

**CITY OF HARDINSBURG, KENTUCKY**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING**  
**INFORMATION**  
**For the Year Ended June 30, 2014**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC**  
**ACCOUNTANTS**

**CITY OF HARDINSBURG, KENTUCKY  
TABLE OF CONTENTS**

---

<b>Independent Auditor's Report</b>	1 - 3
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Fund	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Fund with the Statement of Activities	8
Statement of Net Position - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Notes to Financial Statements	12 - 26
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule - General Fund	27
Notes to Required Supplementary Information	28
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	29 - 30
<b>Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>OMB Circular A-133</i></b>	31 - 32
<b>Schedule of Expenditures of Federal Awards</b>	33
<b>Notes to Schedule of Expenditures of Federal Awards</b>	34
<b>Schedule of Findings and Questioned Costs</b>	35 - 36
<b>Summary Schedule of Prior Audit Findings</b>	37
<b>Management Letter</b>	38 - 39



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA

CHRISTI A. BROOKS, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

## **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, 2014, 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, 2014, 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 December 3, 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

December 3, 2014

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,244,150	\$ 1,117,213	\$ 2,361,363
Receivables, net:			
Accounts - trade	-	327,602	327,602
Franchise fees	3,548	-	3,548
Miscellaneous	4,872	754	5,626
Taxes	90,883	-	90,883
Intergovernmental	13,516	-	13,516
Prepaid expenses	12,523	19,036	31,559
<b>Total Current Assets</b>	<u>1,369,492</u>	<u>1,464,605</u>	<u>2,834,097</u>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,642,586	1,642,586
Investments	-	246,897	246,897
Capital assets:			
Land and construction in process	275,145	3,672,468	3,947,613
Other capital assets, net of depreciation	1,355,927	32,823,403	34,179,330
<b>Total Noncurrent Assets</b>	<u>1,631,072</u>	<u>38,385,354</u>	<u>40,016,426</u>
<b>Total Assets</b>	<u>\$ 3,000,564</u>	<u>\$ 39,849,959</u>	<u>\$ 42,850,523</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 5,826	\$ 25,521	\$ 31,347
Due on construction contracts	-	304,323	304,323
Accrued expenses	6,532	11,873	18,405
Interest payable	-	75,109	75,109
Accrued vacation and payroll	12,094	11,551	23,645
Unearned revenue	-	43,681	43,681
Bonds and loans payable	-	870,933	870,933
<b>Total Current Liabilities</b>	<u>24,452</u>	<u>1,342,991</u>	<u>1,367,443</u>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	239,096	239,096
Due on water line construction	-	25,369	25,369
Loans payable	-	10,434,173	10,434,173
Revenue bonds payable	-	12,363,086	12,363,086
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>23,061,724</u>	<u>23,061,724</u>
<b>Total Liabilities</b>	<u>24,452</u>	<u>24,404,715</u>	<u>24,429,167</u>
<b>Deferred Inflows of Resources</b>			
Deferred amount on refinancing	-	11,756	11,756
<b>Net Position</b>			
Net investment in capital assets	1,355,927	12,815,923	14,171,850
Restricted for capital and debt service	-	1,650,387	1,650,387
Unrestricted	1,620,185	967,178	2,587,363
<b>Total Net Position</b>	<u>\$ 2,976,112</u>	<u>\$ 15,433,488</u>	<u>\$ 18,409,600</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, 2014**

