REPORTABLE CONDITIONS

MATERIAL WEAKNESS:

Item 2018-1 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 2018-2 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 2018-3 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.