

CITY OF HARDINSBURG, KENTUCKY  
FINANCIAL STATEMENTS WITH ACCOMPANYING  
INFORMATION  
For the Year Ended June 30, 2010  
and  
REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS

**CITY OF HARDINSBURG, KENTUCKY  
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# DRANE & COMPANY, PLLC

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of  
the City Council  
City of Hardinsburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of the City's nonmajor governmental fund in the accompanying combined and individual fund financial statements as of and for the year ended June 30, 2010. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the governmental activities, business-type activities, major funds, nonmajor governmental fund, and remaining fund information of the City of Hardinsburg, Kentucky, as of June 30, 2010, and the changes in financial position (including cash flows, where applicable) of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated February 7, 2011 on our consideration of City of Hardinsburg, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 24 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information shown on pages 26 through 29 and the accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information on pages 26 through 28 and the accompanying Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information on page 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

City of Hardinsburg, Kentucky has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended for the information of the city council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 7, 2011

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 641,154	\$ 1,287,303	\$ 1,928,457
Certificates of deposit	257,446	625,008	882,454
Receivables, net:			
Accounts - trade	-	266,409	266,409
Franchises	3,482	-	3,482
Miscellaneous	7,902	10,791	18,693
Taxes	54,848	-	54,848
Intergovernmental	2,703	34,233	36,936
Due from other funds	-	1,976	1,976
Prepaid expenses	1,108	22,754	23,862
<b>Total Current Assets</b>	<u>968,643</u>	<u>2,248,474</u>	<u>3,217,117</u>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,320,870	1,320,870
Investments	-	191,378	191,378
Net capital assets	1,729,325	28,659,816	30,389,141
Unamortized financing costs	-	85,380	85,380
<b>Total Noncurrent Assets</b>	<u>1,729,325</u>	<u>30,257,444</u>	<u>31,986,769</u>
<b>Total Assets</b>	<u>2,697,968</u>	<u>32,505,918</u>	<u>35,203,886</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	9,155	55,589	64,744
Due on construction contracts	-	78,798	78,798
Accrued expenses	16,625	6,607	23,232
Interest payable	-	76,757	76,757
Accrued vacation	3,028	5,207	8,235
Due to other funds	1,976	-	1,976
Deferred revenue	800	28,600	29,400
Bonds and loans payable	-	594,991	594,991
<b>Total Current Liabilities</b>	<u>31,584</u>	<u>846,549</u>	<u>878,133</u>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	206,495	206,495
Due on water line construction	-	26,309	26,309
Loans payable	-	6,255,849	6,255,849
Revenue bonds payable	-	11,521,700	11,521,700
Deferred gain on refinancing	-	27,431	27,431
Unamortized bond premium	-	581	581
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>18,038,365</u>	<u>18,038,365</u>
<b>Total Liabilities</b>	<u>31,584</u>	<u>18,884,914</u>	<u>18,916,498</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,729,325	10,344,644	12,073,969
Restricted for capital and debt service	-	1,512,248	1,512,248
Unrestricted	937,059	1,764,112	2,701,171
<b>Total Net Assets</b>	<u>\$ 2,666,384</u>	<u>\$ 13,621,004</u>	<u>\$ 16,287,388</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)/Revenue and Changes in Net Assets</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Governmental Activities</b>							
General government	\$ 198,877	\$ -	\$ 24,921	\$ -	\$ (173,956)	\$ -	\$ (173,956)
Streets and maintenance	127,099	-	-	43,664	(83,435)	-	(83,435)
Police department	373,708	2,828	38,798	-	(332,082)	-	(332,082)
Fire department	152,577	12,140	8,755	-	(131,682)	-	(131,682)
<b>Total Governmental Activities</b>	<b>852,261</b>	<b>14,968</b>	<b>72,474</b>	<b>43,664</b>	<b>(721,155)</b>	<b>-</b>	<b>(721,155)</b>
<b>Business-Type Activities</b>							
Water	2,527,035	2,532,337	-	1,469,982	-	1,475,284	1,475,284
Sewer	384,518	287,228	-	4,788	-	(92,502)	(92,502)
Sanitation	325,711	333,589	-	-	-	7,878	7,878
<b>Total Business-Type Activities</b>	<b>3,237,264</b>	<b>3,153,154</b>	<b>-</b>	<b>1,474,770</b>	<b>-</b>	<b>1,390,660</b>	<b>1,390,660</b>
<b>Total</b>	<b>\$ 4,089,525</b>	<b>\$ 3,168,122</b>	<b>\$ 72,474</b>	<b>\$ 1,518,434</b>	<b>\$ (721,155)</b>	<b>\$ 1,390,660</b>	<b>\$ 669,505</b>
<b>General Revenues</b>							
					\$ 358,024	\$ -	\$ 358,024
					223,233	-	223,233
					33,417	-	33,417
					40,098	-	40,098
					6,382	36,038	42,420
					29,735	45,017	74,752
					-	(1,901,289)	(1,901,289)
					<b>690,889</b>	<b>(1,820,234)</b>	<b>(1,129,345)</b>
					<b>(30,266)</b>	<b>(429,574)</b>	<b>(459,840)</b>
					2,696,650	14,050,578	16,747,228
					<b>\$ 2,666,384</b>	<b>\$ 13,621,004</b>	<b>\$ 16,287,388</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>			
Cash	\$ 632,778	\$ 8,376	\$ 641,154
Certificates of deposit	257,446	-	257,446
Receivables, net:			
Franchises	3,482	-	3,482
Miscellaneous	7,902	-	7,902
Intergovernmental	-	2,703	2,703
Taxes	54,848	-	54,848
Prepaid expenses	1,108	-	1,108
<b>Total Assets</b>	<b>\$ 957,564</b>	<b>\$ 11,079</b>	<b>\$ 968,643</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 9,155	\$ -	\$ 9,155
Accrued expenses	16,625	-	16,625
Due to other funds	1,976	-	1,976
Deferred revenue	800	-	800
<b>Total Liabilities</b>	<b>28,556</b>	<b>-</b>	<b>28,556</b>
<b><u>Fund Balances</u></b>			
Unreserved	929,008	11,079	940,087
<b>Total Liabilities and Fund Balances</b>	<b>\$ 957,564</b>	<b>\$ 11,079</b>	<b>\$ 968,643</b>

**Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities**

<b>Total Governmental Fund Balances</b>	<b>\$ 940,087</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	1,729,325
Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental funds.	(3,028)
<b>Total Net Assets of Governmental Activities</b>	<b>\$ 2,666,384</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 358,024	\$ -	\$ 358,024
Insurance premium taxes	223,233	-	223,233
Business licenses	12,313	-	12,313
Auto licenses and stickers	26,295	-	26,295
Building permits	1,490	-	1,490
Interest income	6,271	111	6,382
Miscellaneous	28,955	-	28,955
Donations	135	-	135
Franchise fees	33,417	-	33,417
Subscription fees	12,140	-	12,140
Intergovernmental revenues	115,365	43,664	159,029
<b>Total Revenues</b>	<u>817,638</u>	<u>43,775</u>	<u>861,413</u>
<b>Expenditures</b>			
Current:			
General government:			
Salaries and benefits	56,161	-	56,161
Administrative travel	5,676	-	5,676
Utilities	13,033	-	13,033
Insurance	6,590	-	6,590
Industrial development	2,500	-	2,500
Office expense	5,522	-	5,522
Advertising and printing	3,254	-	3,254
Professional fees	9,963	-	9,963
Repairs and maintenance	7,432	-	7,432
Supplies	3,945	-	3,945
Miscellaneous	3,248	-	3,248
Streets and maintenance	125,536	-	125,536
Police department	347,970	-	347,970
Fire department	48,374	-	48,374
Capital outlay	195,616	45,000	240,616
<b>Total Expenditures</b>	<u>834,820</u>	<u>45,000</u>	<u>879,820</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(17,182)</u>	<u>(1,225)</u>	<u>(18,407)</u>
<b>Other Financing Sources</b>			
Proceeds from sale of fixed assets	1,103	-	1,103
Insurance recoveries	12,130	-	12,130
<b>Total Other Financing Sources</b>	<u>13,233</u>	<u>-</u>	<u>13,233</u>
<b>Net Changes in Fund Balances</b>	(3,949)	(1,225)	(5,174)
<b>Fund Balances - Beginning of Year</b>	<u>932,957</u>	<u>12,304</u>	<u>945,261</u>
<b>Fund Balances - End of Year</b>	<u>\$ 929,008</u>	<u>\$ 11,079</u>	<u>\$ 940,087</u>

The accompanying notes are an integral part of this financial statement.



**CITY OF HARDINSBURG, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

**Net Changes in Fund Balances - Governmental Funds** \$ (5,174)

Amounts reported for governmental activities in the Statement of Activities are

The governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 26,976

The governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the book value of the disposed assets. (1,900)

The difference in grant and other revenue is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds. (50,752)

In the Statement of Activities, vacation leave is measured by the amount earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount actually paid. 584

**Changes in Net Assets of Governmental Activities** \$ (30,266)

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2010**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash	\$ 800,098	\$ 223,610	\$ 263,595	\$ 1,287,303
Certificates of deposit	625,008	-	-	625,008
Receivables, net:				
Accounts - trade	209,494	28,061	28,854	266,409
Miscellaneous	63	9,818	910	10,791
Intergovernmental	34,233	-	-	34,233
Due from other funds	10,015	-	10,110	20,125
Prepaid expenses	18,144	2,399	2,211	22,754
<b>Total Current Assets</b>	<b>1,697,055</b>	<b>263,888</b>	<b>305,680</b>	<b>2,266,623</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,225,752	95,118	-	1,320,870
Investments	164,648	26,730	-	191,378
Net capital assets	26,411,081	2,119,944	128,791	28,659,816
Unamortized financing costs	61,310	24,070	-	85,380
<b>Total Noncurrent Assets</b>	<b>27,862,791</b>	<b>2,265,862</b>	<b>128,791</b>	<b>30,257,444</b>
<b>Total Assets</b>	<b>29,559,846</b>	<b>2,529,750</b>	<b>434,471</b>	<b>32,524,067</b>
<b><u>Liabilities</u></b>				
<b>Current Liabilities</b>				
Accounts payable	33,815	13,136	8,638	55,589
Due on construction contracts	78,798	-	-	78,798
Accrued expenses	6,607	-	-	6,607
Interest payable	65,611	11,146	-	76,757
Accrued vacation	3,213	997	997	5,207
Due to other funds	-	18,149	-	18,149
Deferred revenue	28,600	-	-	28,600
Bonds and loans payable	563,908	21,000	10,083	594,991
<b>Total Current Liabilities</b>	<b>780,552</b>	<b>64,428</b>	<b>19,718</b>	<b>864,698</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	206,495	-	-	206,495
Due on water line construction	26,309	-	-	26,309
Loans payable	6,195,288	-	60,561	6,255,849
Revenue bonds payable	10,872,700	649,000	-	11,521,700
Deferred gain on refinancing	27,431	-	-	27,431
Unamortized bond premium	581	-	-	581
<b>Total Noncurrent Liabilities</b>	<b>17,328,804</b>	<b>649,000</b>	<b>60,561</b>	<b>18,038,365</b>
<b>Total Liabilities</b>	<b>18,109,356</b>	<b>713,428</b>	<b>80,279</b>	<b>18,903,063</b>
<b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	8,812,483	1,474,014	58,147	10,344,644
Restricted for capital and debt service	1,390,400	121,848	-	1,512,248
Unrestricted	1,247,607	220,460	296,045	1,764,112
<b>Total Net Assets</b>	<b>\$ 11,450,490</b>	<b>\$ 1,816,322</b>	<b>\$ 354,192</b>	<b>\$ 13,621,004</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b>Operating Revenues</b>				
Charges for services	\$ 2,095,243	\$ 282,683	\$ 330,085	\$ 2,708,011
Penalty charges	26,209	3,495	3,504	33,208
Connection fees	410,885	1,050	-	411,935
<b>Total Operating Revenues</b>	<u>2,532,337</u>	<u>287,228</u>	<u>333,589</u>	<u>3,153,154</u>
<b>Operating Expenses</b>				
Salaries and benefits	162,109	47,060	47,061	256,230
Maintenance and supplies	159,755	36,286	9,051	205,092
Chemicals	41,374	-	-	41,374
Contract operations	869,072	137,470	161,820	1,168,362
Professional fees	5,957	1,523	923	8,403
Office and advertising	24,690	8,108	7,941	40,739
Landfill fees	-	-	78,518	78,518
Amortization	4,118	1,416	-	5,534
Depreciation	697,613	110,781	9,275	817,669
Rental expense	4,200	2,700	3,900	10,800
Insurance	36,106	10,874	4,901	51,881
Miscellaneous	11,472	1,272	58	12,802
<b>Total Operating Expenses</b>	<u>2,016,466</u>	<u>357,490</u>	<u>323,448</u>	<u>2,697,404</u>
<b>Operating Income (Loss)</b>	<u>515,871</u>	<u>(70,262)</u>	<u>10,141</u>	<u>455,750</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	31,999	2,327	1,712	36,038
Rental income	31,200	-	-	31,200
Other income	134	485	1,545	2,164
Sale of surplus property	(1,375)	202	-	(1,173)
Intergovernmental grants	1,447,409	4,788	-	1,452,197
Breckinridge County debt payment	9,573	-	-	9,573
Insurance recoveries	-	8,907	-	8,907
Gain on refinancing	3,919	-	-	3,919
Interest expense	(510,569)	(27,028)	(2,263)	(539,860)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,012,290</u>	<u>(10,319)</u>	<u>994</u>	<u>1,002,965</u>
<b>Income (Loss) Before Contributions, Special Item, and Transfers</b>	1,528,161	(80,581)	11,135	1,458,715
<b>Capital Contributions</b>	13,000	-	-	13,000
<b>Special Item</b>				
Loss on abandoned assets	(1,901,289)	-	-	(1,901,289)
<b>Transfers In</b>	-	14,047	-	14,047
<b>Transfers Out</b>	<u>(14,047)</u>	<u>-</u>	<u>-</u>	<u>(14,047)</u>
<b>Changes in Net Assets</b>	(374,175)	(66,534)	11,135	(429,574)
<b>Total Net Assets - Beginning of Year</b>	<u>11,824,665</u>	<u>1,882,856</u>	<u>343,057</u>	<u>14,050,578</u>
<b>Total Net Assets - End of Year</b>	<u>\$ 11,450,490</u>	<u>\$ 1,816,322</u>	<u>\$ 354,192</u>	<u>\$ 13,621,004</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 2,525,848	\$ 285,722	\$ 333,108	\$ 3,144,678
Other receipts	16,000	-	-	16,000
Cash payments to suppliers for goods and services	(1,124,398)	(183,892)	(261,685)	(1,569,975)
Cash payments to employees for services	(161,563)	(46,891)	(46,892)	(255,346)
<b>Net Cash Provided by Operating Activities</b>	<b>1,255,887</b>	<b>54,939</b>	<b>24,531</b>	<b>1,335,357</b>
<b>Cash Flows from Noncapital and Related Financing Activities:</b>				
Due from/to other funds	(10,015)	18,149	(10,110)	(1,976)
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(4,565,777)	(30,174)	(1,263)	(4,597,214)
Intergovernmental grants	1,471,522	4,788	-	1,476,310
Payment on water line construction	(1,409)	-	-	(1,409)
Proceeds from short-term debt	76,041	-	-	76,041
Proceeds from long-term debt	3,327,693	-	-	3,327,693
Proceeds from sale of capital assets	500	202	-	702
Principal paid on debt	(1,065,094)	(19,000)	(9,816)	(1,093,910)
Interest paid on debt	(506,734)	(27,226)	(2,263)	(536,223)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,263,258)</b>	<b>(71,410)</b>	<b>(13,342)</b>	<b>(1,348,010)</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	31,983	2,332	1,718	36,033
Other non-operating income and expenses	40,907	485	1,545	42,937
<b>Net Cash Provided by Investing Activities</b>	<b>72,890</b>	<b>2,817</b>	<b>3,263</b>	<b>78,970</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>55,504</b>	<b>4,495</b>	<b>4,342</b>	<b>64,341</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,760,002</b>	<b>340,963</b>	<b>259,253</b>	<b>3,360,218</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,815,506</b>	<b>\$ 345,458</b>	<b>\$ 263,595</b>	<b>\$ 3,424,559</b>
<b>Reconciliation of Operating Income (Loss) to</b>				
<b>Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 515,871	\$ (70,262)	\$ 10,141	\$ 455,750
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	697,613	110,781	9,275	817,669
Amortization	4,118	1,416	-	5,534
Change in assets and liabilities:				
Receivables, net	(16,774)	(1,506)	(481)	(18,761)
Prepaid expenses	21,233	10,444	4,050	35,727
Accounts payable	6,934	3,897	1,377	12,208
Accrued expenses	61	-	-	61
Other liabilities	26,831	169	169	27,169
<b>Total Adjustments</b>	<b>740,016</b>	<b>125,201</b>	<b>14,390</b>	<b>879,607</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,255,887</b>	<b>\$ 54,939</b>	<b>\$ 24,531</b>	<b>\$ 1,335,357</b>
<b>Schedule of Non-Cash Transactions</b>				
Donated capital assets	\$ 13,000	\$ -	\$ -	\$ 13,000

