

CITY OF HODGENVILLE, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023**

(With Independent Auditor's Report Thereon)

CITY OF HODGENVILLE, KENTUCKY

CONTENTS

Pages

INDEPENDENT AUDITOR'S REPORT	1-2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3-6
BASIC FINANCIAL STATEMENTS:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	7
Statement of Activities	8
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	12
Statement of Net Position – Proprietary Funds	13
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	14
Statement of Cash Flows – Proprietary Funds	15
Notes to Financial Statements	16-37
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – General Fund	38
<i>Pension and OPEB Schedules and Notes to Schedules</i>	
Schedule of Proportionate Share of Net Pension Liability	39
Schedule of Proportionate Share of Net OPEB Liability	40
Schedule of Contributions to Pension	41
Schedule of Contributions to OPEB	42
Notes to Required Supplementary Information – Pension	43
Notes to Required Supplementary Information – OPEB	44
SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds	45
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	46
INTERNAL CONTROL and COMPLIANCE:	
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 <i>Government Auditing Standards</i>	47-48
Schedule of Findings and Responses	49

INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2023, 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.

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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hodgenville, Kentucky, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hodgenville, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT, Continued

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Hodgenville, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hodgenville, Kentucky's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and select pension and OPEB information on pages 3 through 6, and 38 through 44 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 March 25, 2025 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 the effectiveness of the City of Hodgenville, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hodgenville, Kentucky's internal control over financial reporting and compliance.

Clauson, Mouser & Co.

Certified Public Accountants
March 25, 2025

CITY OF HODGENVILLE, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2023

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, 2023. 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 approximately \$4.02 million, which includes approximately \$1.35 million of restricted cash and cash equivalents. This reflects a decrease in cash during the year of approximately \$995,000.
- Governmental activities had \$2.59 million and business-type activities had \$2.56 million in revenue for the year.
- Governmental activities had \$2.93 million and business-type activities had \$1.94 million in expenses for the year.
- End-of-year capital assets listed at estimated cost less depreciation totaled approximately \$17.23 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, cemetery and alcoholic beverage control. The business-type activities of the City include water and wastewater services. Fixed assets and related debt are also supported by the revenue sources mentioned above.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-37 of this report.

THE CITY AS A WHOLE

The City's combined net position increased by approximately \$282,000, or approximately 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, 2023 and 2022

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 3,099,640	\$ 3,791,170	\$ 1,589,454	\$ 1,766,009	\$ 4,689,094	\$ 5,557,179
Capital assets	4,449,500	3,850,101	12,783,656	12,411,561	17,233,156	16,261,662
Total Assets	7,549,140	7,641,271	14,373,110	14,177,570	21,922,250	21,818,841
Deferred Outflows	759,563	718,969	596,005	633,731	1,355,568	1,352,700
Long-term debt	-	-	5,273,088	5,750,073	5,273,088	5,750,073
Net pension and OPEB liabilities	2,082,718	1,842,497	1,585,607	5,750,073	3,668,325	7,592,570
Other liabilities	151,051	81,458	272,266	181,808	423,317	263,266
Total Liabilities	2,233,769	1,923,955	7,130,961	11,681,954	9,364,730	13,605,909
Deferred Inflows	485,951	508,827	449,116	511,851	935,067	1,020,678
Net Position						
Investment in capital assets (net of debt)	4,449,500	3,850,101	7,510,568	6,661,488	11,960,068	10,511,589
Restricted	409,684	670,377	836,762	1,068,777	1,246,446	1,739,154
Unrestricted	729,799	1,406,980	(958,292)	(961,966)	(228,493)	445,014
Total Net Position	\$ 5,588,983	\$ 5,927,458	\$ 7,389,038	\$ 6,768,299	\$ 12,978,021	\$ 12,695,757

The increase in net position is due to current year revenue exceeding current year expenses by approximately \$282,000. The increase in net position was significantly less in FY 23 when compared to FY 22 due to the current year decrease in grant revenue and an overall increase in expenses.

Approximately 10% 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 approximate 2% deficit in unrestricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Changes in Net Position Years Ended June 30, 2023 and 2022

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
REVENUES:						
Program revenues:						
Charges for services	\$ 95,318	\$ 148,780	\$ 1,966,500	\$ 1,881,766	\$ 2,061,818	\$ 2,030,546
Operating grants and contributions	174,500	1,045,852	-	-	174,500	1,045,852
Capital grants and contributions	-	-	243,251	-	243,251	-
General revenues:						
Taxes	2,131,485	1,996,400	-	-	2,131,485	1,996,400
Licenses & permits	35,616	34,579	-	-	35,616	34,579
Other revenues	147,267	96,168	82,081	86,933	229,348	183,101
Total revenues	2,584,186	3,321,779	2,291,832	1,968,699	4,876,018	5,290,478
EXPENSES:						
Governmental activities:						
General government	1,085,542	927,844	-	-	1,085,542	927,844
Police	1,266,319	1,090,495	-	-	1,266,319	1,090,495
Fire	77,013	62,648	-	-	77,013	62,648
Parks and recreation	20,017	9,560	-	-	20,017	9,560
Highways and streets	26,007	8,343	-	-	26,007	8,343
Cemetery	97,167	110,059	-	-	97,167	110,059
Alcoholic beverage control	85,349	9,749	-	-	85,349	9,749
Water & wastewater	-	-	1,941,375	1,926,826	1,941,375	1,926,826
Total expenses	2,657,414	2,218,698	1,941,375	1,926,826	4,598,789	4,145,524
Sale of assets	5,034	-	-	-	5,034	-
Transfers in (out)	(270,282)	(207,156)	270,282	207,156	-	-
Changes in net position	\$ (338,476)	\$ 895,925	\$ 620,739	\$ 249,029	\$ 282,263	\$ 1,144,954

Other revenue includes investment income and other miscellaneous income.

