

CITY OF HODGENVILLE, KENTUCKY



**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2020

(With Independent Auditor's Report Thereon)

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Clauson, Mouser & Co., PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hodgenville, Kentucky as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Hodgenville, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hodgenville, Kentucky, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the budgetary comparison schedule on page 37, and select pension and OPEB information on pages 38 through 43 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 June 11, 2021, on our consideration of the City of Hodgenville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hodgenville, Kentucky's internal control over financial reporting and compliance.

Clauson, Mouser & Co.

Certified Public Accountants
June 11, 2021

**CITY OF HODGENVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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, 2020. The intent of this discussion and analysis is to review the City's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash balances of the City totaled \$3.05 million, which includes approximately \$934,000 of restricted cash and cash equivalents. This reflects an increase in cash during the year of approximately \$154,000.
- Governmental activities had \$2.23 million and business-type activities had \$1.80 million in revenue for the year.
- Governmental activities had \$1.86 million and business-type activities had \$1.97 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled approximately \$15.98 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 16-36 of this report.

THE CITY AS A WHOLE

The City's combined net position increased by approximately \$204,000, or almost 2 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, 2020 and 2019

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,341,316	\$ 1,882,793	\$ 1,444,788	\$ 1,489,802	\$ 3,786,104	\$ 3,372,595
Capital assets	3,837,846	3,790,108	11,946,098	12,255,424	15,783,944	16,045,532
Total Assets	6,179,162	5,672,901	13,390,886	13,745,226	19,570,048	19,418,127
Deferred Outflows	363,274	400,868	403,917	447,174	767,191	848,042
Long-term debt	21,725	32,893	5,195,700	5,490,828	5,217,425	5,523,721
Net pension and OPEB liabilities	1,367,206	1,387,215	1,480,285	1,504,308	2,847,491	2,891,523
Other liabilities	107,499	84,506	175,057	172,003	282,556	256,509
Total Liabilities	1,496,430	1,504,614	6,851,042	7,167,139	8,347,472	8,671,753
Deferred Inflows	245,277	143,500	299,080	209,340	544,357	352,840
Net Position						
Investment in capital assets (net of debt)	3,816,121	3,757,215	6,750,398	6,764,596	10,566,519	10,521,811
Restricted	12,293	5,312	837,296	833,950	849,589	839,262
Unrestricted	972,315	663,128	(943,013)	(782,625)	29,302	(119,497)
Total Net Position	\$ 4,800,729	\$ 4,425,655	\$ 6,644,681	\$ 6,815,921	\$ 11,445,410	\$ 11,241,576

The increase in net position is due to current year revenue exceeding current year expenses by approximately \$204,000. Increases in charges for services, intergovernmental revenue, insurance premium taxes and occupational taxes significantly impacted the increase in net position.

Approximately 7% of the City's net position is restricted as to the purpose it can be used for and approximately 92% is invested in capital assets, resulting in an almost 1% unrestricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Changes in Net Position Years Ended June 30, 2020 and 2019

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
REVENUES:						
Program revenues:						
Charges for services	\$ 130,843	\$ 72,166	\$ 1,717,309	\$ 1,680,017	\$ 1,848,152	\$ 1,752,183
Operating grants and contributions	267,652	122,826	3,000	3,000	270,652	125,826
Capital grants and contributions	68,286	-	23,428	10,374	91,714	10,374
General revenues:						
Taxes	1,667,805	1,543,089	-	-	1,667,805	1,543,089
Licenses & Permits	30,897	30,137	-	-	30,897	30,137
Other revenues	48,302	32,005	58,365	63,989	106,667	95,994
Total revenues	2,213,785	1,800,223	1,802,102	1,757,380	4,015,887	3,557,603
EXPENSES:						
Governmental activities:						
General government	764,645	730,839	-	-	764,645	730,839
Police	896,215	836,755	-	-	896,215	836,755
Fire	59,996	54,152	-	-	59,996	54,152
Parks and recreation	36,787	31,309	-	-	36,787	31,309
Highways and streets	6,668	140,233	-	-	6,668	140,233
Cemetery	90,774	91,658	-	-	90,774	91,658
Water & wastewater	-	-	1,956,968	1,962,863	1,956,968	1,962,863
Total expenses	1,855,085	1,884,946	1,956,968	1,962,863	3,812,053	3,847,809
Transfers in (out)	16,374	(78,394)	(16,374)	78,394	-	-
Changes in net position	\$ 375,074	\$ (163,117)	\$ (171,240)	\$ (127,089)	\$ 203,834	\$ (290,206)

Other revenue includes investment income and other miscellaneous income.

Operating grants and contributions in governmental activities increased principally due to current year Covid relief fund revenue of \$146,000 and a \$67,000 increase in municipal road aid. General revenues of taxes increased by approximately \$124,000, with the most significant increases being in occupational and insurance premium taxes. Charges for services in the business type activities increased by approximately \$37,000 due to rate increases to fund the new system improvement loans. Expenses decreased approximately \$35,000 for the City as a whole, with the most significant decreases being in highways and streets.

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 \$432,000.

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 \$1,838,000 with actual amounts of \$2,044,072. The variance between budgeted revenues and actual revenues is favorable. Budgeted expenditures of \$1,838,000 compare with actual expenditures of \$1,696,671. 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, 2020, the City had \$15.78 million invested in capital assets, net of depreciation. This represents a net decrease of approximately \$262,000 compared to last year. The decrease is principally attributable to current year depreciation expense of approximately \$717,000.

