

**CITY OF HARDINSBURG, KENTUCKY**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING**  
**INFORMATION**  
**For the Year Ended June 30, 2013**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC**  
**ACCOUNTANTS**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the Management Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hardinsburg, Kentucky's internal control over financial reporting and compliance.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, KY

May 22, 2014

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,112,037	\$ 1,223,331	\$ 2,335,368
Receivables, net:			
Accounts - trade	-	303,342	303,342
Franchise fees	3,285	-	3,285
Miscellaneous	1,383	102,515	103,898
Taxes	58,949	-	58,949
Intergovernmental	8,371	15,016	23,387
Prepaid expenses	34,651	76,405	111,056
<b>Total Current Assets</b>	<u>1,218,676</u>	<u>1,720,609</u>	<u>2,939,285</u>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,542,736	1,542,736
Investments	-	234,617	234,617
Capital assets:			
Land and construction in process	275,145	2,504,390	2,779,535
Other capital assets, net of depreciation	1,379,782	33,789,664	35,169,446
<b>Total Noncurrent Assets</b>	<u>1,654,927</u>	<u>38,071,407</u>	<u>39,726,334</u>
<b>Total Assets</b>	<u>\$ 2,873,603</u>	<u>\$ 39,792,016</u>	<u>\$ 42,665,619</u>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 7,519	\$ 8,193	\$ 15,712
Due on construction contracts	-	952,584	952,584
Due to employee	7	-	7
Accrued expenses	11,852	11,143	22,995
Interest payable	-	78,047	78,047
Accrued vacation and payroll	14,952	13,220	28,172
Unearned revenue	-	37,312	37,312
Bonds and loans payable	-	785,653	785,653
<b>Total Current Liabilities</b>	<u>34,330</u>	<u>1,886,152</u>	<u>1,920,482</u>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	243,735	243,735
Due on water line construction	-	25,369	25,369
Loans payable	-	10,084,431	10,084,431
Revenue bonds payable	-	12,712,978	12,712,978
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>23,066,513</u>	<u>23,066,513</u>
<b>Total Liabilities</b>	<u>34,330</u>	<u>24,952,665</u>	<u>24,986,995</u>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred amount on refinancing	-	15,675	15,675
<b><u>Net Position</u></b>			
Net investment in capital assets	1,379,782	12,695,317	14,075,099
Restricted for capital and debt service	-	1,533,618	1,533,618
Unrestricted	1,459,491	594,741	2,054,232
<b>Total Net Position</b>	<u>\$ 2,839,273</u>	<u>\$ 14,823,676</u>	<u>\$ 17,662,949</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, 2013**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)/Revenue and Changes in Net Position</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><u>Governmental Activities</u></b>							
General government	\$ 215,243	\$ -	\$ 3,472	\$ -	\$ (211,771)	\$ -	\$ (211,771)
Streets and maintenance	103,932	-	-	58,673	(45,259)	-	(45,259)
Police department	383,264	2,666	28,040	-	(352,558)	-	(352,558)
Fire department	149,960	58,166	68,306	63,900	40,412	-	40,412
<b>Total Governmental Activities</b>	<b>\$ 852,399</b>	<b>\$ 60,832</b>	<b>\$ 99,818</b>	<b>\$ 122,573</b>	<b>\$ (569,176)</b>	<b>\$ -</b>	<b>\$ (569,176)</b>
<b><u>Business-Type Activities</u></b>							
Water	\$ 2,997,896	\$ 2,856,183	\$ -	\$ 1,068,968	\$ -	\$ 927,255	\$ 927,255
Sewer	386,844	358,921	-	364	-	(27,559)	(27,559)
Sanitation	334,820	347,777	-	-	-	12,957	12,957
<b>Total Business-Type Activities</b>	<b>3,719,560</b>	<b>3,562,881</b>	<b>-</b>	<b>1,069,332</b>	<b>-</b>	<b>912,653</b>	<b>912,653</b>
<b>Total Primary Government</b>	<b>\$ 4,571,959</b>	<b>\$ 3,623,713</b>	<b>\$ 99,818</b>	<b>\$ 1,191,905</b>	<b>\$ (569,176)</b>	<b>\$ 912,653</b>	<b>\$ 343,477</b>
<b><u>General Revenues</u></b>							
					\$ 411,647	\$ -	\$ 411,647
					214,418	-	214,418
					36,956	-	36,956
					45,199	-	45,199
					3,204	25,830	29,034
					22,725	54,455	77,180
					3,777	14,116	17,893
					<b>737,926</b>	<b>94,401</b>	<b>832,327</b>
					168,750	1,007,054	1,175,804
					<b>2,670,523</b>	<b>13,816,622</b>	<b>16,487,145</b>
					<b>\$ 2,839,273</b>	<b>\$ 14,823,676</b>	<b>\$ 17,662,949</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2013**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,112,037
Receivables, net:	
Franchise fees	3,285
Miscellaneous	1,383
Taxes	58,949
Intergovernmental	8,371
Prepaid expenses	34,651
<b>Total Assets</b>	<b>\$ 1,218,676</b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 7,519
Due to employee	7
Accrued expenses	11,852
Accrued payroll	6,255
<b>Total Liabilities</b>	<b>25,633</b>
<b><u>Fund Balance</u></b>	
Nonspendable	34,651
Restricted	44,200
Assigned	111,813
Unassigned	1,002,379
<b>Total Fund Balance</b>	<b>1,193,043</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,218,676</b>