Operating grants and contributions in governmental activities decreased approximately \$871,000 due principally to the significant ARPA grant received in the prior year. Charges for services in the business type activities increased by approximately \$85,000. General revenues of taxes increased by approximately \$135,000, with the most significant increases being in occupational and insurance premium taxes in the amounts of approximately \$67,000 and \$45,000, respectively. Expenses increased approximately \$453,000 for the City as a whole, with the most significant increases being in general government and police.

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

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's Funds

As the City completed the year, its governmental fund balances, as presented in the balance sheet on page 9 decreased approximately \$756,000, due principally to expenditures exceeding revenues by approximately \$486,000 and operating transfers out of approximately \$270,000.

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 \$2,507,944 with actual amounts of \$2,489,969. The variance between budgeted revenues and actual revenues is unfavorable. Budgeted expenditures of \$3,548,401 compare with actual expenditures of \$3,312,419. The variance between budgeted expenditures and actual expenditures is favorable.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the year ended June 30, 2023, the City had \$17.23 million invested in capital assets, net of depreciation. This represents a net increase of approximately \$971,000 compared to last year. The increase is attributable to current year capital asset projects and acquisitions in the amount of \$1.78 million, offset by depreciation expense and disposals of approximately \$809,000.

Long-term Debt

At the year ended June 30, 2023 the City had \$5.27 million outstanding on capital leases, revenues bonds, and notes payable compared to \$5.75 million at June 30, 2022. That is a decrease of approximately \$477,000, or 9%, due to principal payments of \$476,985.

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

The largest source of recurring 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 2023 revenue of \$992,619. The second largest general fund recurring 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 2023 revenue of \$614,663. The third largest source of recurring revenue is property taxes. The 2022 property tax rate was 0.12 for \$100 of assessed value of real property and personal property with FY 2023 revenue of \$370,279. Franchise tax revenues for FY 2023 totaled \$156,985. Nonrecurring intergovernmental revenue totaled \$68,249 for FY 23. Revenue for FY 2024 is budgeted at \$1,981,500 in total, with occupational tax and licenses budgeted at \$795,000; insurance premium tax is budgeted at \$500,000; and property taxes combined with franchise taxes are budgeted at \$450,000.

General fund disbursements were budgeted at \$3,548,401 with actual expenditures of \$3,312,419 for FY 2023. Budgeted disbursements were decreased to \$1,981,500 for FY 2024, which is a decrease of \$1,330,919 over prior year actual. The most significant decreases are as follows: general government \$559,503, police/public protection \$326,569.

CITY PROJECTS and CAPITAL ASSET PURCHASES

In FYE 2023 the City:

- Purchased property at 208 E. Main St. for the amount of \$188,596
- Purchased property at 111 S. Greensburg St. for the amount of \$152,098
- Purchased property at 200 W Main St. for the amount of \$60,831
- Improvements to City buildings in the amount of \$102,802
- Purchased a street sweeper for the road department for \$29,000
- Purchased Fire Turnout gear for \$43,850
- Purchased 2 Ford Explorer Interceptors and a Cruiser for the police department for \$150,000
- Purchased a 2020 Jeep Grand Cherokee for \$34,719
- Purchased other capital assets for the general government fund as follows: Hydro-Vac trailer, first aid tent, pedestal upgrade, firehoses, rescue gear, sound system and accessories, police printer, graphics for police car and 2 golf carts for \$149,309

In FYE 2023 Water and Sewer:

- Purchased plant, line and extensions, improvements and additions for \$846,711
- Purchased equipment for \$27,969

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, 2023

	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Current Assets			
Cash & cash equivalents	\$ 2,186,244	\$ 482,117	\$ 2,668,361
Prepaid expenses	10,878	9,842	20,720
Accounts receivable:			
Taxes	387,635	-	387,635
Trade, net	-	138,689	138,689
Other	17,443	2,572	20,015
Due from other funds	87,756	14,000	101,756
Total Current Assets	<u>2,689,956</u>	<u>647,220</u>	<u>3,337,176</u>
Noncurrent Assets			
Restricted cash & cash equivalents	409,684	942,234	1,351,918
Capital assets, net of depreciation	4,449,500	12,783,656	17,233,156
Total Noncurrent Assets	<u>4,859,184</u>	<u>13,725,890</u>	<u>18,585,074</u>
TOTAL ASSETS	<u>7,549,140</u>	<u>14,373,110</u>	<u>21,922,250</u>
Deferred Outflows of Resources:			
Debt issue costs, net	-	23,131	23,131
Deferred outflows related to pension	496,075	357,332	853,407
Deferred outflows related to OPEB	263,488	215,542	479,030
Total Deferred Outflows	<u>759,563</u>	<u>596,005</u>	<u>1,355,568</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	47,801	12,281	60,082
Accrued expenses	26,345	69,068	95,413
Payroll liabilities	39,971	-	39,971
Other liabilities	3,750	-	3,750
Due to other funds	14,000	87,756	101,756
Revenue bonds payable - current portion	-	115,000	115,000
Leases/notes payable - current portion	-	378,236	378,236
Total Current Liabilities	<u>131,867</u>	<u>662,341</u>	<u>794,208</u>
Noncurrent Liabilities			
Compensated absences	19,184	17,933	37,117
Revenue bonds payable, net of current portion	-	855,000	855,000
Leases/notes payable, net of current portion	-	3,924,852	3,924,852
Net pension liability	1,653,533	1,228,169	2,881,702
Net OPEB liability	429,185	357,438	786,623
Customer deposits	-	85,228	85,228
Total Noncurrent Liabilities	<u>2,101,902</u>	<u>6,468,620</u>	<u>8,570,522</u>
TOTAL LIABILITIES	<u>2,233,769</u>	<u>7,130,961</u>	<u>9,364,730</u>
Deferred Inflows of Resources:			
Bond premium, net	-	65,860	65,860
Deferred inflows related to pension	238,220	176,939	415,159
Deferred inflows related to OPEB	247,731	206,317	454,048
Total Deferred Inflows	<u>485,951</u>	<u>449,116</u>	<u>935,067</u>
NET POSITION:			
Invested in capital assets, net of related debt	4,449,500	7,510,568	11,960,068
Restricted for ARPA funds	377,492	-	377,492
Restricted for employee benefits	8,267	-	8,267
Restricted for police department	19,277	-	19,277
Restricted for OPIOID settlement fund	4,648	-	4,648
Restricted for debt service	-	389,640	389,640
Restricted for capital projects	-	447,122	447,122
Unrestricted	729,799	(958,292)	(228,493)
TOTAL NET POSITION	<u>\$ 5,588,983</u>	<u>\$ 7,389,038</u>	<u>\$ 12,978,021</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