The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hardinsburg (City) is a fifth class city located in Breckinridge County, Kentucky. It operates under a councilmanic form of government providing the following types of services: police, fire, water, sewage, sanitation, and street maintenance. Primary revenue sources are property taxes, insurance premium taxes, license fees, and water, wastewater, and sanitation receipts.

The accounting policies of the City of Hardinsburg conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Reporting Entity

The City's financial statements include the operations of all organizations for which the City Council exercises oversight. Responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The governmental activities reported in the statements are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed mostly by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a department or function and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - Fund financial statements report detailed information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major funds rather than fund types. Nonmajor funds are aggregated and presented in a single column.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Concluded)

The City reports the following governmental funds:

- 1) General Fund - The general fund is a major fund used as the operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- 2) Special Revenue Fund - The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to specified purposes. The Road Fund is the City's only Special Revenue Fund.

The City reports the following major proprietary fund:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide and proprietary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers revenues reported in the governmental funds to be available if collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources in the governmental funds.

Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements.

Capital Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets (Concluded)

For the government-wide financial statements, 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 capitalization threshold of \$1,000. Improvements are capitalized, but the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. General infrastructure assets acquired prior to July 1, 2003 are not reported.

Depreciation is provided in the government-wide financial statements in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The City capitalizes construction period interest as part of the cost of the asset in the proprietary fund. The service lives by type of asset are as follows:

Vehicles and equipment	5 - 20 years
Improvements	10 - 40 years
Infrastructure	10 - 25 years
Buildings	10 - 40 years
Plant	10 - 40 years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted assets are those assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible trade receivables was \$25,793 at June 30, 2010. See Note C for the allowance for estimated uncollectible property taxes.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Investments

Investments consist of certificates of deposit plus accrued interest and state and local government securities.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

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 reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Normally, prior to June 30, the Mayor submits to the City Council a proposed operating budget for the general fund for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means for financing them. Deficit budgets are contrary to state law. Public hearings are conducted to obtain citizen comments on the proposed budget and the budget is legally adopted through passage of an appropriation ordinance by City Council.

Actual expenditures and operating transfers may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

**NOTE C - PROPERTY TAXES**

The City's property taxes are levied before the first day of November on the assessed values as of January 1 for all real and personal property located in the city including vehicles. Property taxes are due December 31 and become delinquent January 1 of the following year. The City's real and personal property tax rate is \$.282 per \$100 valuation, of which \$.252 is for general fund purposes and \$.030 is for fire department purposes. The City's vehicle tax rate is \$.28 per \$100 of assessed value. The City is permitted by the Kentucky Constitution to levy taxes up to \$.75 per \$100 of assessed value, as its population is less than 10,000. The City is well within the maximum tax rate it is allowed to levy.

Delinquent property taxes are stated net of an allowance for estimated uncollectible taxes equal to the delinquent taxes over one year old; therefore, these amounts have not been recorded as revenue. At June 30, 2010, the gross amount of delinquent taxes due was \$13,872, and the allowance for uncollectible taxes was \$12,656. Delinquent taxes over ten years old are not included in the receivable.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE D - CASH AND INVESTMENTS**

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2010, the reported amount of the City's cash and cash equivalents was \$4,131,781 and the bank balance was \$4,118,959.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year-end, deposits of the City were either insured or collateralized with securities held by the pledging financial institution in the City's name.