<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>Governmental Activities</b>							
General government	\$ 222,599	\$ -	\$ 7,669	\$ 50,310	\$ (164,620)	\$ -	\$ (164,620)
Streets and maintenance	118,708	-	-	74,617	(44,091)	-	(44,091)
Police department	375,891	1,637	27,654	2,750	(343,850)	-	(343,850)
Fire department	161,592	31,775	8,285	-	(121,532)	-	(121,532)
<b>Total Governmental Activities</b>	<b>\$ 878,790</b>	<b>\$ 33,412</b>	<b>\$ 43,608</b>	<b>\$ 127,677</b>	<b>\$ (674,093)</b>	<b>\$ -</b>	<b>\$ (674,093)</b>
<b>Business-Type Activities</b>							
Water	\$ 3,194,597	\$ 2,807,731	\$ -	\$ 890,200	\$ -	\$ 503,334	\$ 503,334
Sewer	418,336	359,889	-	-	-	(58,447)	(58,447)
Sanitation	320,959	348,798	-	-	-	27,839	27,839
<b>Total Business-Type Activities</b>	<b>3,933,892</b>	<b>3,516,418</b>	<b>-</b>	<b>890,200</b>	<b>-</b>	<b>472,726</b>	<b>472,726</b>
<b>Total Primary Government</b>	<b>\$ 4,812,682</b>	<b>\$ 3,549,830</b>	<b>\$ 43,608</b>	<b>\$ 1,017,877</b>	<b>\$ (674,093)</b>	<b>\$ 472,726</b>	<b>\$ (201,367)</b>
<b>General Revenues</b>							
					\$ 435,216	\$ -	\$ 435,216
					249,904	-	249,904
					41,211	-	41,211
					54,182	-	54,182
					2,484	24,002	26,486
					22,153	113,084	135,237
					5,782	-	5,782
					<b>810,932</b>	<b>137,086</b>	<b>948,018</b>
					136,839	609,812	746,651
					<b>2,839,273</b>	<b>14,823,676</b>	<b>17,662,949</b>
					<b>\$ 2,976,112</b>	<b>\$ 15,433,488</b>	<b>\$ 18,409,600</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2014**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,244,150
Receivables, net:	
Franchise fees	3,548
Miscellaneous	4,872
Taxes	90,883
Intergovernmental	13,516
Prepaid expenses	12,523
<b>Total Assets</b>	<b>\$ 1,369,492</b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 5,826
Accrued expenses	6,532
Accrued payroll	6,195
<b>Total Liabilities</b>	<b>18,553</b>
<b><u>Fund Balance</u></b>	
Nonspendable	12,523
Restricted	79,905
Assigned	106,361
Unassigned	1,152,150
<b>Total Fund Balance</b>	<b>1,350,939</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,369,492</b>

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

<b>Total Governmental Fund Balance</b>	\$ 1,350,939
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.	1,631,072
Certain liabilities, such as accrued vacation, are not due and payable in the current period and therefore are not reported in the governmental fund.	(5,899)
<b>Total Net Position of Governmental Activities</b>	<b>\$ 2,976,112</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, 2014**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 435,216
Insurance premium taxes	249,904
Licenses and permits	54,182
Rental income	14,165
Interest income	2,484
Miscellaneous	7,674
Donations	995
Franchise fees	41,211
Fire department subscription fees	31,325
Intergovernmental revenues	170,291
<b>Total Revenues</b>	<b>1,007,447</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	53,613
Administrative travel	1,736
Utilities	16,241
Insurance	3,337
Industrial development	11,250
Office expense	4,036
Advertising and printing	1,985
Professional fees	13,046
Repairs and maintenance	4,719
Supplies	4,488
Miscellaneous	2,596
Streets and maintenance	111,358
Police department	360,878
Fire department	64,524
Capital outlay	203,926
<b>Total Expenditures</b>	<b>857,733</b>
<b>Excess of Revenues Over Expenditures</b>	<b>149,714</b>
<b><u>Other Financing Sources</u></b>	
Proceeds from sale of fixed assets	5,782
Insurance recoveries - impaired assets	2,400
<b>Total Other Financing Sources</b>	<b>8,182</b>
<b>Net Changes in Fund Balance</b>	<b>157,896</b>
<b>Fund Balance - Beginning of Year</b>	<b>1,193,043</b>
<b>Fund Balance - End of Year</b>	<b>\$ 1,350,939</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, 2014**

**Net Changes in Fund Balance - Governmental Fund** \$ 157,896

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. (23,855)