		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
FUNCTIONS/PROGRAMS	Expenses						
Governmental activities:							
General government	\$ 1,085,542	\$ 20,838	\$ 23,513	\$ -	\$ (1,041,191)	\$ -	\$ (1,041,191)
Police	1,266,319	43,205	47,386	-	(1,175,728)	-	(1,175,728)
Fire	77,013	-	24,178	-	(52,835)	-	(52,835)
Parks and recreation	20,017	-	-	-	(20,017)	-	(20,017)
Highways and streets	26,007	-	74,823	-	48,816	-	48,816
Cemetery	97,167	31,275	4,600	-	(61,292)	-	(61,292)
Alcoholic beverage control	85,349	-	-	-	(85,349)	-	(85,349)
Total governmental activities	2,657,414	95,318	174,500	-	(2,387,596)	-	(2,387,596)
Business-type activities:							
Water and wastewater	1,941,375	1,966,500	-	243,251	-	268,376	268,376
TOTAL	<u>\$ 4,598,789</u>	<u>\$ 2,061,818</u>	<u>\$ 174,500</u>	<u>\$ 243,251</u>	<u>(2,387,596)</u>	<u>268,376</u>	<u>(2,119,220)</u>
General revenues:							
Property taxes					367,218	-	367,218
Insurance premium taxes					614,663	-	614,663
Occupational taxes					992,619	-	992,619
Franchise taxes					156,985	-	156,985
License and permits					35,616	-	35,616
Interest income					81,151	49,892	131,043
Other revenue					66,116	32,189	98,305
Total general revenues					2,314,368	82,081	2,396,449
Transfers in (out)					(270,282)	270,282	-
Sale of assets					5,034	-	5,034
Change in net position					(338,476)	620,739	282,263
Net position - beginning					5,927,459	6,768,299	12,695,758
Net position - ending					<u>\$ 5,588,983</u>	<u>\$ 7,389,038</u>	<u>\$ 12,978,021</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash & cash equivalents	\$ 1,360,204	\$ 826,040	\$ 2,186,244
Prepaid expenses	10,878	-	10,878
Receivables:			
Taxes	386,784	-	386,784
Other	17,443	-	17,443
Due from other funds	89,063	-	89,063
Restricted cash	409,684	-	409,684
 TOTAL ASSETS	 <u>\$ 2,274,056</u>	 <u>\$ 826,040</u>	 <u>\$ 3,100,096</u>
 <u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Accounts payable	\$ 47,696	\$ 105	\$ 47,801
Accrued expenses	25,149	1,196	26,345
Due to other funds	-	15,307	15,307
Payroll liabilities	39,971	-	39,971
Other liabilities	3,750	-	3,750
 TOTAL LIABILITIES	 <u>116,566</u>	 <u>16,608</u>	 <u>133,174</u>
 <u>FUND BALANCES</u>			
Nonspendable	10,878	-	10,878
Restricted	409,684	240,550	650,234
Committed	19,184	335,265	354,449
Assigned	-	233,617	233,617
Unassigned	1,717,744	-	1,717,744
 TOTAL FUND BALANCES	 <u>2,157,490</u>	 <u>809,432</u>	 <u>2,966,922</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 2,274,056</u>	 <u>\$ 826,040</u>	 <u>\$ 3,100,096</u>

See accompanying notes to financial statements.

CITY OF HODGENVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2023

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 2,966,922
--	--------------

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

Property taxes receivable not collected within 60 days are not reported in the fund financial statements because they are not measurable and available, but they are presented in the statement of net position.

851

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital asset cost

8,559,817

Net of accumulated depreciation

(4,110,317)

4,449,500

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.

(19,184)

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods, therefore, are not reported in the governmental fund financial statements but are reported in the statement of net position.

Deferred outflows related to pension

496,075

Deferred outflows related to OPEB

263,488

Deferred inflows related to pension

(238,220)

Deferred inflows related to OPEB

(247,731)

273,612

Net pension liability

(1,653,533)

Net OPEB liability

(429,185)

(2,082,718)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 5,588,983</u></u>
--	----------------------------

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>			
Property taxes	\$ 370,279	\$ -	\$ 370,279
Insurance premium taxes	614,663	-	614,663
Occupational taxes	992,619	-	992,619
Franchise taxes	156,985	-	156,985
Licenses and permits	35,616	-	35,616
Intergovernmental revenue	68,249	74,823	143,072
Contributions	26,828	4,600	31,428
Miscellaneous police	60,133	-	60,133
Other revenue	68,792	32,509	101,301
Interest income	67,822	13,329	81,151
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	2,461,986	125,261	2,587,247
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES:</u>			
Current:			
General government	871,735	-	871,735
Police	1,099,049	-	1,099,049
Fire	38,959	-	38,959
Parks and recreation	13,630	-	13,630
Highways and streets	15,605	-	15,605
Cemetery	64,063	23,333	87,396
Alcoholic beverage control	63,254	-	63,254
Capital outlay	875,842	35,363	911,205
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	3,042,137	58,696	3,100,833
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES (USES):</u>			
Sale of Assets	27,983	-	27,983
Transfers out	(270,282)	-	(270,282)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(242,299)	-	(242,299)
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES OVER (UNDER) EXPENDITURES	(822,450)	66,565	(755,885)
	<hr/>	<hr/>	<hr/>
FUND BALANCES - beginning	2,979,940	742,867	3,722,807
	<hr/>	<hr/>	<hr/>
FUND BALANCES - ending	\$ 2,157,490	\$ 809,432	\$ 2,966,922
	<hr/>	<hr/>	<hr/>