Investments

The City transfers monthly amounts for bond principal and interest payments into common trust funds, which consist entirely of federated treasury obligations. The City does not have an investment policy for custodial credit risk. Regarding credit risk, \$61,372 of these funds is uninsured and unregistered, with securities held by the counterparty, or by the counterparty's trust department or agent, but not in the City's name. The remaining \$130,006 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$191,378 at year-end, and the balance is subject to investment risks, including possible loss of principal.

Restricted Cash

As discussed in notes F and G, cash is restricted for various legal requirements, such as sinking and reserve accounts, as established by bond ordinances or loan agreements and may be expended only for disbursements allowed under the terms of such. Other cash accounts are reserved for specific projects, and the federated treasury obligations are restricted for bond principal and interest payments.

**NOTE E - RECONCILIATION OF CASH**

For purposes of the Statement of Cash Flows on page 9, cash and cash equivalents consisted of the following:

	<u>June 30, 2010</u>
Cash	\$1,287,303
Certificates of deposit	625,008
Restricted cash	1,320,870
Investments	<u>191,378</u>
Total	<u><u>\$3,424,559</u></u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE F - BONDS PAYABLE**

The construction costs of the City's water and sewer facilities have been financed by the issuance of revenue bonds. A summary of the bonds outstanding follows.

In January 1993, the City of Hardinsburg issued \$1,000,000 in revenue bonds at an interest rate of 5%.

On October 1, 2003, the City issued \$654,400 in refunding revenue bonds with interest rates ranging from 2.06% to 4.435% to refund \$656,000 of outstanding Series 1979 bonds with an interest rate of 5%.

On February 1, 2004, the City issued \$773,000 and \$1,702,000 in refunding revenue bonds with interest rates ranging from 2.0% to 4.375% to refund \$738,000 and \$1,634,000 of outstanding Series 1988 and 1990 bonds, respectively, with interest rates of 5%.

In January 2006, the City issued a bond ordinance authorizing and providing for the issuance and sale of \$7,463,000 of water and sewer revenue bonds for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing water system. The thirty-eight year bonds have a 4.125% interest rate.

In October 2009, the City issued an additional \$1,350,000 of water and sewer revenue bonds to aid in the cost of the construction of additions to the existing water system. The thirty-eight year bonds have a 3.625% interest rate.

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund - All receipts for services are deposited into this fund and disbursed as follows.

Sinking Fund - Revenues shall first be used to pay in monthly installments into the Sinking Fund amounts equal to one-sixth of the next succeeding six-month interest payment to become due and one-twelfth of the principal maturing on the next succeeding principal payment date.

Reserve Fund - Revenues shall next be used each month to pay into the Reserve Fund the amounts required by bond ordinance until the required sum is accumulated.

Operation and Maintenance Fund - Revenues shall next be used each month to pay into the Operation and Maintenance (O&M) Fund such amounts as are necessary for maintenance and operation of the system.

During the fiscal year ended June 30, 2010, the required deposits were made to the various funds as outlined above.

**CITY OF HARDINBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE G - LOANS PAYABLE**

In accordance with an agreement dated April 1, 1989 by the Kentucky Infrastructure Authority (KIA) and the City of Hardinsburg, \$449,000 of debt payable to Rural Development (RD) relating to the Garfield/Irvington water line extension was paid under the RD Loan Acquisition Program. On July 29, 2004, the remaining balance of \$358,742 was refinanced using \$57,799 in a reserve account supplemented with a deferred gain from other pooled reserves of \$50,943 to reduce the new liability to \$250,000. The City makes monthly payments to a Sinking Fund, which will accumulate until sufficient to retire the remaining principal of the debt at that time. At June 30, 2010, the balance in the Sinking Fund was \$61,372 and the loan balance payable to KIA was \$250,000.

During the year ended June 30, 1999, the City of Hardinsburg entered into a loan agreement with KIA. Proceeds of this loan were used to provide utility services to a new detention center. The original amount of the loan was \$131,231 with an interest rate of 1.2%. Payments of \$3,700, which include principal and interest, are required each June 1 and December 1 through the fiscal year 2019. As outlined in the terms of the agreement, the City has met the required balance of \$6,562 in the replacement and maintenance reserve account.

For the fiscal year ended June 30, 2002, the City borrowed \$146,260 from KIA to finance transfer station improvements. The loan is repayable in thirty semi-annual payments of \$5,961, which include interest at 2.7%.

During the year ended June 30, 2003, the City finalized the \$500,000 KIA loan used to help fund the Highway 86 Water Project. The financing arrangement calls for forty semi-annual payments of \$14,940, which include interest at 1.8%, and ten annual transfers of \$16,130 to the replacement and maintenance reserve account.

In 2008, the City finalized a funding agreement with KIA in the amount of \$4.4 million to aid in financing the cost of the new water plant. The capitalization grant for Drinking Water State Revolving Funds (DWSRF) was awarded by the Environmental Protection Agency (EPA), and KIA matched approximately 20%. The agreement requires the loan to be repaid in forty semi-annual payments of \$121,672, which include interest at 1%, and ten annual transfers of \$75,000 to the replacement and maintenance reserve account.

Subsequent to year-end, the City finalized a funding agreement with KIA in the amount of \$1,999,250 to help finance the cost of additional water lines. The loan consisted of 78% Drinking Water State Revolving Funds awarded by the EPA. The loan terms include forty semi-annual payments of \$55,270, which include interest at 1%, and ten annual transfers of \$16,750 to the replacement and maintenance reserve account. At year-end, the City had drawn \$1,977,693 from this loan. The schedule of maturities includes the debt service payments for the final amount of the loan.

**NOTE H - SHORT-TERM DEBT**

The City obtained interim financing from the Kentucky Rural Water Finance Corporation to provide construction funding for the Stephensport water line expansion. During the current fiscal year, the City received loan proceeds of \$76,041. The 3.7% loan was paid out in October 2009 after permanent financing was provided by the \$1,350,000 RD bond issue.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE H - SHORT-TERM DEBT (CONCLUDED)**

	Payable at July 1, 2009	Additions	Reductions	Balance June 30, 2010
<b><u>Business-Type Activities</u></b>				
Interim financing	\$541,058	\$76,041	\$617,099	\$ -

**NOTE I - DEBT MATURITIES**

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2011	\$ 258,600	\$ 478,020	\$ 336,391	\$ 79,784
2012	269,700	468,782	340,142	76,071
2013	280,900	458,824	343,941	72,272
2014	292,200	448,282	347,786	68,428
2015	305,500	437,019	351,678	64,536
2016 - 2020	1,548,800	1,999,093	2,017,588	224,975
2021 - 2025	1,820,000	1,668,365	1,739,126	105,001
2026 - 2030	1,641,600	1,277,270	1,137,145	23,920
2031 - 2035	1,513,100	960,868	-	-
2036 - 2040	1,650,500	648,538	-	-
2041 - 2045	2,016,100	285,214	-	-
2046 - 2048	183,300	13,398	-	-
Totals	<u>\$11,780,300</u>	<u>\$9,143,673</u>	<u>\$6,613,797</u>	<u>\$714,987</u>

As mentioned in Note G, the schedule of debt maturities includes the final draw of \$21,557 (received subsequent to year-end) on the KIA loan for \$1,999,250; however, the amount due at year-end as reflected in the Statement of Net Assets was \$1,977,693.