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

<b>Total Governmental Fund Balance</b>	\$	1,193,043
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		1,654,927
Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental fund.		(8,697)
<b>Total Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,839,273</b>

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, 2013**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 411,647
Insurance premium taxes	214,418
Business licenses	15,524
Auto licenses and stickers	28,045
Building permits	1,630
Rental income	14,330
Interest income	3,204
Miscellaneous	39,834
Donations	3,800
Franchise fees	36,956
Fire department subscription fees	29,394
Intergovernmental revenues	175,090
<b>Total Revenues</b>	<b>973,872</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	54,402
Administrative travel	3,644
Utilities	13,441
Insurance	3,039
Industrial development	2,500
Office expense	2,845
Advertising and printing	1,938
Professional fees	13,024
Repairs and maintenance	10,439
Supplies	5,447
Miscellaneous	1,387
Streets and maintenance	96,771
Police department	367,741
Fire department	55,892
Capital outlay	187,420
<b>Total Expenditures</b>	<b>819,930</b>
<b>Excess of Revenues Over Expenditures</b>	<b>153,942</b>
<b><u>Other Financing Sources</u></b>	
Proceeds from sale of fixed assets	3,777
<b>Net Changes in Fund Balance</b>	<b>157,719</b>
<b>Fund Balance - Beginning of Year</b>	<b>1,035,324</b>
<b>Fund Balance - End of Year</b>	<b>\$ 1,193,043</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, 2013**

**Net Changes in Fund Balance - Governmental Fund** \$ 157,719

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. (32,059)

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. 43,500

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. (410)

