

CITY OF HARDINSBURG, KENTUCKY  
FINANCIAL STATEMENTS WITH ACCOMPANYING  
INFORMATION  
For the Year Ended June 30, 2011  
and  
REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS

**CITY OF HARDINSBURG, KENTUCKY  
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# 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

Telephone (270) 756-5704  
FAX (270) 756-5927

## **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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. 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 respective financial position of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Hardinsburg, Kentucky, as of June 30, 2011, and the respective 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 1, 2012 on our consideration of City of Hardinsburg, Kentucky's internal control over financial reporting and on 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 pages 26 and 27 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 28 and 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 page 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.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

February 1, 2012

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 968,387	\$ 1,526,044	\$ 2,494,431
Receivables, net:			
Accounts - trade	-	289,319	289,319
Franchise fees	3,590	-	3,590
Miscellaneous	7,474	17,383	24,857
Taxes	59,442	-	59,442
Intergovernmental	11,230	-	11,230
Prepaid expenses	561	17,556	18,117
<b>Total Current Assets</b>	<b>1,050,684</b>	<b>1,850,302</b>	<b>2,900,986</b>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,181,224	1,181,224
Investments	-	202,944	202,944
Net capital assets	1,638,232	29,957,293	31,595,525
Unamortized financing costs	-	79,846	79,846
<b>Total Noncurrent Assets</b>	<b>1,638,232</b>	<b>31,421,307</b>	<b>33,059,539</b>
<b>Total Assets</b>	<b>\$ 2,688,916</b>	<b>\$ 33,271,609</b>	<b>\$ 35,960,525</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 13,387	\$ 43,299	\$ 56,686
Due on construction contracts	-	1,199,239	1,199,239
Accrued expenses	13,034	6,690	19,724
Interest payable	-	74,174	74,174
Accrued vacation	4,857	6,999	11,856
Deferred revenue	175	28,600	28,775
Bonds and loans payable	-	623,905	623,905
<b>Total Current Liabilities</b>	<b>31,453</b>	<b>1,982,906</b>	<b>2,014,359</b>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	213,075	213,075
Due on water line construction	-	25,839	25,839
Loans payable	-	5,937,263	5,937,263
Revenue bonds payable	-	11,252,000	11,252,000
Deferred gain on refinancing	-	23,512	23,512
Unamortized bond premium	-	509	509
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>17,452,198</b>	<b>17,452,198</b>
<b>Total Liabilities</b>	<b>31,453</b>	<b>19,435,104</b>	<b>19,466,557</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,638,232	11,000,711	12,638,943
Restricted for capital and debt service	-	1,384,168	1,384,168
Unrestricted	1,019,231	1,451,626	2,470,857
<b>Total Net Assets</b>	<b>2,657,463</b>	<b>13,836,505</b>	<b>16,493,968</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,688,916</b>	<b>\$ 33,271,609</b>	<b>\$ 35,960,525</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

<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	\$ 182,355	\$ -	\$ 7,932	\$ 3,972	\$ (170,451)	\$ -	\$ (170,451)
Streets and maintenance	103,403	-	-	49,316	(54,087)	-	(54,087)
Police department	383,746	2,212	29,671	-	(351,863)	-	(351,863)
Fire department	162,769	10,890	18,249	-	(133,630)	-	(133,630)
<b>Total Governmental Activities</b>	<b>832,273</b>	<b>13,102</b>	<b>55,852</b>	<b>53,288</b>	<b>(710,031)</b>	<b>-</b>	<b>(710,031)</b>
<b>Business-Type Activities</b>							
Water	2,805,014	2,499,375	-	343,028	-	37,389	37,389
Sewer	370,783	316,178	-	100,000	-	45,395	45,395
Sanitation	311,656	344,591	-	-	-	32,935	32,935
<b>Total Business-Type Activities</b>	<b>3,487,453</b>	<b>3,160,144</b>	<b>-</b>	<b>443,028</b>	<b>-</b>	<b>115,719</b>	<b>115,719</b>
<b>Total Primary Government</b>	<b>\$ 4,319,726</b>	<b>\$ 3,173,246</b>	<b>\$ 55,852</b>	<b>\$ 496,316</b>	<b>\$ (710,031)</b>	<b>\$ 115,719</b>	<b>\$ (594,312)</b>
<b>General Revenues</b>							
					\$ 378,661	\$ -	\$ 378,661
					216,985	-	216,985
					34,517	-	34,517
					38,244	-	38,244
					5,307	36,881	42,188
					27,396	62,901	90,297
					<b>701,110</b>	<b>99,782</b>	<b>800,892</b>
					(8,921)	215,501	206,580
					2,666,384	13,621,004	16,287,388
					<b>\$ 2,657,463</b>	<b>\$ 13,836,505</b>	<b>\$ 16,493,968</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2011**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 968,387
Receivables, net:	
Franchise fees	3,590
Miscellaneous	7,474
Intergovernmental	11,230
Taxes	59,442
Prepaid expenses	561
	<b>Total Assets</b>
	\$ 1,050,684
<b><u>Liabilities</u></b>	
Accounts payable	\$ 13,387
Accrued expenses	13,034
Deferred revenue	175
	<b>Total Liabilities</b>
	26,596
<b><u>Fund Balance</u></b>	
Nonspendable	561
Restricted	19,088
Assigned	105,408
Unassigned	899,031
	<b>Total Fund Balance</b>
	1,024,088
	<b>Total Liabilities and Fund Balance</b>
	\$ 1,050,684