**NOTE J - CHANGES IN GENERAL LONG-TERM DEBT**

Changes in long-term liability obligations, including current portions, for the year ended June 30, 2010 were as follows:

	Payable at July 1, 2009	Additions	Reductions	Balance June 30, 2010
<b><u>Business-Type Activities</u></b>				
Customer deposits payable	\$ 180,210	\$ 93,975	\$ 67,690	\$ 206,495
Due on water line construction	27,718	-	1,409	26,309
Loans payable	4,857,358	1,977,693	242,811	6,592,240
Revenue bonds payable	10,664,300	1,350,000	234,000	11,780,300
Deferred gain on refinancing	31,350	-	3,919	27,431
Unamortized bond premium	654	-	73	581
	<u>\$15,761,590</u>	<u>\$3,421,668</u>	<u>\$ 549,902</u>	<u>\$18,633,356</u>

Long-term liabilities other than long-term debt have been liquidated in the Proprietary Funds.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE K - PENSION PLANS**

County Employees Retirement System

Plan Description - The City staff participates in the County Employees Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing multiple-employer public employee retirement system that covers substantially all regular full-time employees of each county, non-certified school board employees, and any additional eligible local agencies electing to participate in the System. At June 30, 2010, there were 1,396 local governments participating in CERS, which provides for retirement, disability, and death benefits.

The Kentucky Retirement System (KRS) issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or by visiting the website at [www.kyret.ky.gov](http://www.kyret.ky.gov).

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2010, non-hazardous and hazardous plan participating employees who began participating with KRS prior to September 1, 2008 contributed 5% and 8%, respectively, of creditable compensation to CERS. Non-hazardous and hazardous employees who began participating with KRS on or after September 1, 2008 contributed 6% and 9%, respectively, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. For the year ended June 30, 2010, participating employers contributed 16.16% and 32.97% of members' compensation for non-hazardous and hazardous gross pay, respectively. The City's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2010	\$372,473	\$25,037	\$92,669	\$117,706
2009	\$278,945	\$17,978	\$58,649	\$ 76,627
2008	\$286,540	\$18,288	\$69,706	\$ 87,994

Benefits under the plan will vary based on final compensation, years of service, and other factors as fully described in the plan documents. Retired employees covered under the plan receive some health care benefits depending on their length of service and date of employment. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

The City also participates in the Kentucky Public Employees 401(k) Deferred Compensation (Plan II). Participation in the plan is voluntary and contributions are withheld from participating employees' wages. Employee contributions were \$1,200 for the fiscal year. No contributions were made by the City.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE L - REDUCTIONS IN FUND EQUITY**

No funds of the City ended the year with a deficit balance. However, the Operations and Maintenance Fund, the Waste Water Treatment Fund, the General Fund, and the Road Fund experienced a current year deficit of revenues over expenses/expenditures resulting in a corresponding reduction of net assets/fund balance.

**NOTE M - DEFERRED REVENUE**

In April 2008, the City entered into a lease agreement with Bluegrass Cellular whereby the City agreed to lease two towers for five years. The annual sum of \$31,200 was made in advance for the term June 2010 to May 2011. Accordingly, \$28,600 is reported as deferred revenue on the Statement of Net Assets.

**NOTE N - LEASED EQUIPMENT**

The gross amount of assets purchased under capital leases and the accumulated amortization for each class are as follows:

	Cost	Accumulated Amortization
Buildings and improvements	\$ 12,016	\$ 12,016
Equipment and vehicles	\$349,955	\$332,570

This information was available only for assets acquired since November 1994. Any assets acquired by lease prior to that time have not been segregated from assets acquired by other means. Depreciation expense includes \$13,908 in amortization expense for assets purchased under capital leases.

**NOTE O - COMMITMENTS AND CONTINGENCIES**

The City receives state grants for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of city management, such disallowances, if any, will not be significant.

As referenced in Note K, the City's employees are enrolled in the County Employees' Retirement System (CERS). At June 30, 2010, non-hazardous and hazardous CERS had unfunded actuarial accrued liabilities of \$2.91 billion and \$9.23 million for pension funds, respectively, and \$1.87 billion and \$9.82 million for insurance funds, respectively. The Kentucky General Assembly made significant changes to CERS on June 27, 2008 to benefits and funding; nevertheless, future contributions by employers may be dramatically higher. The employer contribution rate for 2010-2011 is 16.93% non-hazardous and 33.25% hazardous.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE O - COMMITMENTS AND CONTINGENCIES (CONCLUDED)**

The City and Professional Services Group, Inc. (PSG) entered into an agreement to employ the services of PSG through June 30, 2020 for the management of the water plant, water distribution system, wastewater plant, wastewater collection system, street network, and garbage collection service. The annual fee for the current fiscal year was \$1,350,679, which included an annual repair and maintenance allowance of \$122,400. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2010-2011 is \$1,439,313.

In April 2010, the City accepted a bid of \$78,290 for the inspection and cleaning of sewer lines. This project will be funded by a \$100,000 state grant and up to \$50,000 of City funds. Construction in process on the Schedule of Capital Assets includes \$1,006 in costs incurred to date on this project, which is expected to cost \$120,217. Once this phase of the project is completed, the City will use the \$550,000 loan awarded in October 2009 by the Clean Water State Revolving Fund to repair or replace the sewer lines as needed.

The City anticipates receiving a \$2 million RD loan, \$784,000 RD grant, and \$3,251,590 Drinking Water State Revolving Fund loan for additional water line extensions to McQuady, also known as the McQuady III/Area 259 project. The City will also use \$253,000 in connection fees and \$333,455 of RD grant contingency money left from the Stephensport project. Construction in process on the Schedule of Capital Assets includes \$54,268 in costs incurred to date on this project, which is expected to cost \$6.62 million.

**NOTE P - ACCRUED EXPENSES**

Accrued expenses on the Statement of Net Assets include \$16,302 due for insurance premium tax refunds. An insurance company erroneously remitted the amount to the City and subsequently requested a refund. Presently the company is using the overpayment as a credit to apply toward its quarterly insurance premium tax remittances. If the company decides to request reimbursement for the overpayment, the City would be obligated to make payment in full.