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, 2023**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (755,885)

Amounts reported for *governmental activities* 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. (3,061)

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	911,205	
Depreciation expense	<u>(288,858)</u>	622,347

Total proceeds from the sale of capital assets is recognized as revenue in the fund financial statements, but the gain on sale of assets, net of cost less accumulated depreciation, is reported in the statement of activities. (22,949)

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. (2,177)

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	175,195	
OPEB contributions	25,381	
Cost of pension benefits earned	(310,498)	
Cost of OPEB benefits earned	<u>(66,829)</u>	<u>(176,751)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (338,476)

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2023

ASSETS:

Current Assets

Cash & cash equivalents	\$ 482,117
Prepaid expenses	9,842
Trade receivables	138,689
Due from other funds	14,000
Other receivables	2,572
Total Current Assets	<u>647,220</u>

Noncurrent Assets

Restricted cash & cash equivalents	<u>942,234</u>
Capital assets:	
Land and improvements	555,895
Construction in progress	-
Distribution and collections systems	22,824,476
Buildings and equipment	725,165
Less accumulated depreciation	<u>(11,321,880)</u>
Net Capital Assets	<u>12,783,656</u>
TOTAL ASSETS	<u>14,373,110</u>

DEFERRED OUTFLOWS:

Debt issue costs, net	23,131
Deferred outflows related to pension	357,332
Deferred outflows related to OPEB	<u>215,542</u>
Total Deferred Outflows	<u>596,005</u>

LIABILITIES:

Current Liabilities

Accounts payable	12,281
Accrued expenses	69,068
Due to other funds	87,756
Revenue bonds payable-current portion	115,000
Notes payable-current portion	<u>378,236</u>
Total Current Liabilities	<u>662,341</u>

Noncurrent Liabilities

Compensated absences	17,933
Revenue bonds payable, net of current portion	855,000
Notes payable, net of current portion	3,924,852
Net pension liability	1,228,169
Net OPEB liability	357,438
Customer deposits	<u>85,228</u>
Total Noncurrent Liabilities	<u>6,468,620</u>
TOTAL LIABILITIES	<u>7,130,961</u>

DEFERRED INFLOWS:

Bond premium, net	65,860
Deferred inflows related to pension	176,939
Deferred inflows related to OPEB	<u>206,317</u>
Total Deferred Inflows	<u>449,116</u>

NET POSITION:

Invested in capital assets, net of related debt	7,510,568
Restricted for debt service	389,640
Restricted for capital projects	447,122
Unrestricted	<u>(958,292)</u>
TOTAL NET POSITION	<u>\$ 7,389,038</u>

CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

OPERATING REVENUES:

Charges for services	
Water and wastewater fees	\$ 1,698,820
Other charges for services	267,680
Miscellaneous income	<u>32,189</u>
TOTAL OPERATING REVENUES	<u>1,998,689</u>

OPERATING EXPENSES:

Personnel costs	765,078
Repairs and maintenance	155,417
Utilities	138,509
Insurance	49,391
Chemicals	115,792
Other expenses	94,166
Depreciation	<u>502,584</u>
TOTAL OPERATING EXPENSES	<u>1,820,937</u>

INCOME FROM OPERATIONS	<u>177,752</u>
------------------------	----------------

NON-OPERATING REVENUES (EXPENSES):

Grant income	243,251
Interest income	49,892
Transfers in	270,282
Interest expense	(110,036)
Loan fees	<u>(10,402)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES), net	<u>442,987</u>

CHANGE IN NET POSITION	620,739
------------------------	---------

NET POSITION - beginning	<u>6,768,299</u>
--------------------------	------------------

NET POSITION - ending	<u><u>\$ 7,389,038</u></u>
-----------------------	----------------------------

**CITY OF HODGENVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 2,010,407
Cash payments for personnel costs	(800,270)
Cash payments for operating expenses	<u>(562,289)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>647,848</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(575,604)
Paid for construction in progress	(299,075)
Principal paid on long-term debt	(476,985)
Interest and fees paid on long-term debt	(123,546)
Grant revenue received	<u>243,251</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,231,959)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	47,452
Cash provided by customer deposits, net	7,273
Net transfers from other funds	270,282
Loans to/from other funds, net	<u>73,756</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>398,763</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS (185,348)

CASH AND CASH EQUIVALENTS - beginning 1,609,699

CASH AND CASH EQUIVALENTS - ending \$ 1,424,351

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

Income from operations	\$ 177,752
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	502,584
Pension payments in excess of pension expense	(60,140)
OPEB expense in excess of OPEB payments	22,790
Change in assets and liabilities:	
(Increase) decrease in:	
Prepaid expenses	(4,071)
Trade receivables	11,718
Increase (decrease) in:	
Accounts payable	(17,450)
Accrued expenses (operating)	11,650
Compensated absences	<u>3,015</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 647,848</u></u>

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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, 2023**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

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

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

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

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

The City reports the following proprietary fund:

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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, 2023**

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, 2023**

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, 2023**

NOTE B – SECURED DEPOSITS AND INVESTMENTS

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

Custodial Credit Risk – Deposits – At June 30, 2023 the City had deposits with financial institutions with carrying amounts of \$4,020,279. The bank balances with the financial institutions were \$4,082,822. Of these balances, \$708,802 were covered by federal deposit insurance and \$3,374,020 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, 2023**

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, 2023, delinquent property taxes totaling \$8,150 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>
2012-2018	\$2,537	\$2,537
2019	831	831
2020	1,009	1,009
2021	2,578	2,578
2022	<u>1,195</u>	<u>1,195</u>
	8,150	8,150
Less: Allowance for Doubtful Accounts	<u>(2,800)</u>	<u>(3,605)</u>
Balance	<u>\$5,350</u>	<u>\$4,545</u>

An additional \$805 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, 2023, was as follows:

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2023</u>
Governmental activities:				
Land and buildings	\$ 636,595	\$ 401,525	\$ -	\$ 1,038,120
Improvements/infrastructure	4,812,717	102,802	-	4,915,519
Equipment	1,631,142	179,408	(17,500)	1,793,050
Vehicles	<u>621,511</u>	<u>227,470</u>	<u>(35,853)</u>	<u>813,128</u>
	7,701,965	911,205	(53,353)	8,559,817
Accumulated depreciation	<u>(3,851,863)</u>	<u>(288,858)</u>	<u>30,404</u>	<u>(4,110,317)</u>
Net capital assets	<u>\$ 3,850,102</u>	<u>\$ 622,347</u>	<u>\$ (22,949)</u>	<u>\$ 4,449,500</u>

Depreciation was charged to functions as follows:

General government	\$ 153,631
Police	57,956
Fire	38,054
Parks and recreation	6,387
Highways and streets	10,402
Cemetery	333
Alcoholic beverage control	22,095
Total governmental activities depreciation expense	<u>\$ 288,858</u>

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE D – CAPITAL ASSETS AND DEPRECIATION, Continued

Capital asset activity for business-type activities for the year ended June 30, 2023 was as follows:

Business-type activities:	Balance July 1, 2021	Additions	Project Completions	Retirements	Balance June 30, 2022
Land and improvements	\$ 555,895	\$ -	\$ -	\$ -	\$ 555,895
Construction in progress	1,238,231	299,075	(1,537,306)	-	-
Distribution and collection systems:					
Plant, lines and extensions	18,809,261	547,636	1,537,306	-	20,894,203
Dam and reservoir	1,930,273	-	-	-	1,930,273
Total distribution and collection system	20,739,534	547,636	-	-	22,824,476
Buildings and equipment	697,196	27,969	-	-	725,165
Totals at historical cost	23,230,856	874,680	-	-	24,105,536
Accumulated depreciation	(10,819,296)	(502,584)	-	-	(11,321,880)
Net capital assets	<u>\$ 12,411,560</u>	<u>\$ 372,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,783,656</u>

Depreciation in the amount of \$502,584 was charged to the business-type activities function.
There were no asset retirements in the year ended June 30, 2023.

NOTE E – LONG TERM DEBT

The following is a summary of long-term debt for business-type activities at June 30, 2023:

\$825,000 Water and Sewer serial bonds; principal due in annual installments of \$20,000 to \$60,000 through February 1, 2039; plus interest at 3%; secured by the revenues of the system. \$ 770,000

\$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. 200,000

Revenue bonds payable 970,000

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. 158,078

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. 978,987

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. 554,245

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE E – LONG TERM DEBT, Continued

Assistance agreement with Kentucky Infrastructure Authority under federally assisted loan program for CWSRF draw loan A20-025 for water and wastewater improvements dated May 13, 2020. Principal payments plus interest at 2.50% are due semi-annually.	47,500
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.	509,801
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.	647,651
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.	339,721
\$1,294,416 lease purchase agreement dated March 24, 2021, with Government Capital Corporation; principal plus interest at 2.844% due in quarterly installments of \$37,402 through May 15, 2031; secured by the revenues of the system.	<u>1,067,106</u>
Leases/Notes Payable	<u>4,303,088</u>
Total long term debt for business-type activities	5,273,088
Less: amounts due within one year	<u>(493,236)</u>
Amounts due in more than one year	<u><u>\$ 4,779,852</u></u>

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE F – CHANGES IN LONG-TERM DEBT

Long-term activity debt for business-type activities for the year ended June 30, 2023:

	Revenue Bonds	Leases/Notes Payable	Total
Beginning balance	\$ 1,075,000	\$ 4,675,073	\$ 5,750,073
Reductions	(105,000)	(371,985)	(476,985)
Ending balance	970,000	4,303,088	5,273,088
Less current portion	(115,000)	(378,236)	(493,236)
Long-term debt	<u>\$ 855,000</u>	<u>\$ 3,924,852</u>	<u>\$ 4,779,852</u>

Interest in the amount of \$110,036, plus fees in the amount of \$10,402, totaling \$120,438 were charged to the business-type activities function.

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

Year	Revenue Bonds		Leases/Notes Payable		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2024	\$ 115,000	\$ 29,106	\$ 378,236	\$ 73,075	\$ 493,236	\$ 102,181	\$ 595,417
2025	115,000	25,713	385,235	65,969	500,235	91,682	591,917
2026	90,000	22,225	392,393	58,708	482,393	80,933	563,326
2027	40,000	19,500	345,959	51,446	385,959	70,946	456,905
2028	45,000	18,300	400,400	43,315	445,400	61,615	507,015
2029-2033	235,000	71,100	1,567,748	114,116	1,802,748	185,216	1,987,964
2034-2038	275,000	33,600	743,122	20,986	1,018,122	54,586	1,072,708
2039-2040	55,000	1,650	89,995	757	144,995	2,407	147,402
Total	<u>\$ 970,000</u>	<u>\$ 221,194</u>	<u>\$ 4,303,088</u>	<u>\$ 428,372</u>	<u>\$ 5,273,088</u>	<u>\$ 649,566</u>	<u>\$ 5,922,654</u>

NOTE G – FUND BALANCES

Governmental fund balances at June 30, 2023, are classified as follows:

Nonspendable – Nonspendable fund balance in the amount of \$10,878 represents prepaid expenses.

Restricted – General fund restricted fund balance in the amount of \$409,684 represents restricted cash as follows: \$377,492 unexpended American Rescue Fund Act (ARPA) funds, \$8,267 in the employee benefit (HRA) account, \$4,648 in the OPIOID Settlement fund, \$10,580 in the Police Seizure fund and \$8,697 in the police asset forfeiture account. Restricted fund balance in other governmental funds in the amount of \$240,550 is restricted for municipal road improvements.

Committed – Committed fund balance in the general fund, in the amount of \$19,184, is committed for the purpose of funding compensated absences. Committed fund balance in other governmental funds, in the amount of \$335,265, is committed for the purpose of perpetual cemetery care.

Assigned – Assigned fund balance in the amount of \$233,617 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 \$3,916 and for the cemetery in the amount of \$229,701.