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

<b>Total Governmental Fund Balance</b>	<b>\$ 1,024,088</b>
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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 fund.	1,638,232
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Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental fund.	(4,857)
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<b>Total Net Assets of Governmental Activities</b>	<b>\$ 2,657,463</b>
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The accompanying notes are an integral part of this financial statement.

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 378,661
Insurance premium taxes	216,985
Business licenses	12,208
Auto licenses and stickers	25,012
Building permits	1,024
Interest income	5,307
Miscellaneous	29,296
Donations	13,971
Franchise fees	34,517
Subscription fees	10,890
Intergovernmental revenues	95,169
<b>Total Revenues</b>	<b>823,040</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	43,740
Administrative travel	2,828
Utilities	13,318
Insurance	4,049
Industrial development	2,500
Office expense	4,529
Advertising and printing	1,779
Professional fees	11,362
Repairs and maintenance	5,092
Supplies	3,820
Miscellaneous	1,610
Streets and maintenance	101,840
Police department	355,877
Fire department	56,250
Capital outlay	130,758
<b>Total Expenditures</b>	<b>739,352</b>
<b>Excess of Revenues Over Expenditures</b>	<b>83,688</b>
<b><u>Other Financing Sources</u></b>	
Insurance recoveries - impaired assets	313
<b>Net Changes in Fund Balance</b>	<b>84,001</b>
<b>Fund Balance - Beginning of Year (as Originally Stated)</b>	<b>929,008</b>
Restatement	11,079
<b>Fund Balance - Beginning of Year (Restated)</b>	<b>940,087</b>
<b>Fund Balance - End of Year</b>	<b>\$ 1,024,088</b>

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 BALANCE - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

**Net Changes in Fund Balance - Governmental Fund** \$ 84,001

Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports 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 depreciation exceeded capital outlay in the current period. (91,093)

In the Statement of Activities, vacation leave is measured by the amount earned during the year. In the governmental fund, however, expenditures for this item are measured by the amount actually paid. (1,829)