**Changes in Net Position of Governmental Activities** \$ 168,750

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2013**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 615,920	\$ 297,958	\$ 309,453	\$ 1,223,331
Receivables, net:				
Accounts - trade	241,363	32,745	29,234	303,342
Miscellaneous	102,181	167	167	102,515
Intergovernmental	15,016	-	-	15,016
Prepaid expenses	53,289	14,202	8,914	76,405
<b>Total Current Assets</b>	<b>1,027,769</b>	<b>345,072</b>	<b>347,768</b>	<b>1,720,609</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,488,946	53,790	-	1,542,736
Investments	200,837	26,160	7,620	234,617
Capital assets:				
Land and construction in process	2,366,229	138,161	-	2,504,390
Other capital assets, net of depreciation	30,817,699	2,718,018	253,947	33,789,664
<b>Total Noncurrent Assets</b>	<b>34,873,711</b>	<b>2,936,129</b>	<b>261,567</b>	<b>38,071,407</b>
<b>Total Assets</b>	<b>\$ 35,901,480</b>	<b>\$ 3,281,201</b>	<b>\$ 609,335</b>	<b>\$ 39,792,016</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 5,629	\$ 204	\$ 2,360	\$ 8,193
Due on construction contracts	952,584	-	-	952,584
Accrued expenses	10,488	299	356	11,143
Interest payable	67,725	10,322	-	78,047
Accrued vacation and payroll	10,380	1,309	1,531	13,220
Unearned revenue	37,312	-	-	37,312
Bonds and loans payable	695,846	63,879	25,928	785,653
<b>Total Current Liabilities</b>	<b>1,779,964</b>	<b>76,013</b>	<b>30,175</b>	<b>1,886,152</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	243,735	-	-	243,735
Due on water line construction	25,369	-	-	25,369
Loans payable	9,305,188	750,606	28,637	10,084,431
Revenue bonds payable	12,031,659	571,319	110,000	12,712,978
<b>Total Noncurrent Liabilities</b>	<b>21,605,951</b>	<b>1,321,925</b>	<b>138,637</b>	<b>23,066,513</b>
<b>Total Liabilities</b>	<b>23,385,915</b>	<b>1,397,938</b>	<b>168,812</b>	<b>24,952,665</b>
<b>Deferred Inflows of Resources</b>				
Deferred amount on refinancing	15,675	-	-	15,675
<b>Net Position</b>				
Net investment in capital assets	11,135,560	1,470,375	89,382	12,695,317
Restricted for capital and debt service	1,446,048	79,950	7,620	1,533,618
Unrestricted	(81,718)	332,938	343,521	594,741
<b>Total Net Position</b>	<b>\$ 12,499,890</b>	<b>\$ 1,883,263</b>	<b>\$ 440,523</b>	<b>\$ 14,823,676</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 2,552,222	\$ 354,298	\$ 344,325	\$ 3,250,845
Penalty charges	28,743	4,273	3,452	36,468
Connection fees	275,218	350	-	275,568
<b>Total Operating Revenues</b>	<b>2,856,183</b>	<b>358,921</b>	<b>347,777</b>	<b>3,562,881</b>
<b><u>Operating Expenses</u></b>				
Salaries and benefits	214,123	32,702	37,344	284,169
Maintenance and supplies	62,600	14,013	601	77,214
Chemicals	58,788	-	-	58,788
Contract operations	1,141,075	139,647	175,504	1,456,226
Professional fees	7,746	2,789	967	11,502
Office and advertising	27,337	8,214	8,178	43,729
Landfill fees	-	-	77,516	77,516
Depreciation	870,618	140,301	17,054	1,027,973
Rental expense	5,400	3,300	4,800	13,500
Insurance	36,674	9,641	3,470	49,785
Miscellaneous	3,839	843	960	5,642
<b>Total Operating Expenses</b>	<b>2,428,200</b>	<b>351,450</b>	<b>326,394</b>	<b>3,106,044</b>
<b>Operating Income (Loss)</b>	<b>427,983</b>	<b>7,471</b>	<b>21,383</b>	<b>456,837</b>
<b><u>Non-Operating Revenues (Expenses)</u></b>				
Interest income	24,757	575	498	25,830
Rental income	31,992	-	-	31,992
Other income	6,408	-	1,446	7,854
Gain (loss) on disposal of fixed assets	-	-	14,116	14,116
Bond issue costs	-	-	(5,000)	(5,000)
Debt service repayments	26,577	-	-	26,577
Insurance recoveries - impaired assets	14,609	-	-	14,609
Interest expense	(569,696)	(35,394)	(3,426)	(608,516)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(465,353)</b>	<b>(34,819)</b>	<b>7,634</b>	<b>(492,538)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(37,370)</b>	<b>(27,348)</b>	<b>29,017</b>	<b>(35,701)</b>
<b>Capital Contributions</b>	<b>1,042,391</b>	<b>364</b>	<b>-</b>	<b>1,042,755</b>
<b>Changes in Net Position</b>	<b>1,005,021</b>	<b>(26,984)</b>	<b>29,017</b>	<b>1,007,054</b>
<b>Net Position - Beginning of Year (Restated)</b>	<b>11,494,869</b>	<b>1,910,247</b>	<b>411,506</b>	<b>13,816,622</b>
<b>Net Position - End of Year</b>	<b>\$ 12,499,890</b>	<b>\$ 1,883,263</b>	<b>\$ 440,523</b>	<b>\$ 14,823,676</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, 2013**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers and others	\$ 2,780,786	\$ 358,735	\$ 347,772	\$ 3,487,293
Cash payments to suppliers for goods and services	(1,397,398)	(196,346)	(281,029)	(1,874,773)
Cash payments to employees for services	(213,916)	(32,667)	(37,301)	(283,884)
<b>Net Cash Provided by Operating Activities</b>	<b>1,169,472</b>	<b>129,722</b>	<b>29,442</b>	<b>1,328,636</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(3,301,635)	(18,894)	(150,484)	(3,471,013)
Proceeds from sale of capital assets	-	-	14,116	14,116
Capital contributions	44,490	-	-	44,490
Insurance recoveries	14,609	-	-	14,609
Proceeds from debt	3,283,506	16,087	135,000	3,434,593
Principal paid on debt	(619,202)	(61,504)	(25,639)	(706,345)
Interest paid on debt	(575,361)	(35,301)	(3,426)	(614,088)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,153,593)</b>	<b>(99,612)</b>	<b>(30,433)</b>	<b>(1,283,638)</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	27,378	1,394	1,316	30,088
Other non-operating income and expenses	64,977	-	1,446	66,423
<b>Net Cash Provided by Investing Activities</b>	<b>92,355</b>	<b>1,394</b>	<b>2,762</b>	<b>96,511</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>108,234</b>	<b>31,504</b>	<b>1,771</b>	<b>141,509</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,197,469</b>	<b>346,404</b>	<b>315,302</b>	<b>2,859,175</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,305,703</b>	<b>\$ 377,908</b>	<b>\$ 317,073</b>	<b>\$ 3,000,684</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 427,983	\$ 7,471	\$ 21,383	\$ 456,837
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	870,618	140,301	17,054	1,027,973
Change in assets and liabilities:				
Receivables, net	(100,914)	(186)	(5)	(101,105)
Prepaid expenses	(41,641)	(12,309)	(7,222)	(61,172)
Accounts payable	(12,958)	(5,551)	(1,765)	(20,274)
Accrued expenses	660	(39)	(46)	575
Other liabilities	25,724	35	43	25,802
<b>Total Adjustments</b>	<b>741,489</b>	<b>122,251</b>	<b>8,059</b>	<b>871,799</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,169,472</b>	<b>\$ 129,722</b>	<b>\$ 29,442</b>	<b>\$ 1,328,636</b>
<b>Schedule of Noncash Transactions:</b>				
Donated capital assets	\$ 73,945	\$ -	\$ -	\$ 73,945
Principal forgiveness on loans	\$ 918,955	\$ 364	\$ -	\$ 919,319