Long-term Debt

At the year ended June 30, 2020 the City had \$5.52 million outstanding on capital leases, revenues bonds, and notes payable compared to \$5.22 million at June 30, 2019. That is a decrease of approximately \$306,000, or 5.5%. The decrease is due to principal payments of \$315,000 and new loan proceeds of approximately \$9,000.

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

The largest source of revenue for the general fund is the occupational tax, which includes taxes at a current rate of .75 percent of wages and net profits, with FY 2020 revenue of \$699,218. The second largest general fund revenue source is the municipal insurance premium tax, which is at a current rate of 10 percent of premiums written in the City with FY 2020 revenue of \$533,515. The third largest source of revenue is property taxes. The 2019 property tax rate was 0.140 for \$100 of assessed value of real property and personal property with FY 2020 revenue of \$315,883. Franchise tax revenues for FY 2020 totaled \$115,618. Revenue for FY 2021 is budgeted at \$1,334,500 in total, with insurance premium tax is budgeted at \$475,000, occupational tax and licenses budgeted at \$450,000, and property taxes combined with franchise taxes budgeted at \$357,000.

General fund disbursements were budgeted at \$1,838,000 with actual expenditures of \$1,696,671 for FY 2020. Budgeted disbursements were decreased to \$1,334,500 for FY 2021, which is a decrease of \$503,500, with the most significant decreases in general government, police, and fire.

CITY PROJECTS

In FYE 2020 the City:

- Began new construction (in progress) on water and wastewater line replacements of \$69,513 and completed the three 2017 long-term water and wastewater improvement projects with FY 2020 expenses of \$9,267.
- Completed water and wastewater system improvements of \$62,972.
- Purchased equipment for the water plant at \$3,843.
- Purchased a maintenance utility truck for \$37,600 to be utilized by both the water and wastewater fund and the general administration department. Cost was allocated at \$25,066 and \$12,534 respectively.
- Improvements to City roads and streets in the amount of \$68,286.
- Completed improvements to the roof of City Hall and installation of a new AC unit for \$64,000.
- Completed repairs to fire trucks and purchased equipment for the fire department for \$45,156.
- Purchased 2 Dodge Durango's for police department for \$30,000.
- Purchased radios, office equipment and other capital improvements for the police department for \$35,838.
- Completed parks and recreation improvements of \$8,937.
- Purchased boat ramp concrete for Salem and McDougal lakes for \$7,734.
- Purchased other capital assets to include a plow blade and box for \$5,821, a security system and TV at City Hall for \$5,275, and a fence at the cemetery for \$1,106.

REQUESTS FOR INFORMATION

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

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS:	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash & cash equivalents	\$ 1,777,074	\$ 342,238	\$ 2,119,312
Prepaid expenses	4,880	15,208	20,088
Accounts receivable:			
Taxes	329,645	-	329,645
Trade, net	-	165,291	165,291
Grants	146,054	-	146,054
Other	71,370	220	71,590
Total Current Assets	<u>2,329,023</u>	<u>522,957</u>	<u>2,851,980</u>
Noncurrent Assets			
Restricted cash & cash equivalents	12,293	921,831	934,124
Capital assets, net of depreciation	<u>3,837,846</u>	<u>11,946,098</u>	<u>15,783,944</u>
Total Noncurrent Assets	<u>3,850,139</u>	<u>12,867,929</u>	<u>16,718,068</u>
TOTAL ASSETS	<u>6,179,162</u>	<u>13,390,886</u>	<u>19,570,048</u>
Deferred Outflows of Resources:			
Debt issue costs, net	-	10,598	10,598
Deferred outflows related to pension	261,852	283,509	545,361
Deferred outflows related to OPEB	<u>101,422</u>	<u>109,810</u>	<u>211,232</u>
Total Deferred Outflows	<u>363,274</u>	<u>403,917</u>	<u>767,191</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	39,416	28,369	67,785
Accrued expenses	56,306	48,738	105,044
Revenue bonds payable - current portion	-	99,500	99,500
Leases/notes payable - current portion	<u>10,599</u>	<u>247,458</u>	<u>258,057</u>
Total Current Liabilities	<u>106,321</u>	<u>424,065</u>	<u>530,386</u>
Noncurrent Liabilities			
Compensated absences	11,777	24,645	36,422
Revenue bonds payable, net of current portion	-	1,153,500	1,153,500
Leases/notes payable, net of current portion	11,126	3,695,242	3,706,368
Net pension liability	1,103,394	1,194,653	2,298,047
Net OPEB liability	263,812	285,632	549,444
Customer deposits	-	73,305	73,305
Total Noncurrent Liabilities	<u>1,390,109</u>	<u>6,426,977</u>	<u>7,817,086</u>
TOTAL LIABILITIES	<u>1,496,430</u>	<u>6,851,042</u>	<u>8,347,472</u>
Deferred Inflows of Resources:			
Deferred revenue	-	32,189	32,189
Bond premium, net	-	1,326	1,326
Deferred inflows related to pension	119,276	129,142	248,418
Deferred inflows related to OPEB	<u>126,001</u>	<u>136,423</u>	<u>262,424</u>
Total Deferred Inflows	<u>245,277</u>	<u>299,080</u>	<u>544,357</u>
NET POSITION:			
Invested in capital assets, net of related debt	3,816,121	6,750,398	10,566,519
Restricted for employee benefits	8,934	-	8,934
Restricted for police department	3,359	-	3,359
Restricted for debt service	-	459,908	459,908
Restricted for capital projects	-	377,388	377,388
Unrestricted	<u>972,315</u>	<u>(943,013)</u>	<u>29,302</u>
TOTAL NET POSITION	<u>\$ 4,800,729</u>	<u>\$ 6,644,681</u>	<u>\$ 11,445,410</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 764,645	\$ 80,283	\$ 153,422	\$ -	\$ (530,940)	\$ -	\$ (530,940)
Police	896,215	10,260	38,503	-	(847,452)	-	(847,452)
Fire	59,996	-	11,000	-	(48,996)	-	(48,996)
Parks and recreation	36,787	-	-	-	(36,787)	-	(36,787)
Highways and streets	6,668	-	59,697	68,286	121,315	-	121,315
Cemetery	90,774	40,300	5,030	-	(45,444)	-	(45,444)
Total governmental activities	1,855,085	130,843	267,652	68,286	(1,388,304)	-	(1,388,304)
Business-type activities:							
Water and wastewater	1,956,968	1,717,309	3,000	23,428	-	(213,231)	(213,231)
TOTAL	\$ 3,812,053	\$ 1,848,152	\$ 270,652	\$ 91,714	(1,388,304)	(213,231)	(1,601,535)
General revenues:							
Property taxes					319,454	-	319,454
Insurance premium taxes					533,515	-	533,515
Occupational taxes					699,218	-	699,218
Franchise taxes					115,618	-	115,618
License and permits					30,897	-	30,897
Interest income					39,977	26,952	66,929
Other revenue					8,325	31,413	39,738
Total general revenues					1,747,004	58,365	1,805,369
Transfers in (out)					16,374	(16,374)	-
Change in net position					375,074	(171,240)	203,834
Net position - beginning					4,425,655	6,815,921	11,241,576
Net position - ending					\$ 4,800,729	\$ 6,644,681	\$ 11,445,410