**Changes in Net Assets of Governmental Activities** \$ (8,921)

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,000,348	\$ 229,559	\$ 296,137	\$ 1,526,044
Receivables, net:				
Accounts - trade	229,527	30,984	28,808	289,319
Miscellaneous	15,547	918	918	17,383
Due from other funds	-	-	4,700	4,700
Prepaid expenses	13,487	2,170	1,899	17,556
<b>Total Current Assets</b>	<b>1,258,909</b>	<b>263,631</b>	<b>332,462</b>	<b>1,855,002</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,098,978	82,246	-	1,181,224
Investments	178,083	24,861	-	202,944
Net capital assets	27,552,931	2,277,632	126,730	29,957,293
Unamortized financing costs	57,192	22,654	-	79,846
<b>Total Noncurrent Assets</b>	<b>28,887,184</b>	<b>2,407,393</b>	<b>126,730</b>	<b>31,421,307</b>
<b>Total Assets</b>	<b>\$ 30,146,093</b>	<b>\$ 2,671,024</b>	<b>\$ 459,192</b>	<b>\$ 33,276,309</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 16,568	\$ 19,932	\$ 6,799	\$ 43,299
Due on construction contracts	1,075,670	123,569	-	1,199,239
Accrued expenses	6,690	-	-	6,690
Interest payable	63,264	10,910	-	74,174
Accrued vacation	5,394	730	875	6,999
Due to other funds	-	4,700	-	4,700
Deferred revenue	28,600	-	-	28,600
Bonds and loans payable	591,548	22,000	10,357	623,905
<b>Total Current Liabilities</b>	<b>1,787,734</b>	<b>181,841</b>	<b>18,031</b>	<b>1,987,606</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	213,075	-	-	213,075
Due on water line construction	25,839	-	-	25,839
Loans payable	5,887,059	-	50,204	5,937,263
Revenue bonds payable	10,625,000	627,000	-	11,252,000
Deferred gain on refinancing	23,512	-	-	23,512
Unamortized bond premium	509	-	-	509
<b>Total Noncurrent Liabilities</b>	<b>16,774,994</b>	<b>627,000</b>	<b>50,204</b>	<b>17,452,198</b>
<b>Total Liabilities</b>	<b>18,562,728</b>	<b>808,841</b>	<b>68,235</b>	<b>19,439,804</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	9,406,825	1,527,717	66,169	11,000,711
Restricted for capital and debt service	1,277,061	107,107	-	1,384,168
Unrestricted	899,479	227,359	324,788	1,451,626
<b>Total Net Assets</b>	<b>11,583,365</b>	<b>1,862,183</b>	<b>390,957</b>	<b>13,836,505</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 30,146,093</b>	<b>\$ 2,671,024</b>	<b>\$ 459,192</b>	<b>\$ 33,276,309</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, 2011**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 2,385,171	\$ 311,899	\$ 341,393	\$ 3,038,463
Penalty charges	26,848	3,579	3,198	33,625
Connection fees	87,356	700	-	88,056
<b>Total Operating Revenues</b>	<b>2,499,375</b>	<b>316,178</b>	<b>344,591</b>	<b>3,160,144</b>
<b><u>Operating Expenses</u></b>				
Salaries and benefits	219,435	31,293	36,030	286,758
Maintenance and supplies	169,545	41,386	13,381	224,312
Chemicals	56,606	-	-	56,606
Contract operations	965,339	131,859	157,437	1,254,635
Professional fees	7,443	1,971	968	10,382
Office and advertising	25,598	8,602	8,195	42,395
Landfill fees	-	-	75,334	75,334
Amortization	4,118	1,416	-	5,534
Depreciation	773,822	113,184	8,907	895,913
Rental expense	4,800	3,000	4,500	12,300
Insurance	36,269	11,557	4,848	52,674
Miscellaneous	933	-	80	1,013
<b>Total Operating Expenses</b>	<b>2,263,908</b>	<b>344,268</b>	<b>309,680</b>	<b>2,917,856</b>
<b>Operating Income (Loss)</b>	<b>235,467</b>	<b>(28,090)</b>	<b>34,911</b>	<b>242,288</b>
<b><u>Non-Operating Revenues (Expenses)</u></b>				
Interest income	33,895	1,613	1,373	36,881
Rental income	31,200	-	-	31,200
Other income	21,106	-	1,517	22,623
Intergovernmental grants	333,455	100,000	-	433,455
Breckinridge County debt payment	9,573	-	-	9,573
Insurance recoveries - impaired assets	3,279	940	940	5,159
Gain on refinancing	3,919	-	-	3,919
Interest expense	(541,106)	(26,515)	(1,976)	(569,597)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(104,679)</b>	<b>76,038</b>	<b>1,854</b>	<b>(26,787)</b>
<b>Income Before Transfers</b>	<b>130,788</b>	<b>47,948</b>	<b>36,765</b>	<b>215,501</b>
<b>Transfers In</b>	<b>2,087</b>	<b>-</b>	<b>-</b>	<b>2,087</b>
<b>Transfers Out</b>	<b>-</b>	<b>(2,087)</b>	<b>-</b>	<b>(2,087)</b>
<b>Changes in Net Assets</b>	<b>132,875</b>	<b>45,861</b>	<b>36,765</b>	<b>215,501</b>
<b>Total Net Assets - Beginning of Year</b>	<b>11,450,490</b>	<b>1,816,322</b>	<b>354,192</b>	<b>13,621,004</b>
<b>Total Net Assets - End of Year</b>	<b>\$ 11,583,365</b>	<b>\$ 1,862,183</b>	<b>\$ 390,957</b>	<b>\$ 13,836,505</b>

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, 2011**

	<b>Operations &amp; Maintenance Fund</b>	<b>Waste Water Treatment Fund</b>	<b>Sanitation Fund</b>	<b>Totals</b>
<b><u>Cash Flows from Operating Activities:</u></b>				
Cash received from customers and others	\$ 2,470,443	\$ 313,256	\$ 344,636	\$ 3,128,335
Cash payments to suppliers for goods and services	(1,278,139)	(185,607)	(266,580)	(1,730,326)
Cash payments to employees for services	(217,254)	(31,560)	(36,152)	(284,966)
<b>Net Cash Provided by Operating Activities</b>	<b>975,050</b>	<b>96,089</b>	<b>41,904</b>	<b>1,113,043</b>
<b><u>Cash Flows from Noncapital and Related Financing Activities:</u></b>				
Due from/to other funds	10,015	(13,450)	5,411	1,976
Transfer to/from other funds	2,087	(2,087)	-	-
<b>Net Cash Provided (Used) by Noncapital and Related Financing Activities:</b>	<b>12,102</b>	<b>(15,537)</b>	<b>5,411</b>	<b>1,976</b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(919,700)	(153,045)	(6,536)	(1,079,281)
Intergovernmental grants	367,688	100,000	-	467,688
Payment on water line construction	(470)	-	-	(470)
Proceeds from debt	35,619	-	-	35,619
Principal paid on debt	(563,908)	(21,000)	(10,083)	(594,991)
Interest paid on debt	(543,525)	(26,751)	(1,976)	(572,252)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,624,296)</b>	<b>(100,796)</b>	<b>(18,595)</b>	<b>(1,743,687)</b>
<b><u>Cash Flows from Investing Activities:</u></b>				
Interest income	33,889	1,605	1,365	36,859
Other non-operating income and expenses	65,158	9,847	2,457	77,462
<b>Net Cash Provided by Investing Activities</b>	<b>99,047</b>	<b>11,452</b>	<b>3,822</b>	<b>114,321</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(538,097)</b>	<b>(8,792)</b>	<b>32,542</b>	<b>(514,347)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,815,506</b>	<b>345,458</b>	<b>263,595</b>	<b>3,424,559</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,277,409</b>	<b>\$ 336,666</b>	<b>\$ 296,137</b>	<b>\$ 2,910,212</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating income (loss)	\$ 235,467	\$ (28,090)	\$ 34,911	\$ 242,288
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	773,822	113,184	8,907	895,913
Amortization	4,118	1,416	-	5,534
Change in assets and liabilities:				
Receivables, net	(35,512)	(2,922)	45	(38,389)
Prepaid expenses	4,657	229	312	5,198
Accounts payable	(16,346)	12,539	(2,149)	(5,956)
Accrued expenses	83	-	-	83
Other liabilities	8,761	(267)	(122)	8,372
<b>Total Adjustments</b>	<b>739,583</b>	<b>124,179</b>	<b>6,993</b>	<b>870,755</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 975,050</b>	<b>\$ 96,089</b>	<b>\$ 41,904</b>	<b>\$ 1,113,043</b>