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. 2,798

**Changes in Net Position of Governmental Activities** \$ 136,839

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2014**

	<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	\$ 471,112	\$ 309,560	\$ 336,541	\$ 1,117,213
Receivables, net:				
Accounts - trade	266,240	31,700	29,662	327,602
Miscellaneous	754	-	-	754
Intergovernmental	-	-	-	-
Prepaid expenses	12,695	3,194	3,147	19,036
<b>Total Current Assets</b>	<b>750,801</b>	<b>344,454</b>	<b>369,350</b>	<b>1,464,605</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,585,797	56,789	-	1,642,586
Investments	212,668	26,750	7,479	246,897
Capital assets:				
Land and construction in process	3,534,307	138,161	-	3,672,468
Other capital assets, net of depreciation	29,922,302	2,597,279	303,822	32,823,403
<b>Total Noncurrent Assets</b>	<b>35,255,074</b>	<b>2,818,979</b>	<b>311,301</b>	<b>38,385,354</b>
<b>Total Assets</b>	<b>\$ 36,005,875</b>	<b>\$ 3,163,433</b>	<b>\$ 680,651</b>	<b>\$ 39,849,959</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 16,281	\$ 4,332	\$ 4,908	\$ 25,521
Due on construction contracts	304,323	-	-	304,323
Accrued expenses	11,289	267	317	11,873
Interest payable	65,152	9,957	-	75,109
Accrued vacation and payroll	9,113	1,127	1,311	11,551
Unearned revenue	43,681	-	-	43,681
Bonds and loans payable	778,449	66,259	26,225	870,933
<b>Total Current Liabilities</b>	<b>1,228,288</b>	<b>81,942</b>	<b>32,761</b>	<b>1,342,991</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	239,096	-	-	239,096
Due on water line construction	25,369	-	-	25,369
Loans payable	9,704,415	712,346	17,412	10,434,173
Revenue bonds payable	11,724,361	543,725	95,000	12,363,086
<b>Total Noncurrent Liabilities</b>	<b>21,693,241</b>	<b>1,256,071</b>	<b>112,412</b>	<b>23,061,724</b>
<b>Total Liabilities</b>	<b>22,921,529</b>	<b>1,338,013</b>	<b>145,173</b>	<b>24,404,715</b>
<b>Deferred Inflows of Resources</b>				
Deferred amount on refinancing	11,756	-	-	11,756
<b>Net Position</b>				
Net investment in capital assets	11,237,628	1,413,110	165,185	12,815,923
Restricted for capital and debt service	1,559,369	83,539	7,479	1,650,387
Unrestricted	275,593	328,771	362,814	967,178
<b>Total Net Position</b>	<b>\$ 13,072,590</b>	<b>\$ 1,825,420</b>	<b>\$ 535,478</b>	<b>\$ 15,433,488</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, 2014**

	Enterprise Funds			Totals
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<b>Operating Revenues</b>				
Charges for services	\$ 2,712,417	\$ 353,985	\$ 344,921	\$ 3,411,323
Penalty charges	33,338	5,004	3,877	42,219
Connection fees	61,976	900	-	62,876
<b>Total Operating Revenues</b>	<b>2,807,731</b>	<b>359,889</b>	<b>348,798</b>	<b>3,516,418</b>
<b>Operating Expenses</b>				
Salaries and benefits	216,747	32,556	37,344	286,647
Maintenance and supplies	33,765	20,254	123	54,142
Chemicals	56,332	-	-	56,332
Contract operations	1,014,266	122,724	155,164	1,292,154
Professional fees	6,922	2,553	1,406	10,881
Office and advertising	32,256	8,726	8,513	49,495
Landfill fees	-	-	75,712	75,712
Depreciation	953,551	135,813	28,562	1,117,926
Rental expense	5,400	3,300	4,800	13,500
Insurance	38,932	9,959	3,442	52,333
Utilities	247,640	48,089	885	296,614
Miscellaneous	57	200	652	909
<b>Total Operating Expenses</b>	<b>2,605,868</b>	<b>384,174</b>	<b>316,603</b>	<b>3,306,645</b>
<b>Operating Income (Loss)</b>	<b>201,863</b>	<b>(24,285)</b>	<b>32,195</b>	<b>209,773</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	22,911	599	492	24,002
Rental income	44,556	-	-	44,556
Other income	564	5	66,624	67,193
Debt service repayments	26,577	-	-	26,577
Insurance recoveries - impaired assets	1,335	-	-	1,335
Interest expense	(588,729)	(34,162)	(4,356)	(627,247)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(492,786)</b>	<b>(33,558)</b>	<b>62,760</b>	<b>(463,584)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(290,923)</b>	<b>(57,843)</b>	<b>94,955</b>	<b>(253,811)</b>
<b>Capital Contributions</b>	<b>863,623</b>	<b>-</b>	<b>-</b>	<b>863,623</b>
<b>Changes in Net Position</b>	<b>572,700</b>	<b>(57,843)</b>	<b>94,955</b>	<b>609,812</b>
<b>Net Position - Beginning of Year</b>	<b>12,499,890</b>	<b>1,883,263</b>	<b>440,523</b>	<b>14,823,676</b>
<b>Net Position - End of Year</b>	<b>\$ 13,072,590</b>	<b>\$ 1,825,420</b>	<b>\$ 535,478</b>	<b>\$ 15,433,488</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, 2014**