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS:</u>			
Cash & cash equivalents	\$ 1,130,799	\$ 646,275	\$ 1,777,074
Prepaid expenses	4,880	-	4,880
Receivables:			
Taxes	320,837	-	320,837
Grants	146,054	-	146,054
Other	12,511	58,859	71,370
Restricted cash	12,293	-	12,293
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,627,374</u>	<u>\$ 705,134</u>	<u>\$ 2,332,508</u>
<u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts payable	\$ 39,416	\$ -	\$ 39,416
Accrued expenses	55,317	989	56,306
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>94,733</u>	<u>989</u>	<u>95,722</u>
<u>FUND BALANCES:</u>			
Nonspendable	4,880	-	4,880
Restricted	12,293	228,106	240,399
Committed	11,777	329,299	341,076
Assigned	-	146,740	146,740
Unassigned	1,503,691	-	1,503,691
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,532,641</u>	<u>704,145</u>	<u>2,236,786</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,627,374</u>	<u>\$ 705,134</u>	<u>\$ 2,332,508</u>

CITY OF HODGENVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2020

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 2,236,786
<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>		8,808
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Capital asset cost	7,283,630	
Net of accumulated depreciation	<u>(3,445,784)</u>	3,837,846
<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>		(11,777)
<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	261,852	
Deferred outflows related to OPEB	101,422	
Deferred inflows related to pension	(119,276)	
Deferred inflows related to OPEB	<u>(126,001)</u>	117,997
<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	(1,103,394)	
Net OPEB liability	(263,812)	
Capital lease payable	<u>(21,725)</u>	<u>(1,388,931)</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		 <u><u>\$ 4,800,729</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, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>			
Property taxes	\$ 315,883	\$ -	\$ 315,883
Insurance premium taxes	533,515	-	533,515
Occupational taxes	699,218	-	699,218
Franchise taxes	115,618	-	115,618
Licenses and permits	30,897	-	30,897
Intergovernmental revenue	199,413	127,984	327,397
Contributions	3,511	5,030	8,541
Other revenue	86,903	43,940	130,843
Interest income	33,043	6,934	39,977
	<u>2,018,001</u>	<u>183,888</u>	<u>2,201,889</u>
<u>EXPENDITURES:</u>			
Current:			
General government	594,831	-	594,831
Police	764,286	2,987	767,273
Fire	31,603	-	31,603
Parks and recreation	19,696	-	19,696
Highways and streets	-	3,633	3,633
Cemetery	58,183	21,813	79,996
Capital outlay	215,295	69,392	284,687
Debt service:			
Principal	11,168	-	11,168
Interest and fees	1,609	-	1,609
	<u>1,696,671</u>	<u>97,825</u>	<u>1,794,496</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Sale of assets	8,325	-	8,325
Transfers in	17,746	-	17,746
Transfers out	-	(1,372)	(1,372)
	<u>26,071</u>	<u>(1,372)</u>	<u>24,699</u>
TOTAL REVENUES OVER (UNDER) EXPENDITURES	347,401	84,691	432,092
FUND BALANCES - beginning	1,185,240	619,454	1,804,694
FUND BALANCES - ending	<u>\$ 1,532,641</u>	<u>\$ 704,145</u>	<u>\$ 2,236,786</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, 2020**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 432,092
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.		
		3,571
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	284,687	
Depreciation expense	<u>(236,949)</u>	47,738
Governmental funds report general obligation bond payments and lease payments as expense. However, in the statement of activities, they are recorded as reductions in long term liabilities.		
		11,168
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.		
		(133)
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	87,659	
OPEB contributions	21,619	
Cost of pension benefits earned	(209,484)	
Cost of OPEB benefits earned	<u>(19,156)</u>	<u>(119,362)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 375,074</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

ASSETS:

Current Assets

Cash & cash equivalents	\$ 342,238
Prepaid expenses	15,208
Trade receivables	165,291
Other receivables	220
Total Current Assets	<u>522,957</u>