**NOTE Q - WATER CONTRACTS**

The City has contracts with the City of Irvington, Kentucky (Irvington) and the Breckinridge County Fiscal Court (County). Irvington pays Hardinsburg for water usage at a rate that is adjustable annually based on costs of operating the water plant. Irvington currently pays \$2.50 per thousand gallons of consumption and approximately \$1,417 per month to fund its portion of the construction debt service. For the year ended June 30, 2010, the City collected \$115,914 in water revenue and \$17,004 for the construction debt service from Irvington. The County reimbursed the City \$9,573 for the year to service the debt on a water line extension to the Breckinridge County Detention Center.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE Q - WATER CONTRACTS (CONCLUDED)**

In August 2002, the City entered into an agreement with Hardin County Water District (HCWD) whereby they would provide water to the City at the rate of \$1.92 per thousand gallons of water used and a fee each time a connection is made. The City paid for the meter vault and tie-in to HCWD's system, but HCWD will maintain the connection and meter. The City resorts to this backup system in the event its own water plant is pumped to capacity or shut down for repairs. For the year ended June 30, 2010, the City spent \$7,262 on water purchased from HCWD.

In February 2009, the City entered into a forty-year contract with the City of Cloverport, Kentucky (Cloverport), whereby the City will sell water to Cloverport as a wholesale water customer. The initial rate is \$2.14 per thousand gallons of consumption, subject to a minimum of 3.6 million gallons per month or \$7,704. The wholesale rate is subject to increase twenty-four months after the execution date of the agreement. For the year ended June 30, 2010, the City billed Cloverport \$9,341 for water.

**NOTE R - COMPLETED CONSTRUCTION PROJECTS**

Prior to year-end, the City completed the water line expansion in the Stephensport area at a cost of \$2,981,961. Funding for the project included an RD grant of \$174,395, RD loan proceeds of \$748,366, a KIA/DWSRF loan for \$1,999,250, and \$59,950 in water connection fees. The cost of the project included \$31,298 of capitalized interest.

The City also completed \$1,815,167 of water line extensions along US 60 and Webb Road. The City used \$1.15 million of state grants, RD grant proceeds of \$136,540, RD loan proceeds of \$523,860, and \$4,767 of City funds to finance the project.

**NOTE S - SUBSEQUENT EVENTS**

In August 2010, the City awarded the bid for the master meter SCADA unit at the Cloverport site for \$21,200, and in December 2010, it accepted a bid of \$81,691 for new water meters.

Also subsequent to year-end, the City was awarded a \$17,000 federal grant to be used for a walking trail at the new city park, a \$280,000 loan/\$120,000 grant for sewer repairs at a trailer park, and a \$2.6 million loan/\$1.4 million grant for water line extensions (Areas 6 and 8).

**NOTE T - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 can be found on page 28 in the Schedule of Capital Assets. Depreciation expense was charged to functions in the Statement of Activities as follows:

General government	\$ 81,496
Streets and maintenance	1,563
Police department	26,378
Fire department	<u>104,203</u>
	<u>\$213,640</u>



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE U - CONTRIBUTED CAPITAL**

The City accepted one water line valued at \$13,000 into its system.

**NOTE V - SPECIAL ITEM**

Prior to 2007, the City utilized a water treatment plant located on Rough River Lake, which was abandoned in favor of a new reverse osmosis plant on the Ohio River. As it has been determined that the old plant has no further value to the City's operations, its remaining book value of \$1,901,289 has been written off. This action resulted in a corresponding one-time loss in the Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds and the Statement of Activities.

**NOTE W - INTERFUND BALANCES AND TRANSFERS**

The Operations and Maintenance Fund transferred equipment with a book value of \$14,047 to the Waste Water Treatment Fund.

The City makes monthly payments to PSG for a repairs and maintenance contract (see Note O) and allocates the payments based on a pre-determined percentage. At year-end, the expenses were reallocated to each fund based on the actual charges. As a result, the following due to/from accounts were set up to reimburse the funds that had overpaid.

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>
General	O&M	\$ 1,976
WWT	Sanitation	10,110
WWT	O&M	8,039
		<u>\$20,125</u>

**NOTE X - INSURANCE RECOVERIES**

The City received \$12,130 of insurance proceeds for the impairment of capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property taxes	\$ 353,550	\$ 357,543	\$ 358,024	\$ 481
Insurance premium taxes	237,000	226,075	233,558	7,483
Business licenses	12,500	12,063	12,313	250
Auto licenses and stickers	27,600	26,277	26,295	18
Building permits	1,000	1,490	1,490	-
Intergovernmental revenues	41,850	106,611	115,365	8,754
Franchise fees	37,704	36,009	33,417	(2,592)
Subscription fees	12,300	12,075	12,140	65
Rental income	11,880	12,455	12,470	15
Interest income	10,000	6,410	6,271	(139)
Miscellaneous	10,275	17,426	16,485	(941)
Donations	-	135	135	-
<b>Total Revenues</b>	<u>755,659</u>	<u>814,569</u>	<u>827,963</u>	<u>13,394</u>
<b>Expenditures</b>				
Current:				
General government	137,885	123,879	117,324	6,555
Police department	315,785	358,702	347,970	10,732
Fire department	62,000	56,100	48,374	7,726
Streets and maintenance	119,141	123,521	125,536	(2,015)
Capital outlay	152,100	200,852	195,616	5,236
<b>Total Expenditures</b>	<u>786,911</u>	<u>863,054</u>	<u>834,820</u>	<u>28,234</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(31,252)</u>	<u>(48,485)</u>	<u>(6,857)</u>	<u>41,628</u>
<b>Other Financing Sources</b>				
Proceeds from sale of fixed assets	-	1,103	1,103	-
Insurance recoveries	-	35,268	35,267	(1)
<b>Total Other Financing Sources</b>	<u>-</u>	<u>36,371</u>	<u>36,370</u>	<u>(1)</u>
<b>Net Changes in Fund Balance</b>	(31,252)	(12,114)	29,513	41,627
<b>Fund Balance - Beginning of Year</b>	<u>535,000</u>	<u>585,457</u>	<u>926,185</u>	<u>340,728</u>
<b>Fund Balance - End of Year</b>	<u>\$ 503,748</u>	<u>\$ 573,343</u>	<u>\$ 955,698</u>	<u>\$ 382,355</u>

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE A - BUDGET**

The City prepares its financial statements using accounting principles generally accepted in the United States of America (GAAP), but the budget is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

The actual results of operations are presented in accordance with GAAP. All governmental fund budgets are maintained on the cash basis (budgetary basis) of accounting, which is a comprehensive basis of accounting other than GAAP. The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. A reconciliation of the different bases of revenue and expenditure recognition for the year ended June 30, 2010, is as follows:

Revenues, GAAP Basis	\$817,638
<i>Add:</i> Revenue recognized in current year budget	10,325
Revenues, Budgetary Basis	\$827,963
Other Financing Source, GAAP Basis	\$ 13,233
<i>Add:</i> Revenue recognized in current year budget	23,137
Other Financing Sources, Budgetary Basis	\$ 36,370

**NOTE B - BUDGET SHORTFALL**

For certain line items, the General Fund experienced an excess of outlays over final budget appropriations.