	<b>Enterprise Funds</b>			<b>Totals</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b><u>Cash Flows from Operating Activities:</u></b>				
Cash received from customers and others	\$ 2,886,184	\$ 360,933	\$ 348,370	\$ 3,595,487
Cash payments to suppliers for goods and services	(1,383,523)	(200,699)	(246,210)	(1,830,432)
Cash payments to employees for services	(218,014)	(32,739)	(37,563)	(288,316)
<b>Net Cash Provided by Operating Activities</b>	<b>1,284,647</b>	<b>127,495</b>	<b>64,597</b>	<b>1,476,739</b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(1,874,979)	(15,075)	(74,648)	(1,964,702)
Capital contributions	296,256	-	-	296,256
Insurance recoveries	1,335	-	-	1,335
Proceeds from debt	1,517,977	-	-	1,517,977
Principal paid on debt	(761,763)	(63,879)	(25,928)	(851,570)
Interest paid on debt	(594,034)	(34,121)	(4,356)	(632,511)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,415,208)</b>	<b>(113,075)</b>	<b>(104,932)</b>	<b>(1,633,215)</b>
<b><u>Cash Flows from Investing Activities:</u></b>				
Interest income	22,738	766	658	24,162
Other non-operating income and expenses	71,697	5	66,624	138,326
<b>Net Cash Provided by Investing Activities</b>	<b>94,435</b>	<b>771</b>	<b>67,282</b>	<b>162,488</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(36,126)</b>	<b>15,191</b>	<b>26,947</b>	<b>6,012</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,305,703</b>	<b>377,908</b>	<b>317,073</b>	<b>3,000,684</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,269,577</b>	<b>\$ 393,099</b>	<b>\$ 344,020</b>	<b>\$ 3,006,696</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating income (loss)	\$ 201,863	\$ (24,285)	\$ 32,195	\$ 209,773
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	953,551	135,813	28,562	1,117,926
Change in assets and liabilities:				
Receivables, net	76,723	1,044	(428)	77,339
Prepaid expenses	40,594	11,009	5,767	57,370
Accounts payable	10,652	4,129	(1,241)	13,540
Accrued expenses	801	(32)	(39)	730
Other liabilities	463	(183)	(219)	61
<b>Total Adjustments</b>	<b>1,082,784</b>	<b>151,780</b>	<b>32,402</b>	<b>1,266,966</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,284,647</b>	<b>\$ 127,495</b>	<b>\$ 64,597</b>	<b>\$ 1,476,739</b>
<b><u>Schedule of Noncash Transactions:</u></b>				
Principal forgiveness on loans	\$ 582,383	\$ -	\$ -	\$ 582,383

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, 2014**

**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, 2014**

**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, 2014**

**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 (\$17,926 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

Prepaid Expenses

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

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. At June 30, 2014, the allowances for uncollectible trade and property tax receivables were \$24,018 and \$13,008, 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.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the deferred charge on refunding in the government-wide Statement of Net Position in this category. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

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.