Noncurrent Assets

Restricted cash & cash equivalents	<u>921,831</u>
Capital assets:	
Land and improvements	555,895
Construction in progress	69,513
Distribution and collections systems	20,571,932
Buildings and equipment	602,281
Less accumulated depreciation	<u>(9,853,523)</u>
Net Capital Assets	<u>11,946,098</u>
TOTAL ASSETS	<u>13,390,886</u>

DEFERRED OUTFLOWS:

Debt issue costs, net	10,598
Deferred outflows related to pension	283,509
Deferred outflows related to OPEB	<u>109,810</u>
Total Deferred Outflows	<u>403,917</u>

LIABILITIES:

Current Liabilities

Accounts payable	28,369
Accrued expenses	48,738
Revenue bonds payable-current portion	99,500
Notes payable-current portion	<u>247,458</u>
Total Current Liabilities	<u>424,065</u>

Noncurrent Liabilities

Compensated absences	24,645
Revenue bonds payable, net of current portion	1,153,500
Notes payable, net of current portion	3,695,242
Net pension liability	1,194,653
Net OPEB liability	285,632
Customer deposits	<u>73,305</u>
Total Noncurrent Liabilities	<u>6,426,977</u>
TOTAL LIABILITIES	<u>6,851,042</u>

DEFERRED INFLOWS:

Deferred revenue	32,189
Bond premium, net	1,326
Deferred inflows related to pension	129,142
Deferred inflows related to OPEB	<u>136,423</u>
Total Deferred Inflows	<u>299,080</u>

NET POSITION:

Invested in capital assets, net of related debt	6,750,398
Restricted for debt service	459,908
Restricted for capital projects	377,388
Unrestricted	<u>(943,013)</u>
TOTAL NET POSITION	<u>\$ 6,644,681</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, 2020

OPERATING REVENUES:

Charges for services	
Water and wastewater fees	\$ 1,653,665
Other charges for services	65,942
Miscellaneous income	55,544
TOTAL OPERATING REVENUES	<u>1,775,151</u>

OPERATING EXPENSES:

Personnel costs	872,949
Repairs and maintenance	120,233
Utilities	115,319
Insurance	94,850
Chemicals	80,917
Other expenses	74,275
Depreciation	479,988
TOTAL OPERATING EXPENSES	<u>1,838,531</u>

OPERATING LOSS	<u>(63,380)</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest income	26,952
Interest expense	(107,170)
Amortization	(1,870)
Loan fees	(9,398)
Transfers out	(16,374)
TOTAL NON-OPERATING REVENUE (EXPENSE), net	<u>(107,860)</u>

CHANGE IN NET POSITION	(171,240)
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NET POSITION - beginning	<u>6,815,921</u>
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NET POSITION - ending	<u><u>\$ 6,644,681</u></u>
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**CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020**

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from customers and users	\$ 1,738,378
Cash payments for personnel costs	(745,887)
Cash payments for operating expenses	(498,289)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	494,202
	<hr/>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchase of capital assets	(91,881)
Paid for construction in progress	(78,781)
Principal paid on long-term debt	(295,128)
Interest and fees paid on long-term debt	(117,997)
	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(583,787)
	<hr/>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest income received	27,111
Cash provided by customer deposits	11,655
Transfers out	(16,374)
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	22,392
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(67,193)
CASH AND CASH EQUIVALENTS - beginning	1,331,262
	<hr/>
CASH AND CASH EQUIVALENTS - ending	\$ 1,264,069
	<hr/> <hr/>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating loss	\$ (63,380)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	479,988
Pension expense in excess of pension payments	130,475
OPEB expense less than OPEB payments	(3,161)
Change in assets and liabilities:	
(Increase) decrease in:	
Trade receivables	(16,794)
Prepaid expenses	(5,544)
Increase (decrease) in:	
Accounts payable	(9,135)
Accrued expenses	4,318
Deferred revenue	(19,979)
Compensated absences	(2,586)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 494,202
	<hr/> <hr/>

See accompanying notes to financial statements.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

The City reports the following governmental fund types:

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

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, Cemetery Perpetual Care 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, 2020**

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, 2020**

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, 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

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

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

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

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

Proprietary fund – by operating and non-operating.

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

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

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

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, 2020 the City had deposits with financial institutions with carrying amounts of \$3,053,436. The bank balances with the financial institutions were \$3,210,564. Of these balances, \$547,742 were covered by federal deposit insurance and \$2,662,823 were collateralized with securities held by the pledging financial institution's trust department or agent in the name of the City or applicable public trust.

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

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

Interest rate risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

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

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities in the possession of an outside party. City policy provides that investment collateral is held by a third-party custodian with whom the City has a current custodial agreement in the City's name or be held in the name of both parties by the Federal Reserve Bank servicing Kentucky. The City follows the requirements of Kentucky as written in KRS 41.240.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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, 2020, delinquent property taxes totaling \$17,114 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>
2007-2015	\$ 7,908	\$ 7,908
2016	978	978
2017	1,310	1,310
2018	3,095	3,095
2019	<u>3,823</u>	<u>3,823</u>
	17,114	17,114
Less: Allowance for Doubtful Accounts	<u>(8,808)</u>	<u>(15,148)</u>
Balance	<u>\$ 8,306</u>	<u>\$ 1,966</u>

An additional \$6,340 of property taxes receivable considered to be collectible within one year, but after the 60-day period, is added to the accrual in the government-wide financial statements.