Unassigned – Remaining fund balance is unassigned in the amount of \$1,717,744.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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, 2023, the City has three items that qualify for reporting in this category: Bond issuance costs, net of amortization, in the amount of \$23,131. Pension deferred outflows of \$853,407 and the other post-employment benefit deferred outflows of \$479,030. 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, 2023 the City has three items that qualified for reporting in this category: Bond premium, net of amortization, in the amount of \$65,860. Pension deferred inflows of \$415,159, and other post-employment benefit deferred inflows of \$454,048. The pension deferred inflows are described in Note J to the financial statements. The other post-employment benefit deferred outflows are described in Note K.

NOTE I – OPERATING LEASE, CITY AS LESSOR

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

NOTE J – PENSION PLAN

General Information about the Pension Plan

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

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE J – PENSION PLAN, continued

General Information about the Pension Plan

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

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

Contributions. Contributions for employees are established in the statutes governing the KPPA and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% of salary if they were plan members prior to September 1, 2008. Non-Hazardous employees that entered the plan after September 1, 2008 are required to contribute 6%, of their annual creditable compensation. The additional 1% is deposited into an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2023, total employer contributions for the City were \$336,812 based on a rate of 26.79% for Non-Hazardous members through covered payroll. The contribution rate of 26.79% for Non-Hazardous is comprised of amounts for pension and insurance benefits; 23.40% or \$294,192 was dedicated to pensions and 3.39% or \$42,620 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. The City's proportion of the collective net pension liability and pension expense was determined using the employers' actual contributions for Fiscal Year 2022. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2022 the City's proportion was .039863% percent for Non-Hazardous, which was a decrease of .001655 percent from its proportion measured as of June 30, 2021.

Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2022 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date as of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE J – PENSION PLAN, continued

Net Pension Liability

Actuarial Assumptions. There have been no actuarial assumption or method changes since June 30, 2020.

The assumptions are:

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

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	11.50%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	91.50%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

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

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE J – PENSION PLAN, continued

Net Pension Liability

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

<i>City of Hodgenville's net pension liability</i>	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	<u>\$ 3,601,770</u>	<u>\$ 2,881,702</u>	<u>\$ 2,286,146</u>

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

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

Pension expense. For the year ended June 30, 2023, the City recognized pension expense of \$369,355.

Deferred outflows of resources and deferred inflows of resources. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources on the following table:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 3,081	\$ 25,663
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	392,113	318,237
Changes in proportion and differences between employer contributions and proportionate share of contributions	164,021	71,259
Employer contributions subsequent to the measurement date	294,192	-
Total	<u>\$ 853,407</u>	<u>\$ 415,159</u>

The amount shown above for "Contributions subsequent to the measurement date" will be recognized as a reduction to net pension liability in the following measurement period.

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

Year ending June 30,	Pension Expense
2024	\$ 110,357
2025	(23,947)
2026	(24,216)
2027	81,862
	<u>\$ 144,056</u>

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS

General Information about the OPEB Plan

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

General Information about the OPEB Plan

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

Contributions. Contribution requirements of the participating employers are established and may be amended by the CERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2023, was 3.39% of annual creditable compensation for Non-Hazardous. Contributions to the Insurance Fund from the City were \$42,620 for the year ended June 30, 2023. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for Fiscal Year 2022. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2022 the City's proportion for Non-Hazardous OPEB was .039859%, which was a decrease of .00165% from its proportion measured as of June 30, 2021.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2022 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date as of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles.

Actuarial Assumptions. The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions:

Investment rate of return	6.25%
Projected salary increases	3.30% to 10.30%, varies by service for Non-Hazardous
Inflation rate	2.30%
Payroll growth rate	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-64	Initial trend starting at 9.00% in 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021 valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material plan provision changes.

The mortality table used for active members was a Pub-2010 General Mortality table for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Net OPEB Liability

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Discount rate. The discount rate used to measure the total OPEB liability was 5.70% for Non-hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance future benefit payments of current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the retirement plan's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the retirement plan's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the KPPA ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

Changes in the Net OPEB Liability

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

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease (4.70%)	Current Discount Rate (5.70%)	1% Increase (6.70%)
Non-hazardous	<u>\$ 1,051,589</u>	<u>\$ 786,623</u>	<u>\$ 567,584</u>

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

<i>City of Hodgenville's net OPEB liability</i>	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Non-hazardous	<u>\$ 584,837</u>	<u>\$ 786,623</u>	<u>\$ 1,028,930</u>

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

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE K - OTHER POST-EMPLOYMENT BENEFIT PLANS, Continued

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

OPEB expense. For the year ended June 30, 2023, the City recognized OPEB expense of \$106,860.

Deferred outflows of resources and deferred inflows of resources. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources on the following table:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 79,180	\$ 180,391
Changes of assumptions	124,410	102,513
Net differences between projected and actual earnings on plan investments	146,477	114,550
Change in proportion and difference between employer contributions and proportionate share of ontributions	86,342	56,594
Employer contributions subsequent to the measurement date	42,620	-
Total	<u>\$ 479,029</u>	<u>\$ 454,048</u>

The amount shown above for "Employer contributions subsequent to the measurement date" will be recognized as a reduction to net pension liability in the following measurement period.

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

Year ending June 30,	OPEB Expense
2024	\$ 11,033
2025	9,195
2026	(35,533)
2027	(2,334)
	<u>\$ (17,639)</u>

NOTE L – TRANSFERS

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

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Water & Wastewater Fund	<u>\$270,282</u>

Interfund transfers from the General Fund to the Water & Wastewater Fund consisted of a \$221,273 transfer of ARPA funds and \$49,009 to account for Water & Wastewater expenses paid by the General 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.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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, 2023 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 \$409,684 at June 30, 2023, includes \$8,267 in an employee benefit (HRA) account, \$8,697 in the police asset forfeiture account, \$4,648 in the OPIOID Settlement fund, \$10,580 in the Police Seizure fund and \$377,492 in unexpended ARPA grant funds.