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, 2013**

**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 Position 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 the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are therefore clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipient of the goods or services offered by the programs and (b) 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 governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

Basis of Presentation (Concluded)

The City reports the following major governmental fund:

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

The City reports the following major enterprise funds:

- Operations & Maintenance Fund - This fund accounts for the operation, maintenance, and development of the water plant and various water distribution lines.
- Wastewater Treatment Fund - This fund accounts for the operation, maintenance, and development of the sewage treatment plant and various sewer lines.
- Sanitation Fund - This fund accounts for the operation and maintenance of the sanitation department.

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. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. 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.

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, 2013**

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

Capital Assets (Concluded)

For the government-wide and proprietary fund 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's infrastructure consists of curbs, sidewalks, and streets constructed or improved after July 1, 2003.

Depreciation is provided in the government-wide and proprietary fund 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 (\$30,383 for the fiscal year) as part of the cost of the asset in the proprietary fund. The service lives by type of asset are typically as follows:

Vehicles and equipment	5 - 20 years
Improvements	10 - 40 years
Infrastructure	10 - 30 years
Buildings	10 - 40 years
Plant	10 - 40 years

Net Position

The District implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The main effect of this statement was a change in terminology from *net assets* to *net position*.

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its 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 net investment in capital assets.

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. At June 30, 2013, the allowances for uncollectible trade and property tax receivables were \$20,633 and \$11,361, respectively. 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. Delinquent taxes over ten years old are not included in the receivable or allowance.



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

Prepaid Expenses

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

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.

Unearned Revenue

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

Fund Balance

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- Nonspendable fund balance - amounts that are not in a spendable form (such as 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, 2013**

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

Property Tax Calendar

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 \$.274 per \$100 valuation for general fund purposes and \$.03 per \$100 valuation 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.

**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 - CASH AND INVESTMENTS**

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2013, the reported amount of the City's cash and cash equivalents was \$3,878,104 and the bank balance was \$3,982,538. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

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, all of the City's deposits were either insured or collateralized with securities held by the pledging financial institution on behalf of the City. 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, 2013**

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

Investments

Investments consist of state and local government securities. 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, \$103,076 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 \$131,541 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$234,617 at year-end, and the balance is subject to investment risks, including possible loss of principal.

Restricted Cash

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 customer deposits, and the federated treasury obligations (investments) are restricted for bond principal and interest payments.

Reconciliation of Cash

For purposes of the Statement of Cash Flows on page 11, cash and cash equivalents as of June 30, 2013 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 615,920	\$297,958	\$309,453	\$1,223,331
Restricted cash	1,488,946	53,790	7,620	1,550,356
Investments	200,837	26,160	-	226,997
Total	<u>\$2,305,703</u>	<u>\$377,908</u>	<u>\$317,073</u>	<u>\$3,000,684</u>

**NOTE D - LONG-TERM DEBT**

Bonds Payable

The construction costs of the City's water and sewer facilities have been financed by the issuance of revenue bonds. The 2012 issue was for the purchase of a garbage truck. The bonds are secured by and payable on parity from the gross revenues of the utilities system and sanitation fund, as applicable. The original amount of the bond issues, the issue dates, interest rates, and outstanding balances at June 30, 2013 are summarized in the following table.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE D - LONG-TERM DEBT (CONTINUED)**

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
1993	1/1/93	4.5%	6/1/33	\$1,000,000	\$ 740,000
2003 (R)	10/1/03	2.06% to 4.435%	2/1/18	\$ 654,400	\$ 232,200
2004 (R)	2/1/04	2% to 4.375%	2/1/27	\$ 773,000	\$ 603,000
2004 (R)	2/1/04	2% to 4.375%	2/1/28	\$1,702,000	\$1,194,000
2006A	1/1/06	4.125%	6/1/45	\$4,803,000	\$4,441,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,464,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,296,900
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,971,000
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 125,000

R – Denotes refunding bond issue

**Loans Payable**

On April 1, 1989, the City of Hardinsburg entered into a loan agreement with the Kentucky Infrastructure Authority (KIA) for \$449,000. 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, 2013, the balance in the Sinking Fund was \$95,456 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 the Breckinridge County 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. Breckinridge County reimbursed the City \$9,573 for the year to service this debt. The balance at year-end was \$42,716.