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for governmental activities for the year ended June 30, 2020, was as follows:

Governmental activities:	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2020</u>
Land and buildings	\$ 633,133	\$ -	\$ -	\$ 633,133
Improvements/infrastructure	4,505,669	150,063	-	4,655,732
Equipment	1,391,565	66,203	-	1,457,768
Vehicles	486,661	68,421	(18,805)	536,277
	<u>7,017,028</u>	<u>284,687</u>	<u>(18,805)</u>	<u>7,282,910</u>
Accumulated depreciation	<u>(3,226,920)</u>	<u>(236,949)</u>	<u>18,805</u>	<u>(3,445,064)</u>
Net capital assets	<u>\$ 3,790,108</u>	<u>\$ 47,738</u>	<u>\$ -</u>	<u>\$ 3,837,846</u>

Depreciation was charged to functions as follows:

General government	\$ 134,012
Police	54,380
Fire	26,812
Parks and recreation	17,063
Highways and streets	3,035
Cemetery	1,647
Total governmental activities depreciation expense	<u>\$ 236,949</u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE D – CAPITAL ASSETS AND DEPRECIATION, Continued

Capital asset activity for business-type activities for the year ended June 30, 2020 was as follows:

Business-type activities:	Balance July 1, 2019	Additions	Projects Completed	Balance June 30, 2020
Land and improvements	\$ 555,895	\$ -	\$ -	\$ 555,895
Construction in progress	744,362	78,780	(753,629)	69,513
Distribution and collection systems:				
Plant, lines and extensions	17,825,058	62,972	753,629	18,641,659
Dam and reservoir	1,930,273	-	-	1,930,273
Total distribution and collection system	19,755,331	62,972	-	20,571,932
Buildings and equipment	573,372	28,909	-	602,281
Totals at historical cost	21,628,960	170,661	-	21,799,621
Accumulated depreciation	(9,373,536)	(479,987)	-	(9,853,523)
Net capital assets	<u>\$ 12,255,424</u>	<u>\$ (309,326)</u>	<u>\$ -</u>	<u>\$ 11,946,098</u>

Depreciation in the amount of \$479,987 was charged to the business-type activities function. There were no asset retirements in the year ended June 30, 2020.

NOTE E – LONG TERM DEBT

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

\$43,500 Magnolia Bank, Inc. Lease to finance the purchase of a fire truck. Interest at 4.97%. Principal and interest payable in annual installments of \$11,678 began in July 2018.	<u>\$ 21,725</u>
Total long term debt for governmental activities	21,725
Less: amounts due within one year	<u>(10,599)</u>
Amounts due in more than one year	<u><u>\$ 11,126</u></u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE E – LONG TERM DEBT, Continued

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

\$422,000 Water and Sewer serial bonds; principal due in annual installments of \$4,500 to \$22,000 through May 1, 2038; plus interest at 4.5%; secured by the revenues of the system.	\$ 283,000
\$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.	560,000
\$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>410,000</u>
Revenue bonds payable	<u>1,253,000</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.	311,495
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.	1,210,835
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.	658,464

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**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE E – LONG TERM DEBT, Continued

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F16-008 for water and wastewater improvements dated May 1, 2017. The \$889,872 agreement has been reduced by a 25% principal forgiveness provision. Payments in the amount of \$17,687 to \$18,447, due semi-annually including interest at 0.75%, began December 1, 2018. 605,070

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

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for DWSRF draw loan F16-042 for water and wastewater improvements dated May 1, 2017. The \$592,994 agreement has been reduced by a 25% principal forgiveness provision. Payments in the amount of \$12,009 to \$12,555, due semi-annually including interest at 0.75%, began December 1, 2018. 403,207

Notes Payable 3,942,700

Total long term debt for business-type activities 5,195,700

Less: amounts due within one year (346,958)

Amounts due in more than one year \$ 4,848,742

NOTE F – CHANGES IN LONG-TERM DEBT

Long-term debt activity for governmental activities for the year ended June 30, 2020:

	Capital Lease Payable
Beginning balance	\$ 32,893
Additions	-
Reductions	<u>(11,168)</u>
Ending balance	21,725
Less current portion	<u>(10,599)</u>
Long-term debt	<u><u>\$ 11,126</u></u>

Interest and fees were charged as follows:

Governmental activities:

Fire	\$ 1,581
Parks and recreation	<u>28</u>
	<u><u>\$ 1,609</u></u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE F – CHANGES IN LONG-TERM DEBT, Continued

Long-term activity debt for business-type activities for the year ended June 30, 2020:

	Revenue Bonds	Notes Payable	Total
Beginning balance	\$ 1,347,500	\$ 4,143,328	\$ 5,490,828
Additions	-	9,267	9,267
Reductions	(94,500)	(209,895)	(304,395)
Ending balance	1,253,000	3,942,700	5,195,700
Less current portion	(99,500)	(247,458)	(346,958)
Long-term debt	<u>\$ 1,153,500</u>	<u>\$ 3,695,242</u>	<u>\$ 4,848,742</u>

Interest in the amount of \$107,402, less bond discount amortization of \$232, plus fees in the amount of \$9,398, totaling \$116,568 were charged to the business-type activities function.