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, 2011**

**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.

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, 2011**

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

Basis of Presentation (Concluded)

The City reports the following major governmental fund:

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.

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, 2011**

**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 \$2,500. 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. The City chose not to retroactively report infrastructure in accordance with implementation of GASB 34. The City's infrastructure consists of curbs, sidewalks, and streets constructed or improved after July 1, 2003.

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 \$19,329 at June 30, 2011. 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 state and local government securities.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**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.

Fund Balance

During the current fiscal year, the City implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory and prepayments) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The City did not establish any fund balance commitments for the fiscal year. Assigned fund balance is established by the Mayor through adoption or amendment of the budget as intended for a specific purpose. Unrestricted and unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**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 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. The City Council approves, by ordinance, total budget appropriations only. Budget amendments are made as needed throughout the year.

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 \$.29 per \$100 valuation, of which \$.26 is for general fund purposes and \$.03 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, 2011, the gross amount of delinquent taxes due was \$14,750, and the allowance for uncollectible taxes was \$12,452. Delinquent taxes over ten years old are not included in the receivable.

**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, 2011, the reported amount of the City's cash and cash equivalents was \$3,675,655 and the bank balance was \$3,709,474.

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. The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE D - CASH AND INVESTMENTS (CONCLUDED)**

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, \$72,619 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 \$130,325 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$202,944 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 10, cash and cash equivalents as of June 30, 2011 consisted of the following:

	<u>O&amp;M Fund</u>	<u>WWT Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash	\$1,000,348	\$229,559	\$296,137	\$1,526,044
Restricted cash	1,098,978	82,246	-	1,181,224
Investments	<u>178,083</u>	<u>24,861</u>	<u>-</u>	<u>202,944</u>
Total	<u>\$2,277,409</u>	<u>\$336,666</u>	<u>\$296,137</u>	<u>\$2,910,212</u>

**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%.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE F - BONDS PAYABLE (CONCLUDED)**

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, 2011, the required deposits were made to the various funds as outlined above.

**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, 2011, the balance in the Sinking Fund was \$72,619 and the loan balance payable to KIA was \$250,000.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE G - LOANS PAYABLE (CONCLUDED)**

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 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.

During the year ended June 30, 2010, 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.

**NOTE H - SHORT-TERM DEBT**

The City obtained interim financing from the Kentucky Rural Water Finance Corporation to provide construction funding for the McQuady Phase III water line expansion. During the current fiscal year, the City received loan proceeds of \$14,041. The 2.5% loan was paid out in November 2011 after permanent financing was provided by a \$2,000,000 RD bond issue.

<b><u>Business-Type Activities</u></b>	<u>Payable at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>
Interim financing	\$ -	\$14,062	\$ -	\$14,062

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE I - DEBT MATURITIES**

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	<u>Bonds Payable</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 269,700	\$ 465,449	\$ 340,143	\$ 76,071
2013	280,900	455,536	343,941	72,273
2014	292,200	445,039	347,786	68,428
2015	305,500	433,824	351,678	64,536
2016	317,800	421,910	355,617	60,596
2017 - 2021	1,560,400	1,921,625	2,017,335	192,780
2022 - 2026	1,914,700	1,578,543	1,727,132	87,115
2027 - 2031	1,517,300	1,197,145	793,774	13,405
2032 - 2036	1,517,900	889,377	-	-
2037 - 2041	1,717,600	574,786	-	-
2042 - 2046	1,703,800	199,711	-	-
2047 - 2048	123,900	6,288	-	-
Totals	<u>\$11,521,700</u>	<u>\$8,589,233</u>	<u>\$6,277,406</u>	<u>\$635,204</u>