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%. The balance at year-end was \$39,565.

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. The balance at year-end was \$259,850.

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 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. The balance at year-end was \$3,277,004.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE D - LONG-TERM DEBT (CONTINUED)**

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 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. The balance at year-end was \$1,724,187.

During the year ended June 30, 2011, the City secured two loans from KIA for major water line expansion projects. From a \$3.25 million loan, the City has received \$2,772,645 in loan proceeds to date. From a \$4 million loan, the City has received \$2,297,387 in loan proceeds to date, with 40% principal forgiveness of \$918,955, leaving a principal balance of \$1,378,432 at year-end. 1% interest is due semi-annually until closing, with semi-annual principal and interest payments due over twenty years once the loans are finalized.

During the year ended June 30, 2012, the City obtained funding from KIA for two sewer projects. The first loan was used to fund a sewer rehab project within the City. By year-end, the City had finalized the \$549,594 loan, which calls for forty semi-annual payments of \$15,194, which include interest at 1%, and ten annual transfers of \$1,400 to the replacement and maintenance reserve account. The balance at year-end was \$524,641.

The second loan was used to provide sewer services to a trailer park within the City. To date, the City has received \$394,849 in loan proceeds, with 30% principal forgiveness of \$118,455, which left a principal balance of \$276,394. By year-end, the City had finalized the loan, which calls for forty semi-annual payments of \$7,641, which include interest at 1%, and ten annual transfers of \$1,500 to the replacement and maintenance reserve account. The balance at year-end was \$263,844.

**Debt Service Requirements**

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2013, including interest payments are as follows:

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2014	\$ 337,200	\$ 507,457	\$ 448,453	\$ 121,893
2015	351,000	495,004	579,043	112,358
2016	364,300	481,838	585,262	106,139
2017	379,700	467,969	585,591	99,848
2018	337,100	453,293	585,750	80,603
2019 - 2023	1,879,000	2,059,364	3,226,487	310,738
2024 - 2028	2,074,800	1,648,872	2,864,141	159,548
2029 - 2033	1,750,300	1,272,750	1,506,240	45,107
2034 - 2038	1,809,100	925,387	151,917	949
2039 - 2043	2,191,200	547,398	-	-
2044 - 2048	1,421,900	137,741	-	-
2049 - 2050	171,500	7,770	-	-
Totals	<u>\$13,067,100</u>	<u>\$9,004,843</u>	<u>\$10,532,884</u>	<u>\$1,037,183</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE D - LONG-TERM DEBT (CONCLUDED)**

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2013 were as follows:

	<b>Business-Type Activities</b>			Balance June 30, 2013	Due In One Year
	Balance July 1, 2012	Additions	Reductions		
Bonds payable	\$13,252,000	\$ 140,000	\$ 324,900	\$13,067,100	\$337,200
Loans payable	8,534,055	3,299,593	1,300,764	10,532,884	448,453
Premium	436	-	73	363	-
Discount	(18,464)	-	(1,179)	(17,285)	-
Net bonds and loans payable	21,768,027	3,439,593	1,624,558	23,583,062	785,653
Deferred gain on refinancing	19,593	-	3,918	15,675	-
Customer deposits	226,930	83,450	66,645	243,735	-
Due on water line	25,369	-	-	25,369	-
	<u>\$22,039,919</u>	<u>\$3,523,043</u>	<u>\$1,695,121</u>	<u>\$23,867,841</u>	<u>\$785,653</u>

**NOTE E - 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.

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, 2013, 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, 2013, participating employers contributed 19.55% and 37.6% of members' compensation for non-hazardous and hazardous gross pay, respectively.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

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		Total
		Employee	Employer	
2013	\$396,700	\$24,649	\$98,820	\$123,469
2012	\$399,638	\$25,230	\$97,746	\$122,976
2011	\$389,283	\$25,455	\$92,306	\$117,761

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 employer contribution rate for 2013-2014 is 18.89% non-hazardous and 35.7% hazardous.

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.