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

Year	Revenue Bonds		Leases/Notes Payable		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$ 99,500	\$ 49,461	\$ 253,436	\$ 53,250	\$ 352,936	\$ 102,711	\$ 455,647
2022	101,000	46,534	261,491	49,285	362,491	95,819	458,310
2023	102,500	43,179	253,782	45,240	356,282	88,419	444,701
2024	109,000	39,756	257,257	41,692	366,257	81,448	447,705
2025	110,500	36,033	260,791	38,084	371,291	74,117	445,408
2026-2030	253,500	137,156	1,140,692	138,827	1,394,192	275,983	1,670,175
2031-2035	254,000	85,502	1,070,828	56,191	1,324,828	141,693	1,466,521
2036-2039	223,000	26,055	466,148	5,070	689,148	31,125	720,273
Total	<u>\$ 1,253,000</u>	<u>\$ 463,676</u>	<u>\$ 3,964,425</u>	<u>\$ 427,639</u>	<u>\$ 5,217,425</u>	<u>\$ 891,315</u>	<u>\$ 6,108,740</u>

NOTE G – FUND BALANCES

Governmental fund balances at June 30, 2020, are classified as follows:

Nonspendable – Nonspendable fund balance in the amount of \$4,880 represents prepaid expenses.

Restricted – General fund restricted fund balance in the amount of \$12,293 represents restricted cash in the employee benefit (HRA) account and in the police asset forfeiture account of \$8,934 and \$3,359 respectively. Restricted fund balance in other governmental funds in the amount of \$228,106 is restricted for municipal road improvements.

Committed – Committed fund balance in the general fund, in the amount of \$11,777, is committed for the purpose of funding compensated absences. Committed fund balance in other governmental funds, in the amount of \$329,299, is committed for the purpose of perpetual cemetery care.

Assigned – Assigned fund balance in the amount of \$146,740 represents amounts which are intended to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance is intended to be used for police drug enforcement in the amount of \$7,039 and for the cemetery in the amount of \$139,701.

Unassigned – Remaining fund balance is unassigned in the amount of \$1,503,691.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE H – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2020, the City has three items that qualify for reporting in this category: Bond issuance costs, net of amortization, in the amount of \$10,598. Pension deferred outflows of \$545,361 and the other post-employment benefit deferred outflows of \$211,232. The pension deferred outflows are described in Note J to the financial statements. The other post-employment benefit deferred outflows are described in Note K.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2020 the City has four items that qualified for reporting in this category: Deferred revenue in the amount of \$32,189 for the FY 21 cell tower lease received in FY 20. Bond premium, net of amortization, in the amount of \$1,326. Pension deferred inflows of \$248,418, and other post-employment benefit deferred inflows of \$262,424. The pension deferred inflows are described in Note J to the financial statements. The other post-employment benefit deferred outflows are described in Note K.

NOTE I – OPERATING LEASE, CITY AS LESSOR

The City entered into an antenna co-location lease agreement to lease space on Greensburg Street water tower for the operation of a communications center in September, 2010. Terms of the lease are five years, commencing July 1, 2010. The agreement provides for automatic renewal for 2 additional extensions of 5 years. Rental fees are to be adjusted at the end of each term by a 12% increase. Rental income of \$28,740 is included in the government wide statement of activities, business type activities as other revenue. It is included as miscellaneous income in the statement of revenues, expenses and changes in net position – proprietary funds.

NOTE J – PENSION PLAN

Plan Description - 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 with at least 60 months of service credit. Plan members with a participating date on or after January 1, 2014 are eligible for retirement benefits under the provisions established for a hybrid Cash Balance Plan.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE J – PENSION PLAN, Continued

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

Contributions – For the fiscal year ended June 30, 2020, plan members who began participating 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, 2020, total employer contributions for the City were \$227,592 based on a rate of 24.06% for non-hazardous members through covered payroll. The City does not participate in the hazardous plan. The contribution rate of 24.06% is comprised of amounts for pension and insurance benefits; 19.30% or \$182,565 was dedicated to pensions and 4.76% or \$45,027 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, 2020, the City reported a liability of \$2,298,047 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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. For the plan year ended June 30, 2019, the City’s proportion was 0.032675%, which was a decrease of 0.004086% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$434,866. At June 30, 2020, the City reported its proportionate share of the CERS deferred inflows and outflows related to pensions as the measurement date from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 58,676	\$ 9,710
Changes of assumptions	232,588	-
Net differences between projected and actual earnings		
on plan investments	44,113	81,159
Change in employer proportionate share of net pension liability	27,418	157,549
Employer contributions subsequent to the measurement date	182,565	-
Total	<u>\$ 545,360</u>	<u>\$ 248,418</u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE J – PENSION PLAN, Continued

The amount reported as deferred outflows for the City's contributions subsequent to the measurement date, in the amount of \$182,565, will be recognized as a reduction of net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ending June 30,	<u>Pension Expense</u>
2021	\$ 121,563
2022	(7,443)
2023	(2,370)
2024	2,627
	<u>\$ 114,377</u>

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Investment rate of return – 6.25%
- Projected salary increases – 3.30% to 11.55%, varies by service
- Inflation rate – 2.30%
- Payroll growth rate – 2.00%

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 (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.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected rate of return was determined by using a building-block method in which best estimated ranges of expected future real rate of returns are developed for each class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage. 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.

Discount Rate – A single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2019. This single discount rate was based on the expected rate of return on pension plan investments for each system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE J – PENSION PLAN, Continued

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	Allocation	Expected Real
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	3.89%

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate:

<i>City of Hodgenville's net pension liability</i>	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 2,874,205	\$ 2,298,047	\$ 1,817,825

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.

NOTE K - 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.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

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, 2020, 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, 2020 was 4.76% of annual creditable compensation. Contributions to the plan from the City were \$45,027.