**NOTE J - CHANGES IN LONG-TERM LIABILITIES**

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2011 were as follows:

<b><u>Business-Type Activities</u></b>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due In One Year</u>
Customer deposits payable	\$ 206,495	\$64,450	\$ 57,870	\$ 213,075	\$ -
Due on water line construction	26,309	-	470	25,839	-
Loans payable	6,592,240	21,557	336,391	6,277,406	340,143
Revenue bonds payable	11,780,300	-	258,600	11,521,700	269,700
Deferred gain on refinancing	27,431	-	3,919	23,512	3,919
Unamortized bond premium	581	-	72	509	72
	<u>\$18,633,356</u>	<u>\$86,007</u>	<u>\$657,322</u>	<u>\$18,062,041</u>	<u>\$613,834</u>

**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. Based on the most recent data available, at June 30, 2011, there were 1,402 employers participating in CERS, which provides for retirement, disability, and death benefits.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE K - PENSION PLANS (CONTINUED)**

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, 2011, 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, 2011, participating employers contributed 16.93% and 33.25% 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.

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Total Payroll</u> <u>Subject to CERS</u>	<u>Contributions</u>		<u>Total</u>
		<u>Employee</u>	<u>Employer</u>	
2011	\$389,283	\$25,455	\$92,306	\$117,761
2010	\$372,473	\$25,037	\$92,669	\$117,706
2009	\$278,945	\$17,978	\$58,649	\$ 76,627

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.

**Medical Insurance Plan**

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

To be eligible for medical benefits, the member must have retired either for service or disability. The amount funded by the insurance fund depends on the months of service. The insurance fund shall continue the same level of coverage for a recipient who was a member of the CERS after the age of 65 as before the age of 65, if the recipient is not eligible for Medicare coverage.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE K - PENSION PLANS (CONCLUDED)**

Funding policy - The post-retirement healthcare provided by CERS is financed wholly or partly from funds contributed by the recipient of a retirement allowance, by the Kentucky Retirement Systems insurance fund, or by another state-administered retirement system under a reciprocal agreement. Also, any premiums collected from retirees and investment interest help with the medical expenses of the plan.

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.

**NOTE L - 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 2011 to May 2012. Accordingly, \$28,600 is reported as deferred revenue on the Statement of Net Assets.

**NOTE M - LEASED EQUIPMENT**

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

	<u>Cost</u>	<u>Accumulated Amortization</u>
Buildings and improvements	\$ 12,016	\$ 12,016
Equipment and vehicles	\$349,955	\$346,478

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 N - 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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE N - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

As referenced in Note K, the City's employees are enrolled in the County Employees' Retirement System (CERS). Based on the most recent data available, at June 30, 2011, non-hazardous and hazardous CERS had unfunded actuarial accrued liabilities of \$3.288 billion and \$1.08 billion for pension funds, respectively, and \$1.641 billion and \$8.77 million for insurance funds, respectively. The employer contribution rate for 2011-2012 is 18.96% non-hazardous and 35.76% hazardous.

The City, Professional Services Group, Inc. (PSG), and Veolia Water North America – South, LLC (Veolia) 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 \$1,439,313, which included an annual repair and maintenance allowance of \$150,000. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2011-2012 is \$1,460,903, which includes an estimated repair and maintenance allowance of \$152,250.

In August 2010, the City was awarded a \$17,000 federal grant to be used for a walking trail at the new city park. Subsequent to year-end, a bid of \$20,400 for a recreational trail was accepted.

In June 2011, the City accepted a bid of \$20,973 for a new truck, which was received subsequent to year-end.

The City was awarded 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. In May 2011, the City awarded two contracts for this project for \$4,579,992 (reduced to \$4,304,445 by change order subsequent to year-end) and \$518,000. The City is also expected to incur \$628,838 in engineering fees. Construction in process on the Schedule of Capital Assets includes \$1,792,967 in costs incurred to date on this project, which has been budgeted for \$6.62 million.

During the fiscal year, the City used a \$100,000 state grant and \$20,358 of City funds for the inspection and cleaning of sewer lines. Construction in process on the Schedule of Capital Assets includes \$120,358 for this phase of the project. As this phase has been completed, the City has awarded bids totaling \$509,560 for sewer rehab work. The City will also incur \$189,210 in engineering fees for the sewer projects. Subsequent to year-end, change orders increased the costs by \$205,000. Construction in process includes \$128,616 for the expenses incurred to date. Funding includes two Clean Water State Revolving Fund loans with 1% interest in the amounts of \$550,000 (awarded in October 2009) and \$400,000 (awarded in February 2011). The City anticipates \$120,000 in principal forgiveness on the latter loan.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

The City is also exploring the possibility of additional projects. Engineers have determined that a section of the City's sewer system is undersized and needs to be replaced with larger pipe. The estimated cost for this work is \$325,330 and will require funding. In addition, the City is considering two phases of water line expansions, which are estimated to cost \$4,198,000 and \$5,000,802. In February 2011, the City secured a \$4,000,000 Drinking Water Revolving Loan Fund with 1% interest and \$1,600,000 in principal forgiveness for the water lines, and the City will continue its efforts to obtain additional funding for the projects.