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. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE F - UNEARNED REVENUE**

In July 2012, the City entered into a five-year tower lease agreement with a cellular service. The annual sum of \$40,704 was made in advance for the term June 2013 to May 2014. Accordingly, \$37,312 is reported as unearned revenue on the Statement of Net Position.

**NOTE G - 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	\$263,507	\$263,507

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.

**NOTE H - FUND BALANCE**

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 34,651
Restricted:	
Road aid	40,546
Drug enforcement	3,654
Total Restricted	44,200
Assigned:	
Industrial development	106,438
Fire department	5,375
Total Assigned	111,813
Unassigned	1,002,379
Total Fund Balance	\$1,193,043



**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE I - CAPITAL ASSETS**

The following table provides a summary of changes in capital assets:

	July 1, 2012	Additions	Deletions	June 30, 2013
<b><u>Governmental Activities</u></b>				
Not Depreciated:				
Land	\$ 241,645	\$ 33,500	\$ -	\$ 275,145
Depreciated:				
Buildings and improvements	654,671	40,200	-	694,871
Furniture and fixtures	61,607	-	-	61,607
Equipment	440,599	82,606	-	523,205
Vehicles	811,492	29,490	-	840,982
Parks	143,599	-	-	143,599
Infrastructure	899,341	62,124	-	961,465
Subtotal	3,011,309	214,420	-	3,225,729
Accumulated Depreciation	1,626,468	219,479	-	1,845,947
Net Capital Assets	\$ 1,626,486	\$ 28,441	\$ -	\$ 1,654,927
<b><u>Business-Type Activities</u></b>				
Not Depreciated:				
Land	\$ 265,161	\$ 6,500	\$ -	\$ 271,661
Construction in process	5,264,515	3,576,060	(6,607,846)	2,232,729
Subtotal	5,529,676	3,582,560	(6,607,846)	2,504,390
Depreciated:				
Buildings and improvements	304,083	-	-	304,083
Equipment	633,952	150,485	(86,448)	697,989
Vehicles	172,753	4,067	-	176,820
Treatment plants	15,123,744	-	-	15,123,744
Distribution system	14,928,651	6,699,007	-	21,627,658
Waste water plant	4,916,618	6,393	-	4,923,011
Subtotal	36,079,801	6,859,952	(86,448)	42,853,305
Accumulated Depreciation	8,122,116	1,027,973	(86,448)	9,063,641
Net Capital Assets	\$33,487,361	\$9,414,539	\$(6,607,846)	\$36,294,054

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2012	Additions	Deletions	June 30, 2013
<b><u>Governmental Activities</u></b>				
Buildings and improvements	\$ 281,423	\$ 24,802	\$ -	\$ 306,225
Furniture and fixtures	50,793	3,364	-	54,157
Equipment	315,526	35,016	-	350,542
Vehicles	497,895	68,245	-	566,140
Parks	54,705	7,179	-	61,884
Infrastructure	426,126	80,873	-	506,999
Total	\$ 1,626,468	\$ 219,479	\$ -	\$ 1,845,947

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE I - CAPITAL ASSETS (CONCLUDED)**

	July 1, 2012	Additions	Deletions	June 30, 2013
<b><u>Business-Type Activities</u></b>				
Buildings and improvements	\$ 114,335	\$ 9,948	\$ -	\$ 124,283
Equipment	473,848	23,103	(86,448)	410,503
Vehicles	145,257	10,158	-	155,415
Treatment plants	1,916,693	381,429	-	2,298,122
Distribution system	3,379,007	465,558	-	3,844,565
Waste water plant	2,092,976	137,777	-	2,230,753
Total	<u>\$8,122,116</u>	<u>\$ 1,027,973</u>	<u>\$ (86,448)</u>	<u>\$9,063,641</u>

Depreciation expense was charged to functions in the Statement of Activities as follows:

<b><u>Governmental Activities</u></b>	
General government	\$103,111
Streets and maintenance	7,161
Police department	15,140
Fire department	94,067
	<u>\$219,479</u>

**NOTE J - COMMITMENTS AND CONTINGENCIES**

**Grants**

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.

The City received surplus military equipment as part of a federal government program that disburses the equipment to authorized entities. Under the terms of the program, the City must retain the equipment for use in the police department or return the equipment to the federal government. Due to the restrictions on disposition, these items have not been booked as City assets.

**Contracts**

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 \$1,517,144, which included an annual repair and maintenance allowance of \$157,579. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2013-2014 is \$1,588,524, which includes an estimated repair and maintenance allowance of \$157,579 and electricity allowance of \$252,000.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

The City has a contract with the City of Irvington, Kentucky (Irvington), whereby Irvington pays Hardinsburg for water usage at a rate that is adjustable annually based on the 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, 2013, the City collected \$141,456 in water revenue and \$17,004 for the construction debt service from Irvington.