Proprietary Fund

The ordinance authorizing the Kentucky Bond Corporation Series 2021B bond issue requires a monthly sinking fund deposit of one-twelfth the annual bond requirement and one-sixth the semi-annual interest requirement. The sinking fund is fully funded at June 30, 2023 in the amount of \$26,292. The bond issue requires an additional \$16,500 be maintained in a reserve sinking fund. This requirement is fully funded at June 30, 2023.

The ordinance authorizing the Kentucky Rural Water Series 2013B requires a monthly sinking fund deposit of one-twelfth the annual bond requirement and one-sixth the semi-annual interest requirement. The sinking fund is fully funded at June 30, 2023 in the amount of \$40,503. 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 2004A series. The depreciation fund is fully at June 30, 2023.

The ordinance authorizing the Government Capital Corporation municipal lease purchase agreement requires a monthly sinking fund deposit of one-third of the quarterly bond and interest requirements. The sinking fund is fully funded at June 30, 2023 in the amount of \$12,467.

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 account. 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, 2023.

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 \$36,000 is funded in the required amount at June 30, 2023.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F11-13 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 \$11,400 is funded in the required amount at June 30, 2023.

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 \$12,000 is funded in the required amount at June 30, 2023.

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan A16-029 requires a maintenance and replacement reserve be funded with an annual deposit of \$2,400 until the reserve balance reaches \$24,000. The maintenance and replacement reserve requirement of \$7,200 is funded in the required amount at June 30, 2023.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE O – RESTRICTED ASSETS, Continued

The ordinance authorizing the Kentucky Infrastructure Authority assistance agreement under Federally Assisted Wastewater Revolving Loan Fund Program, Loan F16-042 requires a maintenance and replacement reserve be funded with an annual deposit of \$1,500 until the reserve balance reaches \$15,000. The maintenance and replacement reserve requirement of \$7,500 is funded in the required amount at June 30, 2023.

Restricted cash also includes \$105,472 customer deposits in escrow; and, \$447,122 of excess funds considered restricted for capital projects, at June 30, 2023.

NOTE P – WATER AND WASTEWATER CASH ACCOUNTS

Unrestricted:	
Revenue fund	\$ 431,264
Operations and maintenance	(7,724)
Wastewater project account	45,623
Wastewater rehabilitation	12,954
	<u>\$ 482,117</u>
Restricted:	
Customer deposits escrow	\$ 105,472
Depreciation funds	454,824
Sinking funds	381,938
	<u>\$ 942,234</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, 2023, in the general fund, expenditures for cemetery, alcoholic beverage control, highway and streets, and net transfers out exceeded appropriations by \$29,798, \$145,868, \$45,778, and \$242,299 respectively. The over-expenditure was funded by prior years carryover funds, and contingency appropriations. Total budgeted expenditures exceeded actual amounts by \$263,965.

NOTE R – RELATED PARTY TRANSACTIONS

The City paid \$19,998 during the fiscal year ended June 30, 2023, for cemetery related tent set up fees, grave openings, equipment usage and other contract services to an individual who is salaried employee of the City. These expenditures for contract services are considered related party transactions due to the contractor's employment status with the City.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE S – RECENT PRONOUNCEMENTS

Standards that will Become Effective for FY 2024 and Later Year Financial Statements

Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. (FY 2024)

Statement No. 101, *Compensated Absences*, aligns recognition and measurement guidance for all types of compensated absences under a unified model, resulting in greater consistency and improved comparability. (FY 2024)

The City 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, 2023

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Budgetary fund balance, July 1, 2022	\$ -	\$ 1,040,457	\$ 2,979,940	\$ 1,939,483
REVENUES (inflows):				
Occupational taxes and licenses	515,000	848,608	876,611	28,003
Property and franchise taxes	425,000	524,900	527,264	2,364
Insurance premium tax	465,000	614,839	614,663	(176)
Intergovernmental revenue	36,000	68,928	68,249	(679)
ABC licenses and taxes	145,000	145,000	151,624	6,624
Other revenue	25,000	305,669	251,558	(54,111)
TOTAL REVENUES	1,611,000	2,507,944	2,489,969	(17,975)
AMOUNTS AVAILABLE FOR APPROPRIATION	1,611,000	3,548,401	5,469,909	1,921,508
EXPENDITURES (outflows):				
General government	600,000	1,424,763	1,359,503	65,260
Police	800,000	1,410,935	1,276,569	134,366
Fire	60,000	129,781	118,726	11,055
Parks and recreation	60,000	26,630	26,630	-
Cemetery	50,000	39,265	69,063	(29,798)
Alcoholic beverage control	-	-	145,868	(145,868)
Contingency	41,000	517,027	-	517,027
Highways and streets	-	-	45,778	(45,778)
Transfers, net	-	-	270,282	(270,282)
TOTAL EXPENDITURES	1,611,000	3,548,401	3,312,419	235,982
Budgetary fund balance, June 30, 2023	\$ -	\$ -	\$ 2,157,490	\$ 2,157,490

See accompanying independent auditor's report.

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2023**

Last 10 Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportion of net pension liability	0.039863%	0.041518%	0.035210%	0.03268%	0.03676%
Proportionate share of net pension liability	<u>\$ 2,881,702</u>	<u>\$ 2,647,098</u>	<u>\$ 2,700,578</u>	<u>\$ 2,298,047</u>	<u>\$ 2,238,857</u>
Covered employee payroll	<u>\$ 1,257,231</u>	<u>\$ 1,113,998</u>	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>
Proportionate share of net pension liability as percentage of covered payroll	229.21%	237.62%	254.65%	242.94%	260.73%
Plan fiduciary net position as a percentage of total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%

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

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF NET OPEB LIABILITY
YEAR ENDED JUNE 30, 2023**