SUPPLEMENTARY INFORMATION

CITY OF HARDINSBURG, KENTUCKY  
 BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND  
 JUNE 30, 2010

	<b>Special Revenue</b>
	<b>Road Fund</b>
<b><u>Assets</u></b>	
Cash	\$ 8,376
Receivables:	
Intergovernmental	2,703
<b>Total Assets</b>	<b>\$ 11,079</b>
 <b><u>Fund Balance</u></b>	
Unreserved:	
Designated for street repair	\$ 11,079
<b>Total Fund Balance</b>	<b>\$ 11,079</b>

**CITY OF HARDINSBURG, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE -  
 NONMAJOR GOVERNMENTAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Special Revenue</b>
	<b>Road Fund</b>
<b>Revenues</b>	
Interest income	\$ 111
Intergovernmental revenues:	
State highway grants	43,664
<b>Total Revenues</b>	<b>43,775</b>
<b>Expenditures</b>	
Capital outlay	45,000
<b>Deficiency of Revenues Over Expenditures</b>	<b>(1,225)</b>
<b>Net Changes in Fund Balance</b>	<b>(1,225)</b>
<b>Fund Balance - Beginning of Year</b>	<b>12,304</b>
<b>Fund Balance - End of Year</b>	<b>\$ 11,079</b>

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

	Basis			Depreciation				Net Capital Assets June 30, 2010	
	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Balance July 1, 2009	Additions	Deletions		Balance June 30, 2010
<b>Governmental Activities:</b>									
<b>Not Depreciated:</b>									
Land	\$ 241,645	\$ -	\$ -	\$ 241,645	\$ -	\$ -	\$ -	\$ -	\$ 241,645
<b>Depreciated:</b>									
Buildings and improvements	641,614	6,197	-	647,811	212,444	22,672	-	235,116	412,695
Furniture and fixtures	61,366	1,015	-	62,381	35,945	5,920	-	41,865	20,516
Equipment	299,642	89,299	9,500	379,441	207,077	39,992	7,600	239,469	139,972
Vehicles	741,414	31,239	-	772,653	278,088	80,735	-	358,823	413,830
Parks	79,496	15,044	-	94,540	45,158	1,896	-	47,054	47,486
Infrastructure	638,971	97,822	-	736,793	221,187	62,425	-	283,612	453,181
	<u>2,462,503</u>	<u>240,616</u>	<u>9,500</u>	<u>2,693,619</u>	<u>999,899</u>	<u>213,640</u>	<u>7,600</u>	<u>1,205,939</u>	<u>1,487,680</u>
	<u>\$ 2,704,148</u>	<u>\$ 240,616</u>	<u>\$ 9,500</u>	<u>\$ 2,935,264</u>	<u>\$ 999,899</u>	<u>\$ 213,640</u>	<u>\$ 7,600</u>	<u>\$ 1,205,939</u>	<u>\$ 1,729,325</u>
<b>Business-Type Activities:</b>									
<b>Not Depreciated:</b>									
Land	\$ 258,661	\$ -	\$ -	\$ 258,661	\$ -	\$ -	\$ -	\$ -	\$ 258,661
Construction in process	1,070,736	3,760,210	4,775,672	55,274	-	-	-	-	55,274
	<u>1,329,397</u>	<u>3,760,210</u>	<u>4,775,672</u>	<u>313,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,935</u>
<b>Depreciated:</b>									
Buildings and improvements	309,083	-	5,000	304,083	89,491	9,948	5,000	94,439	209,644
Equipment	473,091	154,177	585	626,683	441,519	15,329	585	456,263	170,420
Vehicles	137,159	19,983	1,174	155,968	120,373	6,795	1,174	125,994	29,974
Treatment plants	19,120,528	27,325	4,079,791	15,068,062	2,975,399	379,062	2,200,974	1,153,487	13,914,575
Distribution system	10,004,636	4,928,713	232,717	14,700,632	2,530,193	298,533	194,323	2,634,403	12,066,229
Waste water plant	3,781,667	35,221	6,396	3,810,492	1,767,893	108,002	20,442	1,855,453	1,955,039
	<u>33,826,164</u>	<u>5,165,419</u>	<u>4,325,663</u>	<u>34,665,920</u>	<u>7,924,868</u>	<u>817,669</u>	<u>2,422,498</u>	<u>6,320,039</u>	<u>28,345,881</u>
	<u>\$ 35,155,561</u>	<u>\$ 8,925,629</u>	<u>\$ 9,101,335</u>	<u>\$ 34,979,855</u>	<u>\$ 7,924,868</u>	<u>\$ 817,669</u>	<u>\$ 2,422,498</u>	<u>\$ 6,320,039</u>	<u>\$ 28,659,816</u>



**CITY OF HARDINSBURG, KENTUCKY  
LIST OF COUNCIL MEMBERS  
JUNE 30, 2010**

Water System City of Hardinsburg, Kentucky

Telephone Number (270) 756-2213

<u>Position</u>	<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Mayor	Wayne Macy	Hardinsburg, Kentucky	12-31-10
Council Member	Darla Wethington	Hardinsburg, Kentucky	12-31-10
Council Member	Wilma Thomas	Hardinsburg, Kentucky	12-31-10
Council Member	Ruth Ann Skillman	Hardinsburg, Kentucky	12-31-10
Council Member	Nettie Parker	Hardinsburg, Kentucky	12-31-10
Council Member	Jim Miller	Hardinsburg, Kentucky	12-31-10
Council Member	Ints Kampars	Hardinsburg, Kentucky	12-31-10
City Clerk/Treasurer	Mary Jo Hess	Hardinsburg, Kentucky	N/A

INDEPENDENT AUDITORS' REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577  
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

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## **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 Hardinsburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, business-type activities, major fund, and remaining fund information of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated February 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 and 10-2 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 7, 2011.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the city council, regulatory agencies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 7, 2011

INDEPENDENT AUDITORS' REPORT AND SCHEDULES  
REQUIRED BY OMB CIRCULAR A-133



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577  
Hardinsburg, Kentucky 40143

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Honorable Mayor and Members of  
the City Council  
City of Hardinsburg, Kentucky

### Compliance

We have audited the City of Hardinsburg, Kentucky's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. These require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the city council, regulatory agencies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 7, 2011

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Federal Agency/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>Environmental Protection Agency</u></b>		
Passed through State of Kentucky:		
Capitalization Grants for Drinking Water State Revolving Funds *	66.468	\$ 1,191,605
<b><u>U.S. Department of Agriculture</u></b>		
Water and Waste Disposal Systems for Rural Communities *	10.760	1,171,838
<b><u>Department of Homeland Security</u></b>		
Passed through State of Kentucky:		
Homeland Security Grant Program	97.067	<u>3,091</u>
<b>Total</b>		<u><u>\$ 2,366,534</u></u>

\* Denotes major program

**Notes to Schedule:**

1. This schedule is prepared on the accrual basis of accounting.
2. The City did not have any noncash awards during the fiscal year.