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 was \$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 annual adjustments. For the year ended June 30, 2013, the City billed Cloverport \$97,295 for water.

The City had construction projects for additional water lines in process at year-end. Contract commitments remaining at year-end totaled \$1,576,622.

The City was awarded FEMA funds of \$49,872 to be used towards the purchase of a generator for City Hall. The City obtained a bid of \$57,324 for the generator, which was purchased subsequent to year-end.

The City accepted a bid of \$685,165 for water line additions; however, funding is being temporarily withheld until ongoing projects are completed first.

The City received preliminary approval for a \$1.12 million loan with 50% principal forgiveness from KIA to be used to demolish an old water storage tank and build one at a new location.

**NOTE K - SUBSEQUENT EVENTS**

The City received \$65,194 from Veolia to purchase roll out carts for sanitation customers.

An agreement dating back to December 1978 between the City and the Army Corp of Engineers states that the City can be assessed a portion of construction costs for modification to Rough River Dam, since the City's water intake plant was located there. The City received notification that they could be assessed up to \$87,000 for two phases of the modification plan. The City has contacted the Corp to request termination of the contract, as the City's water intake plant is no longer located at Rough River. The City is awaiting a response from the Corp.

Subsequent to year-end, the City assumed ownership of a water line in Hancock County valued at approximately \$116,000.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE L - COMMITMENTS UNDER LEASES**

The City incurred \$2,567 in lease expense for the fiscal year for an operating lease for office equipment. Commitments under this operating lease agreement provide the minimum future rental payments as of June 30, 2013 as follows:

Year Ending June 30,	Future Payments
2014	\$2,567
2015	2,567
2016	<u>1,711</u>
Total	<u>\$6,845</u>

**NOTE M - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS**

In fiscal year 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement 63 (see Note A) and Statement 65 "Items Previously Reported as Assets and Liabilities." The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of Statement 65 resulted in the restatement of the beginning net position of the business-type activities and proprietary fund in the financial statements. The deferred charges for bond issuance costs were reclassified as expenses of prior periods and resulted in the adjustment below:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Net Position at June 30, 2012	\$11,535,566	\$1,925,399	\$411,506	\$13,872,471
Change in reporting for deferred charges for debt issuance costs	(40,697)	(15,152)	-	(55,849)
Net Position at June 30, 2012, Restated	\$11,494,869	\$1,910,247	\$411,506	\$13,816,622

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
<b><u>Revenues</u></b>				
Property taxes	\$ 392,990	\$ 411,881	\$ 411,647	\$ (234)
Insurance premium taxes	216,900	204,920	214,418	9,498
Business licenses	12,525	15,524	15,524	-
Auto licenses and stickers	26,000	28,045	28,045	-
Building permits	1,000	1,630	1,630	-
Rental income	14,100	14,330	14,330	-
Interest income	4,060	3,188	3,204	16
Miscellaneous	8,786	39,585	39,834	249
Donations	-	3,800	3,800	-
Franchise fees	34,760	36,958	36,956	(2)
Fire department subscription fees	31,700	29,395	29,394	(1)
Intergovernmental revenues	129,722	175,092	175,090	(2)
<b>Total Revenues</b>	872,543	964,348	973,872	9,524
<b><u>Expenditures</u></b>				
Current:				
General government	126,796	111,641	112,106	(465)
Police department	407,580	363,167	367,741	(4,574)
Fire department	72,612	53,542	55,892	(2,350)
Streets and maintenance	116,079	96,773	96,771	2
Capital outlay	191,000	189,673	187,420	2,253
<b>Total Expenditures</b>	914,067	814,796	819,930	(5,134)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(41,524)	149,552	153,942	4,390
<b><u>Other Financing Sources</u></b>				
Proceeds from sale of fixed assets	-	3,778	3,777	(1)
<b>Net Changes in Fund Balance</b>	(41,524)	153,330	157,719	4,389
<b>Fund Balance - Beginning of Year</b>	714,100	622,435	1,052,535	430,100
<b>Fund Balance - End of Year</b>	\$ 672,576	\$ 775,765	\$ 1,210,254	\$ 434,489

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**INDEPENDENT AUDITOR'S REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS***





**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 AUDITOR'S REPORT**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 22, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 13-1 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we have reported to management in a separate letter dated May 22, 2014.

## **City of Hardinsburg, Kentucky's Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, KY

May 22, 2014

**INDEPENDENT AUDITOR'S REPORT AND SCHEDULES**  
**REQUIRED BY OMB CIRCULAR A-133**



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on Compliance for Each Major Federal Program**

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, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

## **Basis for Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds**

As described in Finding 13-2 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Cash Management for CFDA # 66.468, Capitalization Grants for Drinking Water State Revolving Funds. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

## **Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA # 66.468, Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weaknesses.