OPEB Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs and OPEB Expense - At June 30, 2020, the City reported a liability of \$549,444 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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. For the plan year ended June 30, 2019, the City's proportion was 0.032667%, which was a decrease of 0.004093%, from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City recognized OPEB expense of \$39,301. At June 30, 2020, 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	\$ -	\$ 165,780
Changes of assumptions	162,586	1,087
Net differences between projected and actual earnings on plan investments	3,619	28,023
Change in employer proportionate share of net pension liability	-	67,534
Employer contributions subsequent to the measurement date	45,027	-
Total	<u>\$ 211,232</u>	<u>\$ 262,424</u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Of the total amount reported as deferred outflows of resources related to OPEB, \$45,027 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, 2021. 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
2021	\$ (17,206)
2022	(17,206)
2023	(9,447)
2024	(24,281)
2025	(22,983)
Thereafter	(5,096)
	\$ (96,219)

Actuarial Assumptions - The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%
Projected salary increases	3.30% to 11.55%, varies by service
Inflation rate	2.30%
Payroll growth rate	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 11 years.

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, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected rates of return were determined by using a building-block method in which best estimated ranges of expected future real rate of returns are developed for each asset class. The ranges were combined by weighting the expected future real rates of return by the target asset allocation percentage. 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.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Discount Rate - Single discount rates of 5.68% for the non-hazardous system and 5.69% for hazardous system were used to measure the total OPEB liability as of June 30, 2019. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	3.89%

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 5.68 percent, 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 (4.68 percent) or 1 percentage point higher (6.68 percent) than the current discount rate:

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
Non-hazardous	\$ 736,029	\$ 549,444	\$ 395,711

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	\$ 408,624	\$ 549,444	\$ 720,205

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

OPEB Plan Fiduciary Net Position - Detailed information about the OPEB 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.

NOTE L – TRANSFERS

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

<u>From</u>	<u>To</u>	<u>Amount</u>
Water & Wastewater Fund	General Fund	\$16,374
Cemetery	General Fund	720
Police Drug Enforcement Fund	General fund	<u>652</u>
		<u>\$17,746</u>

Interfund transfers to the General Fund were to reimburse for expenses paid for the corresponding fund.

NOTE M – CLAIMS AND JUDGMENTS

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

NOTE N – RISK MANAGEMENT and CONTINGENT LIABILITIES

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. The City has obtained insurance coverage through a commercial insurance company. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2020 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provisions for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE O – RESTRICTED ASSETS

General Fund

Restricted cash in the amount of \$12,293 at June 30, 2020, includes \$8,934 in an employee benefit (HRA) account and \$3,359 in the police asset forfeiture account.

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, 2020 in the following amounts:

Bond issue of 1998 (91-08)	3,872
Bond issue of 1999 (91-07)	7,366

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, 2020.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE O – RESTRICTED ASSETS, Continued

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, 2020 in the amount of \$39,192. 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, 2020.

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, 2020. 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, 2020.

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 \$24,000 is funded in the required amount at June 30, 2020.

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 \$5,700 is funded in the required amount at June 30, 2020.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F16-008 requires a maintenance and replacement reserve be funded with an annual deposit of \$2,400 until the reserve balance reaches \$24,000. The maintenance and replacement reserve requirement of \$4,800 is funded in the required amount at June 30, 2020.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F16-042 requires a maintenance and replacement reserve be funded with an annual deposit of \$1,500 until the reserve balance reaches \$15,000. The maintenance and replacement reserve requirement of \$3,000 is funded in the required amount at June 30, 2020.

Restricted cash also includes \$84,135 customer deposits in escrow; and, \$377,788 of excess funds considered restricted for capital projects, at June 30, 2020.

NOTE P – WATER AND WASTEWATER CASH ACCOUNTS

Unrestricted:	
Revenue fund	\$ 120,076
Operations and maintenance	190,634
Wasterwater	9,250
Wasterwater rehabilitation	22,278
	<u>\$ 342,238</u>
Restricted:	
Customer deposits escrow	\$ 84,135
Operations and maintenance funds	30,000
Depreciation funds	346,304
Sinking funds	461,392
	<u>\$ 921,831</u>

NOTE Q – 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, 2020, in the general fund, expenditures for the police department and the cemetery exceeded appropriations by \$124 and \$9,120, respectively. The over-expenditure was funded by revenues exceeding budgeted amounts, and appropriations exceeding expenditures in other departments. Total appropriations exceeded expenditures by \$141,329.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE R – RELATED PARTY TRANSACTIONS

The City paid \$20,571 during the fiscal year ended June 30, 2020, for cemetery related tent set up fee, grave openings, equipment usage and other contract services to an individual who is salaried employee to the City. These expenditures for contract services are considered related party transactions due to the contractor's employment status with the City.

NOTE S – SUBSEQUENT EVENTS

Construction in Progress

The City began three long-term water and wastewater construction projects during FY 2017 with the final project completed in FY 20 with a total project cost of \$753,629.

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

NOTE T – RECENT PRONOUNCEMENTS

Standards that will Become Effective for FY 2021 and Later Year Financial Statements

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. (FY 2021)

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

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

Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, this Statement was issued to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. (FY 2021)

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

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

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

CITY OF HODGENVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2020

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Budgetary fund balance, July 1, 2019	\$ -	\$ -	\$ 1,185,240	\$ 1,185,240
REVENUES (inflows):				
Occupational taxes	450,000	690,000	699,218	9,218
Property and franchise taxes	357,000	434,000	431,501	(2,499)
Insurance premium tax	475,000	529,000	533,515	4,515
Intergovernmental revenue	27,500	43,000	199,413	156,413
Other revenue	25,000	142,000	180,425	38,425
Long-term debt proceeds	-	-	-	-
TOTAL REVENUES	1,334,500	1,838,000	2,044,072	206,072
AMOUNTS AVAILABLE FOR APPROPRIATION	1,334,500	1,838,000	3,229,312	1,391,312
EXPENDITURES (outflows):				
General government	470,500	692,000	691,294	706
Police	725,000	830,000	830,124	(124)
Fire	20,000	90,000	88,437	1,563
Parks and recreation	25,000	25,000	19,696	5,304
Cemetery	54,000	58,000	67,120	(9,120)
Contingency	40,000	143,000	-	143,000
TOTAL EXPENDITURES	1,334,500	1,838,000	1,696,671	141,329
Budgetary fund balance, June 30, 2020	\$ -	\$ -	\$ 1,532,641	\$ 1,532,641