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.

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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

Fund Balance (Concluded)

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.

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 \$.283 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, 2014, the reported amount of the City's cash and cash equivalents was \$4,003,949 and the bank balance was \$4,032,527. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

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.

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, \$114,487 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 \$132,410 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$246,897 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, 2014 consisted of the following:

	<u>O&amp;M Fund</u>	<u>WWT Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash	\$ 471,112	\$309,560	\$336,541	\$1,117,213
Restricted cash	1,585,797	56,789	-	1,642,586
Investments	<u>212,668</u>	<u>26,750</u>	<u>7,479</u>	<u>246,897</u>
Total	<u>\$2,269,577</u>	<u>\$393,099</u>	<u>\$344,020</u>	<u>\$3,006,696</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, 2014 are summarized in the following table.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

<u>Bond Series</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Bond Maturity</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
1993	1/1/93	4.5%	6/1/33	\$1,000,000	\$ 718,000
2003 (R)	10/1/03	2.06% to 4.435%	2/1/18	\$ 654,400	\$ 178,000
2004 (R)	2/1/04	2% to 4.375%	2/1/27	\$ 773,000	\$ 577,000
2004 (R)	2/1/04	2% to 4.375%	2/1/28	\$1,702,000	\$1,130,000
2006A	1/1/06	4.125%	6/1/45	\$4,803,000	\$4,372,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,426,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,277,900
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,941,000
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 110,000

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, 2014, the balance in the Sinking Fund was \$107,008 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 \$35,808.

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 \$28,637.

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 \$234,534.

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 \$3,065,903.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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 \$1,630,655.

During the year ended June 30, 2011, the City secured a loan from KIA for major water line expansion projects. From a \$4 million loan, the City has received \$3,753,346 in loan proceeds to date, with 40% principal forgiveness of \$1,501,338, leaving a principal balance of \$2,252,008 at year-end. 1% interest is due semi-annually until closing, with semi-annual principal and interest payments due over twenty years once the loan is finalized.

During the year ended June 30, 2013, the City finalized funding from KIA for two sewer projects. The first loan of \$549,594 was used to fund a sewer rehab project within the City. The loan 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 \$499,437. The second loan of \$276,394 was used to provide sewer services to a trailer park within the City. The loan 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 \$251,169.

During the year ended June 30, 2014, the City finalized funding from KIA for water line expansion projects. The \$2,834,662 loan calls for forty semi-annual payments of \$78,366, which include interest at 1%, and ten annual transfers of \$8,150 to the replacement and maintenance reserve account. The balance at year-end was \$2,705,957.

**Debt Service Requirements**

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2014, including interest payments are as follows:

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2015	\$ 351,000	\$ 495,004	\$ 519,933	\$ 121,621
2016	364,300	481,838	627,810	115,321
2017	379,700	467,969	878,566	108,603
2018	337,100	453,293	629,156	88,927
2019	347,200	440,374	635,697	82,386
2020 - 2024	1,953,900	1,984,465	3,195,825	312,769
2025 - 2029	1,974,600	1,564,406	2,886,338	152,657
2030 - 2034	1,762,100	1,203,650	1,457,195	39,860
2035 - 2039	1,880,200	855,540	123,588	928
2040 - 2044	2,278,200	462,594	-	-
2045 - 2049	1,014,100	85,627	-	-
2050	87,500	2,625	-	-
Totals	<u>\$12,729,900</u>	<u>\$8,497,385</u>	<u>\$10,954,108</u>	<u>\$1,023,072</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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, 2014 were as follows:

	<b>Business-Type Activities</b>			Balance June 30, 2014	Due In One Year
	Balance July 1, 2013	Additions	Reductions		
Bonds payable	\$13,067,100	\$ -	\$ 337,200	\$12,729,900	\$351,000
Loans payable	10,532,884	1,517,977	1,096,753	10,954,108	519,933
Premium	363	-	73	290	73
Discount	(17,285)	-	(1,179)	(16,106)	(1,179)
Net bonds and loans payable	23,583,062	1,517,977	1,432,847	23,668,192	869,827
Deferred gain on refinancing	15,675	-	3,919	11,756	3,918
Customer deposits	243,735	66,875	71,514	239,096	-
Due on water line	25,369	-	-	25,369	-
	<u>\$23,867,841</u>	<u>\$1,584,852</u>	<u>\$1,508,280</u>	<u>\$23,944,413</u>	<u>\$873,745</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, 2014, 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 employees who began participating with KRS on or after September 1, 2008 contributed 6%, 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, 2014, participating employers contributed 18.89% and 35.7% 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, 2014**