*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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 13-2 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, KY

May 22, 2014

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Agency/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>Department of Agriculture</u></b>		
Direct Program:		
Water and Waste Program Cluster:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 328,727
Total Water and Waste Program Cluster		<u>328,727</u>
Total Department of Agriculture		<u>328,727</u>
<b><u>Department of Homeland Security</u></b>		
Passed through Kentucky Office of Homeland Security:		
Homeland Security Grant Program	97.067	13,000
Passed through Kentucky Department of Emergency Management:		
Hazard Mitigation Grant	97.039	<u>40,565</u>
Total Department of Homeland Security		<u>53,565</u>
<b><u>Environmental Protection Agency</u></b>		
Passed through Kentucky Infrastructure Authority:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>2,910,078</u>
Total Environmental Protection Agency		<u>2,910,078</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 3,292,370</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of the City of Hardinsburg, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. As the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position of the City.

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

Expenditures on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*.

**NOTE C - LOANS**

Balances and transactions relating to federal loan programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the schedule. Funds received as loans from the Environmental Protection Agency are commingled with state funds; however, only the federal portions are reported as expenditures in the schedule. Outstanding loan balances at year-end were as follows:

CFDA #	Program Title	Balance June 30, 2013
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$4,151,077



**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Section I: Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

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

Type of auditor's report issued on compliance for major programs: Qualified

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

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

Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

•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**

Finding 13-1.

**Section III: Federal Awards Findings**

Finding 13-2.

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Finding: 13-1 (Repeat)**

<i>Condition:</i>	Material adjustments were required as part of the audit process.
<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 government entities to make all material adjustments itself. Although City staff made numerous adjustments and obtained outside help to correct its books prior to the audit, material adjustments were still required as a result of the audit.
<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, 2013**

**Finding: 13-2**

Program: Capitalization Grants for Drinking Water State Revolving Funds 66.468

<i>Condition:</i>	The City received federal funds to pay a contractor's invoice but withheld payment to the contractor for approximately two months. The City also failed to withhold 5% retainage from one contractor's invoice.
<i>Criteria:</i>	Cash management requirements call for entities to minimize the time between the transfer of funds from the pass-through entity and the disbursement. Construction contracts specify that 5% retainage is to be withheld from payments pending project completion.
<i>Cause:</i>	After documents were submitted for the cash request, the City's engineers discovered a possible discrepancy in one contractor's invoice, so additional time was needed to consult with the contractor. Federal funds were received and held in a bank account while the investigation was conducted. Retainage was not withheld because the contractor's invoice was not calculated properly.
<i>Questioned Costs:</i>	None
<i>Effect:</i>	The City may not have been in compliance with the requirements of the program regarding cash management.
<i>Recommendation:</i>	If federal funds are drawn and circumstances arise that prevent immediate disbursement of those funds, the money should be returned to the funding agency, or the funding agency should be contacted to determine proper procedures. Corrections should be made to vendor invoices that are not totaled properly, or revised invoices should be requested.
<i>Management Response:</i>	<i>See corrective action plan.</i>

**CITY OF HARDINSBURG, KENTUCKY  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2013**

<i>Reference #:</i>	Finding 13-2
<i>Management Response:</i>	<i>Should we experience a problem in the future with a contractor we will immediately send back funds to the funding agency until the problem can be resolved and payment can be made in an expedient time frame.</i>
<i>Completion Date:</i>	May 2014
<i>Contact Person:</i>	Wayne Macy, Mayor
<i>Date:</i>	May 2014

**MANAGEMENT LETTER**



# DRANE & COMPANY, PLLC

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## 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, 2013, 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 May 22, 2014, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated May 22, 2014, on the basic financial statements of the City of Hardinsburg.

### CURRENT YEAR

Currently, the City operates on an 8.5 hour day and allows one hour for lunch. Employees do not clock out when they leave for lunch, so it appears that they are working 8.5 hours per day in some instances. Employees are paid for 8 hours, with the contention that two paid 15 minute breaks along with the 30 minute unpaid meal break comprise the lunch hour. The City's personnel policy does not address paid or unpaid breaks. Under the current practice, the City is risking liability, as employees could claim they were not paid for time worked. At a minimum, we recommend that the City revise its policy to address these issues. Employees should be required to sign a policy stating that one half hour will be automatically deducted from time cards for lunch, unless otherwise notified in writing. Employees not utilizing the unpaid meal break should indicate as such on his/her time card, and a supervisor should sign off.

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*

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Hardinsburg, KY

May 22, 2014