**NOTE O - ACCRUED EXPENSES**

Accrued expenses on the Statement of Net Assets include \$12,400 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 P - 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 \$2.35 per thousand gallons of consumption, subject to a minimum of 3 million gallons per month, and approximately \$1,417 per month to fund its portion of the construction debt service. For the year ended June 30, 2011, the City collected \$112,880 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.

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, 2011, the City billed Cloverport \$124,317 for water.

**NOTE Q - SUBSEQUENT EVENTS**

Subsequent to year-end, the City issued \$2,000,000 in revenue bonds to obtain permanent financing for the McQuady Phase III water line expansion. The bonds were issued by Rural Development at an interest rate of 3%.

**NOTE R - INTERFUND BALANCES AND TRANSFERS**

The City makes monthly payments to PSG for a repairs and maintenance contract (see Note N) 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 Waste Water Treatment Fund owed the Sanitation Fund \$4,700 at year-end.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE S - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 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	\$ 87,768
Streets and maintenance	1,563
Police department	26,001
Fire department	<u>106,519</u>
	<u>\$221,851</u>

**NOTE T - COMMITMENTS UNDER LEASES**

The City entered into an operating lease for office equipment and incurred \$856 in lease expense for the fiscal year. Commitments under these operating lease agreements provide the minimum future rental payments as of June 30, 2011 as follows:

Year Ending June 30,	Future Payments
2012	\$2,567
2013	2,567
2014	2,567
2015	2,567
2016	<u>1,711</u>
Total	<u>\$11,979</u>

**NOTE U - NEW ACCOUNTING STANDARDS**

During the fiscal year, the City implemented the following Governmental Accounting Standards Board (GASB) statements:

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" - The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The categories of fund balance presented in the City's financial statements have changed as a result of implementing this statement. See Notes A and V.

GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" - The objective of this statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). There was no current effect on the financial statements as a result of implementing this statement.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE U - NEW ACCOUNTING STANDARDS (CONCLUDED)**

GASB Statement No. 59, "Financial Instruments Omnibus" - The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. There was no current effect on the financial statements as a result of implementing this statement.

**NOTE V - FUND BALANCE**

The fund balance for the General Fund was classified as follows:

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 561
Restricted:	
Road aid	15,484
Drug enforcement	3,604
Total Restricted	19,088
Assigned:	
Industrial development	100,149
Fire department	5,259
Total Assigned	105,408
Unassigned	899,031
Total Fund Balance	\$1,024,088

**NOTE W - RESTATEMENT**

The City's Special Revenue Fund was closed and all activity previously reported for it is now recorded in the General Fund. The beginning fund balance for the General Fund was restated by \$11,079 to include the prior year ending balance of the Special Revenue Fund.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 355,275	\$ 375,963	\$ 378,661	\$ 2,698
Insurance premium taxes	237,000	223,500	213,663	(9,837)
Business licenses	12,000	12,208	12,208	-
Auto licenses and stickers	26,000	25,013	25,012	(1)
Building permits	1,250	1,024	1,024	-
Intergovernmental revenues	91,144	93,752	89,013	(4,739)
Franchise fees	36,629	34,142	34,517	375
Subscription fees	12,000	10,735	10,890	155
Rental income	13,880	14,935	14,885	(50)
Interest income	6,400	5,334	5,307	(27)
Miscellaneous	7,173	16,350	14,410	(1,940)
Donations	-	5,000	13,971	8,971
<b>Total Revenues</b>	<u>798,751</u>	<u>817,956</u>	<u>813,561</u>	<u>(4,395)</u>
<b><u>Expenditures</u></b>				
Current:				
General government	123,321	110,219	94,627	15,592
Police department	368,658	374,099	355,877	18,222
Fire department	53,350	64,675	56,250	8,425
Streets and maintenance	98,623	112,248	101,840	10,408
Capital outlay	207,230	138,370	130,758	7,612
<b>Total Expenditures</b>	<u>851,182</u>	<u>799,611</u>	<u>739,352</u>	<u>60,259</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(52,431)</u>	<u>18,345</u>	<u>74,209</u>	<u>55,864</u>
<b><u>Other Financing Sources</u></b>				
Insurance recoveries	-	-	313	313
<b>Net Changes in Fund Balance</b>	<u>(52,431)</u>	<u>18,345</u>	<u>74,522</u>	<u>56,177</u>
<b>Fund Balance - Beginning of Year (as Originally Stated)</b>	588,465	539,014	955,698	416,684
Restatement	-	-	11,079	11,079
<b>Fund Balance - Beginning of Year (Restated)</b>	<u>588,465</u>	<u>539,014</u>	<u>966,777</u>	<u>427,763</u>
<b>Fund Balance - End of Year</b>	<u>\$ 536,034</u>	<u>\$ 557,359</u>	<u>\$ 1,041,299</u>	<u>\$ 483,940</u>

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**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, 2011, is as follows:

Revenues, GAAP Basis	\$823,040
Less: Revenue recognized in prior year budget	<u>(9,479)</u>
Revenues, Budgetary Basis	<u>\$813,561</u>

No adjustments have been made to convert the actual expenditures presented on the GAAP basis to the cash basis of accounting because any differences were deemed to be immaterial.

SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

	Basis			Depreciation				Net Capital Assets June 30, 2011	
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Balance July 1, 2010	Additions	Deletions		Balance June 30, 2011
<b>Governmental Activities:</b>									
<b>Not Depreciated:</b>									
Land	\$ 241,645	\$ -	\$ -	\$ 241,645	\$ -	\$ -	\$ -	\$ -	\$ 241,645
<b>Depreciated:</b>									
Buildings and improvements	647,811	-	-	647,811	235,116	22,982	-	258,098	389,713
Furniture and fixtures	62,381	505	1,396	61,490	41,865	5,482	1,396	45,951	15,539
Equipment	379,441	42,409	-	421,850	239,469	40,644	-	280,113	141,737
Vehicles	772,653	-	-	772,653	358,823	81,893	-	440,716	331,937
Parks	94,540	6,519	-	101,059	47,054	2,599	-	49,653	51,406
Infrastructure	736,793	81,325	-	818,118	283,612	68,251	-	351,863	466,255
	<u>2,693,619</u>	<u>130,758</u>	<u>1,396</u>	<u>2,822,981</u>	<u>1,205,939</u>	<u>221,851</u>	<u>1,396</u>	<u>1,426,394</u>	<u>1,396,587</u>
	<u>\$ 2,935,264</u>	<u>\$ 130,758</u>	<u>\$ 1,396</u>	<u>\$ 3,064,626</u>	<u>\$ 1,205,939</u>	<u>\$ 221,851</u>	<u>\$ 1,396</u>	<u>\$ 1,426,394</u>	<u>\$ 1,638,232</u>
<b>Business-Type Activities:</b>									
<b>Not Depreciated:</b>									
Land	\$ 258,661	\$ 6,500	\$ -	\$ 265,161	\$ -	\$ -	\$ -	\$ -	\$ 265,161
Construction in process	55,274	1,986,667	-	2,041,941	-	-	-	-	2,041,941
	<u>313,935</u>	<u>1,993,167</u>	<u>-</u>	<u>2,307,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,307,102</u>
<b>Depreciated:</b>									
Buildings and improvements	304,083	-	-	304,083	94,439	9,948	-	104,387	199,696
Equipment	626,683	16,677	-	643,360	456,263	17,155	-	473,418	169,942
Vehicles	155,968	-	-	155,968	125,994	8,792	-	134,786	21,182
Treatment plants	15,068,062	46,457	-	15,114,519	1,153,487	380,907	-	1,534,394	13,580,125
Distribution system	14,700,632	119,140	-	14,819,772	2,634,403	368,533	-	3,002,936	11,816,836
Waste water plant	3,810,492	17,949	-	3,828,441	1,855,453	110,578	-	1,966,031	1,862,410
	<u>34,665,920</u>	<u>200,223</u>	<u>-</u>	<u>34,866,143</u>	<u>6,320,039</u>	<u>895,913</u>	<u>-</u>	<u>7,215,952</u>	<u>27,650,191</u>
	<u>\$ 34,979,855</u>	<u>\$ 2,193,390</u>	<u>\$ -</u>	<u>\$ 37,173,245</u>	<u>\$ 6,320,039</u>	<u>\$ 895,913</u>	<u>\$ -</u>	<u>\$ 7,215,952</u>	<u>\$ 29,957,293</u>

**CITY OF HARDINSBURG, KENTUCKY  
LIST OF COUNCIL MEMBERS  
JUNE 30, 2011**

**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	12-31-14
Council Member	Darla Wethington	Hardinsburg, Kentucky	12-31-12
Council Member	Wilma Thomas	Hardinsburg, Kentucky	12-31-12
Council Member	Ruth Ann Skillman	Hardinsburg, Kentucky	12-31-12
Council Member	Nettie Parker	Hardinsburg, Kentucky	12-31-12
Council Member	Jim Miller	Hardinsburg, Kentucky	12-31-12
Council Member	Ints Kampars	Hardinsburg, Kentucky	12-31-12
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

Telephone (270) 756-5704  
FAX (270) 756-5927

## **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**

### **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 fund, and remaining fund information of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 1, 2012. 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 11-1 and 11-2 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 1, 2012.

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 1, 2012

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

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

Telephone (270) 756-5704  
FAX (270) 756-5927

## **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**

### **INDEPENDENT AUDITORS' REPORT**

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, 2011. 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, 2011.