**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Section I: Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- |   |   |   |
|---|---|---|
| Any material weakness(es) identified?                     | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no                       |
| Any significant deficiency(ies) identified?               | <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> none reported |
| Any noncompliance material to financial statements noted? | <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no            |

**Federal Awards**

Internal control over major programs:

- |   |                              |   |
|---|------------------------------|---|
| Any material weakness(es) identified?       | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no            |
| Any significant deficiency(ies) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?

- |                              |  |
|------------------------------|--|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|------------------------------|--|

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
•Water and Waste Disposal Systems for Rural Communities	10.760
•Capitalization Grants for Drinking Water State Revolving Funds	66.468

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

- |  |                              |  |
|--|------------------------------|--|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

**Section II: Financial Statement Findings**

Findings 10-1 and 10-2.

**Section III: Federal Awards Findings**

None.

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Finding: 10-1 (Repeat)**

<i>Criteria:</i>	Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Condition:</i>	Certain material adjustments were required as part of the audit process.
<i>Cause:</i>	Traditionally, small governments have expected such adjustments to be part of the audit process. However, recent pronouncements have placed a greater expectation on the government to make all material adjustments itself with little opportunity to develop the necessary expertise.
<i>Effect:</i>	Assets, liabilities, revenues, and expenditures were overstated or understated.
<i>Recommendation:</i>	Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all known adjustments have been made.
<i>Management Response:</i>	<i>The City will keep a qualified person on retainer to review the adjustments prior to the audit and possibly have them review the budget on a quarterly basis.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Finding: 10-2 (Repeat)**

<i>Criteria:</i>	Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of its assets, liabilities, and fund balance and its statement of revenues, expenditures, and changes in fund balance, including the notes to financial statements, in conformity with accounting principles generally accepted in the United States of America.
<i>Condition:</i>	As part of the audit, management requested us to prepare a draft of the City's financial statements, including the related notes to financial statements. Management accepts responsibility for the financial statements; however, management does not have the ability to evaluate the completeness of financial statements and related disclosures.
<i>Cause:</i>	During our audit, we noted that the City has a lack of sufficient personnel with skills, training, and familiarity with certain complex technical accounting pronouncements that have or may affect the City's financial statements and disclosures. The existence of material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations.
<i>Effect:</i>	The absence of the ability to perform this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.
<i>Recommendation:</i>	Management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions. To provide oversight of the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.
<i>Management Response:</i>	<i>The City will consider hiring an accountant for a limited time to assist and train the City Clerk/Treasurer in the development of internal controls and procedures in maintaining and monitoring the budget process in order to prevent the aforementioned deficiencies from reoccurring.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Finding 07-1**

*Status:*

This was partially corrected this fiscal year. We will continue to work on the planned action during the next fiscal year.

## MANAGEMENT LETTER



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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## MANAGEMENT LETTER

Honorable Mayor and Council Members  
City of Hardinsburg  
Hardinsburg, Kentucky

In planning and performing our audit of the basic financial statements of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2010, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal control and operating efficiency. The paragraphs below summarize our comments and suggestions regarding the matters. A separate report dated February 7, 2011, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated February 7, 2011, on the basic financial statements of the City of Hardinsburg.

### *PRIOR YEAR*

Much improvement was noted in the use of receiving reports; however, some disbursements were made with no evidence of the goods or services having been received. We continue to recommend that a signed receiving report or packing slip accompany invoices for payment (unless payment is for utilities and continuing contracts).

As in the prior year, we noted several instances in which the City did not have signed copies of various documents relating to the water plant construction. Although signed copies can usually be obtained from the project engineer, we continue to recommend that the City make more effort to obtain the signed originals and retain the documentation in its files.

The City's agreement with Professional Services Group (PSG) allowed an annual maintenance and repair limit of \$122,400, and overages were billed at the end of the fiscal year. As in prior years, it was not City practice to obtain any support for the amounts billed to maintenance and repair. During the current year we again noted capital expenditures that were charged to the repairs and maintenance account and therefore not capitalized by the City. We continue to recommend that the City review the invoices charged to the maintenance and repair allowance for reasonableness and to determine whether items should be capitalized. We also recommend that the City renegotiate its contract with PSG to have the actual repairs and maintenance charges billed monthly instead of making estimated payments. This will improve the City's cash flow and allow for a more accurate allocation of expenses to each fund.

In the prior year, we noted three instances where hours paid did not correspond to the employee time cards, resulting in underpayments. We only noted one uncorrected error during the current year. We continue to recommend that more care be taken to ensure employees are paid no more or no less than the compensation to which they are entitled.

In the prior year, we recommended that the City make transfers of the excess funds in its O&M account according to the bond requirements and take advantage of higher-yielding instruments. The City transferred \$500,000 to certificates of deposit during the fiscal year.

As in the prior year, we noted that two employees were refunded retirement contributions mistakenly withheld on prior checks. As the original contributions were deducted from wages prior to the calculation of withholding taxes, the refunds should have been subject to payroll taxes. We continue to recommend that future refunds be issued through the payroll system for proper tax treatment.

In the prior year, we noted that the City provides some employees with the use of vehicles for commuting and cell phones. Any personal use of these employer-provided services falls outside of the working condition fringe benefit exclusion and is taxable income and therefore subject to the withholding of payroll taxes. We recommended that the City monitor its policies regarding these issues and adhere to the documentation requirements for vehicles. The City discontinued the use of cell phones July 1, 2010.

During the prior year audit, we discovered \$8,211 in overpayments to vendors. During the current year, the City received refunds from those vendors, and we noted no additional overpayments.

#### *CURRENT YEAR*

We noted some problems with the records for accrued vacation and sick leave. The starting month of accrual was incorrect for two new employees. There were formula errors in the records for one employee, and another had sick time for the month added twice. We recommend that the City follow all guidelines of the personnel policy and continue their efforts to ensure the accrued time records are accurate. We also recommend that the City continue its efforts to utilize the tracking program for accrued time in the payroll system.

During the audit, we noted that a vendor's invoice for \$19,039 included items which had not been approved on the original \$15,890 purchase order. The department head explained that the vendor mistook a request for a quote as an order and shipped the items, which the department began using. In the future, we recommend that items received and invoiced be compared to the purchase order and any discrepancies be resolved prior to payment.

The City paid \$48,115 in overtime during the fiscal year, which comprised 11% of its total payroll. The police department alone accounted for 87.3%, or \$42,027, of the total overtime paid, which was an increase of \$23,163 over the prior year. Three employees accounted for \$33,252 of this overtime pay. Regular wages also increased over the prior year by \$27,090. These additional wages create substantial expenditures to the City, both for the base pay and the resulting additions to matching taxes and retirement (approximately \$20,105 for the current fiscal year). We recommend that the City schedule duties in a manner that aids in overtime reduction and require prior approval for extra time where possible. In addition, the City should monitor its budget more closely to help keep expenditures more reasonable.

We will be pleased to discuss any of these matters with you and, if desired, assist you in implementing any of these suggestions. This report is intended for the information of the city council and management and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 7, 2011