Last 10 Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportion of net OPEB liability	0.039859%	0.041509%	0.035200%	0.03267%	0.03676%
Proportionate share of net OPEB liability	<u>\$ 786,623</u>	<u>\$ 794,669</u>	<u>\$ 849,973</u>	<u>\$ 549,444</u>	<u>\$ 652,666</u>
Covered employee payroll	<u>\$ 1,257,231</u>	<u>\$ 1,113,998</u>	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>
Proportionate share of net OPEB liability as percentage of covered payroll	62.57%	71.33%	80.15%	58.08%	76.01%
Plan fiduciary net position as a percentage of total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%
	<u>2018</u>				
Proportion of net OPEB liability	0.03695%				
Proportionate share of net OPEB liability	<u>\$ 742,821</u>				
Covered employee payroll	<u>\$ 937,205</u>				
Proportionate share of net OPEB liability as percentage of covered payroll	79.26%				
Plan fiduciary net position as a percentage of total OPEB liability	52.40%				

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO PENSION
YEAR ENDED JUNE 30, 2023**

Last 10 Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution (actuarially determined)	\$ 294,192	\$ 253,769	\$ 204,822	\$ 182,565	\$ 139,277
Contribution in relation to the actuarially determined contributions	<u>294,192</u>	<u>253,769</u>	<u>204,822</u>	<u>182,565</u>	<u>139,277</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,257,231</u>	<u>\$ 1,113,998</u>	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>
Contributions as a percentage of covered employee payroll	23.40%	22.78%	19.31%	19.30%	16.22%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Contractually required contribution (actuarially determined)	\$ 135,707	\$ 125,281	\$ 96,487	\$ 68,620	
			1,062,516	947,957	
Contribution in relation to the actuarially determined contributions	<u>135,707</u>	<u>125,281</u>	<u>1,267,338</u>	<u>1,130,522</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,170,851)</u>	<u>\$ (1,061,902)</u>	
Covered employee payroll	<u>\$ 937,205</u>	<u>\$ 898,080</u>	<u>\$ 774,880</u>	<u>\$ 538,193</u>	
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%	

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

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO OPEB
YEAR ENDED JUNE 30, 2023**

Last 10 Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution (actuarially determined)	\$ 42,620	\$ 46,454	\$ 50,516	\$ 45,027	\$ 45,167
Contribution in relation to the actuarially determined contributions	<u>42,620</u>	<u>46,454</u>	<u>50,516</u>	<u>45,027</u>	<u>45,167</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,257,231</u>	<u>\$ 1,113,998</u>	<u>\$ 1,060,500</u>	<u>\$ 945,942</u>	<u>\$ 858,677</u>
Contributions as a percentage of covered employee payroll	3.39%	4.17%	4.76%	4.76%	5.26%

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

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

CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
JUNE 30, 2023

CERS PENSION

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2014 through 2022.

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

2014:

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

2015 and 2016:

- No changes.

2017:

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

2018:

- No changes.

2019:

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

2020:

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

2021 and 2022:

- No changes.

**CITY OF HODGENVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
JUNE 30, 2023**

CERS OPEB

Changes of benefit terms: There were no changes in benefit terms for plan years ended 2017 through 2022.

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

2017:

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

2018:

- No changes.

2019:

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

2020:

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

2021:

- For the Non-Hazardous Plan, the single discount rate changed from 5.34% to 5.20%.
- The municipal bond rate changed from 3.13% to 1.92%.

2022:

- For the Non-Hazardous Plan, the single discount rate changed from 5.20% to 5.70%.
- The municipal bond rate changed from 1.92% to 3.69%.

**CITY OF HODGENVILLE, KENTUCKY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2023**

	Special Revenue				Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery	Cemetery Perpetual Care	
<u>ASSETS:</u>					
Cash & cash equivalents	\$ 3,916	\$ 254,550	\$ 232,309	\$ 335,265	\$ 826,040
TOTAL ASSETS	<u>\$ 3,916</u>	<u>\$ 254,550</u>	<u>\$ 232,309</u>	<u>\$ 335,265</u>	<u>\$ 826,040</u>
<u>LIABILITIES AND FUND BALANCES:</u>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 105	\$ -	\$ 105
Accrued expenses	-	-	1,196	-	1,196
Due to other funds	-	14,000	1,307	-	15,307
TOTAL LIABILITIES	<u>-</u>	<u>14,000</u>	<u>2,608</u>	<u>-</u>	<u>16,608</u>
Fund Balances:					
Restricted	-	240,550	-	-	240,550
Committed	-	-	-	335,265	335,265
Assigned	3,916	-	229,701	-	233,617
TOTAL FUND BALANCES	<u>3,916</u>	<u>240,550</u>	<u>229,701</u>	<u>335,265</u>	<u>809,432</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,916</u>	<u>\$ 254,550</u>	<u>\$ 232,309</u>	<u>\$ 335,265</u>	<u>\$ 826,040</u>

See accompanying independent auditor's report.

CITY OF HODGENVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	Special Revenue				Total Nonmajor Governmental Funds
	Police Drug Enforcement	Road	Cemetery	Cemetery Perpetual Care	
<u>REVENUES:</u>					
Intergovernmental revenue	\$ -	\$ 74,823	\$ -	\$ -	\$ 74,823
Contributions	-	-	4,600	-	4,600
Other revenue	1,234	-	31,275	-	32,509
Interest income	124	1,176	9,483	2,546	13,329
TOTAL REVENUES	1,358	75,999	45,358	2,546	125,261
<u>EXPENDITURES:</u>					
Current:					
Cemetery	-	-	23,333	-	23,333
Capital outlay	-	30,855	4,508	-	35,363
TOTAL EXPENDITURES	-	30,855	27,841	-	58,696
 TOTAL REVENUES OVER (UNDER) EXPENDITURES	 1,358	 45,144	 17,517	 2,546	 66,565
FUND BALANCES - beginning	2,558	195,406	212,184	332,719	742,867
FUND BALANCES - ending	\$ 3,916	\$ 240,550	\$ 229,701	\$ 335,265	\$ 809,432

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, 2023, 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 March 25, 2025.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-1 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 2023-2, to be a significant deficiency.

Report on 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 2023-3.

**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
March 25, 2025

**CITY OF HODGENVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2023**

REPORTABLE CONDITIONS

MATERIAL WEAKNESS:

Item 2023-1 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 2023-2 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 2023-3 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.