## 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 1, 2012

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<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 Clean Water State Revolving Funds	66.458	\$ 105,702
<b><u>U.S. Department of Agriculture</u></b>		
Water and Waste Disposal Systems for Rural Communities *	10.760	1,539,963
<b><u>Department of Homeland Security</u></b>		
Passed through State of Kentucky:		
Homeland Security Grant Program	97.067	<u>5,700</u>
<b>Total</b>		<b><u>\$ 1,651,365</u></b>

\* 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, 2011**

**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

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

Auditee qualified as low-risk auditee?  yes  no

**Section II: Financial Statement Findings**

Findings 11-1 and 11-2.

**Section III: Federal Awards Findings**

None.

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding: 11-1 (Repeat)**

<i>Condition:</i>	Material adjustments were required as part of the audit process. In addition, fund balances were not classified according to the guidelines of GASB 54.
<i>Criteria:</i>	A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Cause:</i>	Auditing standards have placed a greater expectation on the government to make all material adjustments itself; however, City staff lacks the expertise to make some of the required adjustments.
<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>Due to the cost of training staff or hiring personnel already trained in complex accounting pronouncements, management has chosen to accept the risks associated with this material weakness.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding: 11-2 (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>Due to the cost of training staff or hiring personnel already trained in complex accounting pronouncements, management has chosen to accept the risks associated with this material weakness.</i>

**CITY OF HARDINSBURG, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding 07-1**

*Status:* This was corrected during the fiscal year.

## MANAGEMENT LETTER



# 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

Telephone (270) 756-5704  
FAX (270) 756-5927

## MANAGEMENT LETTER

Honorable Mayor and Members of  
the City Council  
City of 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, 2011, 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 1, 2012, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated February 1, 2012, on the basic financial statements of the City of Hardinsburg.

### *PRIOR YEAR*

Although the City has improved its use of receiving reports, 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).

The City's agreement with Professional Services Group (PSG) allowed an annual maintenance and repair limit of \$150,000, and overages were billed at the end of the fiscal year. As recommended in prior years, the City now obtains and reviews the supporting invoices for the amounts billed to maintenance and repair; however, 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. As recommended in the prior year, starting in 2011-2012, PSG bills the City monthly for the actual repairs and maintenance charges instead of the estimated amounts. This will help improve the City's cash flow and allow for a more accurate allocation of expenses to each fund.

We again noted several problems with the records for accrued vacation and sick leave. We noted seventeen instances of the wrong amount being added or subtracted. As a result, one employee was paid for sick time although none was available, and the sick and/or vacation balances for several employees were understated or overstated. In the prior year, we recommended that the City continue its efforts to utilize the tracking program for accrued time in the payroll system. During the current year audit, we noted that the City contacted the software company for its payroll system, and it was determined that the software is not capable of accruing time in accordance with the City's policy. Accordingly, we recommend that the City increase its effort to ensure the manual accrued time records are accurate.

As in the prior year, we noted several instances in which the City did not have signed copies of various documents relating to certain construction projects. We also noted that the City did not have copies of approval letters for grant extensions. Although 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.

#### *CURRENT YEAR*

Currently, the City's policy is to obtain quotes for purchases over \$1,000. We noted several instances where quotes were not on file for purchases exceeding that threshold. We recommend that more effort be made to adhere to the City's purchase policies.

The City did not fully comply with KRS 45A.425 regarding the disposal of water meters as surplus property. Although the City council declared the property as surplus, they did not follow the bidding requirements. Veolia instead obtained oral quotes from three sources and sold the meters to its own employee, whose quote was \$.01 higher than the next highest quote. KRS 45A.425 requires surplus property to be disposed of by public auction or sealed bids. We recommend that the City abide by state regulations for future property dispositions.

During the audit, we noted that one contractor's invoice was dated prior to the dates of the contract, the notice of award, and the notice to proceed. Ideally, no work should be performed prior to the contract date. It is the City's contention that the contractor received approval from the engineers to purchase materials in advance in order to take advantage of lower prices. We recommend that more effort be made to have all paperwork signed prior to commencement of work on the project. We also noted payment and performance bonds that were dated earlier than the contract dates on several projects. The bonds are supposed to be dated on or after the contract date.

With the increasing financial pressures placed on governmental entities, the City may need to more effectively monitor its financial situation. During the audit we noticed opportunities for the City to reduce expenses. The City paid \$43,790 in overtime during the fiscal year, which comprised 10% of its total payroll. The police department alone accounted for 86.77%, or \$37,998, of the total overtime paid. Although this was a slight decrease over the prior year, these additional wages create substantial expenditures to the City, both for the base pay and the resulting additions to matching taxes and retirement. We recommend that the City schedule duties in a manner that aids in overtime reduction and require prior approval for extra time where possible. As the City continues to undertake major construction projects, there is a substantial rising cost for the operations and maintenance of the water plant and water distribution system. The City should meet with Veolia to review opportunities to cut costs. In addition, interest expense has increased substantially as a result of the increased debt. We recommend that the City explore refinancing older debt at a lower interest rate.

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 1, 2012