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2020**

Last 10 Years *	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of net pension liability	0.03268%	0.03676%	0.03695%	0.03241%	0.02307%
Proportionate share of net pension liability	<u>\$ 2,298,047</u>	<u>\$ 2,238,857</u>	<u>\$ 2,162,797</u>	<u>\$ 1,595,780</u>	<u>\$ 991,785</u>
Covered employee payroll	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>	<u>\$ 898,080</u>	<u>\$ 774,880</u>
Proportionate share of net pension liability as percentage of covered payroll	242.94%	260.73%	230.77%	177.69%	127.99%
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	53.33%	55.50%	59.97%
	<u>2015</u>				
Proportion of net pension liability	0.03183%				
Proportionate share of net pension liability	<u>\$ 1,033,000</u>				
Covered employee payroll	<u>\$ 538,193</u>				
Proportionate share of net pension liability as percentage of covered payroll	191.94%				
Plan fiduciary net position as a percentage of total pension liability	66.80%				

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET OPEB LIABILITY
YEAR ENDED JUNE 30, 2020**

Last 10 Years *

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

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO PENSION
YEAR ENDED JUNE 30, 2020**

Last 10 Years *

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

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

See accompanying independent auditor's report.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO OPEB
YEAR ENDED JUNE 30, 2020**

Last 10 Years *	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 45,027	\$ 45,167	\$ 44,049
Contribution in relation to the actuarially determined contributions	<u>45,027</u>	<u>45,167</u>	<u>44,049</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 945,942</u>	<u>\$ 858,677</u>	<u>\$ 937,205</u>
Contributions as a percentage of covered employee payroll	4.76%	5.26%	4.70%

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

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
JUNE 30, 2020

CERS PENSION

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2014 through 2019.

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

2014:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2015 and 2016:

- No changes.

2017:

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

2018:

- No changes.

2019:

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

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
JUNE 30, 2020

CERS OPEB

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2017 through 2019.

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

2017:

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

2018:

- No changes.

2019:

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

**CITY OF HODGENVILLE, KENTUCKY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020**

	Special Revenue				Permanent Fund Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery	Total		
<u>ASSETS:</u>						
Cash & cash equivalents	\$ 7,039	\$ 169,247	\$ 140,690	\$ 316,976	\$ 329,299	\$ 646,275
Accounts Receivable	-	58,859	-	58,859	-	58,859
TOTAL ASSETS	\$ 7,039	\$ 228,106	\$ 140,690	\$ 375,835	\$ 329,299	\$ 705,134
<u>LIABILITIES AND FUND BALANCES:</u>						
Liabilities:						
Accrued expenses	\$ -	\$ -	\$ 989	\$ 989	\$ -	\$ 989
TOTAL LIABILITIES	-	-	989	989	-	989
<u>FUND BALANCES:</u>						
Restricted	-	228,106	-	228,106	-	228,106
Committed	-	-	-	-	329,299	329,299
Assigned	7,039	-	139,701	146,740	-	146,740
TOTAL FUND BALANCES	7,039	228,106	139,701	374,846	329,299	704,145
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,039	\$ 228,106	\$ 140,690	\$ 375,835	\$ 329,299	\$ 705,134

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, 2020

	Special Revenue				Permanent Fund	Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery	Total	Cemetery Perpetual Care	
REVENUES:						
Intergovernmental revenue	\$ -	\$ 127,984	\$ -	\$ 127,984	\$ -	\$ 127,984
Contributions	-	-	5,030	5,030	-	5,030
Other revenue	3,640	-	40,300	43,940	-	43,940
Interest income	11	458	3,985	4,454	2,480	6,934
TOTAL REVENUES	3,651	128,442	49,315	181,408	2,480	183,888
EXPENDITURES:						
Current:						
Police	2,987	-	-	2,987	-	2,987
Highways and streets	-	3,633	-	3,633	-	3,633
Cemetery	-	-	21,813	21,813	-	21,813
Capital outlay	-	68,286	1,106	69,392	-	69,392
TOTAL EXPENDITURES	2,987	71,919	22,919	97,825	-	97,825
OTHER FINANCING SOURCES (USES):						
Transfers out	(652)	-	(720)	(1,372)	-	(1,372)
TOTAL OTHER FINANCING SOURCES (USES)	(652)	-	(720)	(1,372)	-	(1,372)
TOTAL REVEUES OVER (UNDER) EXPENDITURES	12	56,523	25,676	82,211	2,480	84,691
FUND BALANCES - beginning	7,027	171,583	114,025	292,635	326,819	619,454
FUND BALANCES - ending	\$ 7,039	\$ 228,106	\$ 139,701	\$ 374,846	\$ 329,299	\$ 704,145

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, 2020, 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 June 11, 2021.

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 2020-1 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 2020-2, 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 2020-3.

**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
June 11, 2021

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020**

REPORTABLE CONDITIONS

MATERIAL WEAKNESS:

Item 2020-1 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 2020-2 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 2020-3 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.