**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.

<u>Fiscal Year Ended June 30,</u>	<u>Total Payroll Subject to CERS</u>	<u>Contributions</u>		<u>Total</u>
		<u>Employee</u>	<u>Employer</u>	
2014	\$405,455	\$24,749	\$96,256	\$121,005
2013	\$396,700	\$24,649	\$98,820	\$123,469
2012	\$399,638	\$25,230	\$97,746	\$122,976

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 2014-2015 is 17.67% non-hazardous and 34.31% 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, 2014**

**NOTE F - UNEARNED REVENUE**

The City has two five-year tower lease agreements, for which it receives annual rent in advance of the term of the lease. Accordingly, \$43,681 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	\$ 12,523
Restricted:	
Road aid	76,251
Drug enforcement	3,654
Total Restricted	79,905
Assigned:	
Industrial development	100,958
Fire department	5,403
Total Assigned	106,361
Unassigned	1,152,150
Total Fund Balance	\$1,350,939

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE I - CAPITAL ASSETS**

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

	July 1, 2013	Additions	Deletions	June 30, 2014
<b><u>Governmental Activities</u></b>				
Not Depreciated:				
Land	\$ 275,145	\$ -	\$ -	\$ 275,145
Depreciated:				
Buildings and improvements	694,871	57,828	-	752,699
Furniture and fixtures	61,607	-	-	61,607
Equipment	523,205	21,302	-	544,507
Vehicles	840,982	50,041	(21,115)	869,908
Parks	143,599	13,546	-	157,145
Infrastructure	961,465	61,209	-	1,022,674
Subtotal	3,225,729	203,926	(21,115)	3,408,540
Accumulated Depreciation	1,845,947	227,781	(21,115)	2,052,613
Net Capital Assets	\$ 1,654,927	\$ (23,855)	\$ -	\$ 1,631,072
<b><u>Business-Type Activities</u></b>				
Not Depreciated:				
Land	\$ 271,661	\$ -	\$ -	\$ 271,661
Construction in process	2,232,729	1,168,078	-	3,400,807
Subtotal	2,504,390	1,168,078	-	3,672,468
Depreciated:				
Buildings and improvements	304,083	-	-	304,083
Equipment	697,989	92,596	-	790,585
Vehicles	176,820	-	-	176,820
Treatment plants	15,123,744	7,965	-	15,131,709
Distribution system	21,627,658	36,029	-	21,663,687
Waste water plant	4,923,011	15,075	-	4,938,086
Subtotal	42,853,305	151,665	-	43,004,970
Accumulated Depreciation	9,063,641	1,117,926	-	10,181,567
Net Capital Assets	\$36,294,054	\$ 201,817	\$ -	\$36,495,871

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2013	Additions	Deletions	June 30, 2014
<b><u>Governmental Activities</u></b>				
Buildings and improvements	\$ 306,225	\$ 27,088	\$ -	\$ 333,313
Furniture and fixtures	54,157	2,310	-	56,467
Equipment	350,542	36,568	-	387,110
Vehicles	566,140	71,527	(21,115)	616,552
Parks	61,884	7,615	-	69,499
Infrastructure	506,999	82,673	-	589,672
Total	\$ 1,845,947	\$ 227,781	\$ (21,115)	\$ 2,052,613

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

	July 1, 2013	Additions	Deletions	June 30, 2014
<b><u>Business-Type Activities</u></b>				
Buildings and improvements	\$ 124,283	\$ 9,949	\$ -	\$ 134,232
Equipment	410,503	34,779	-	445,282
Vehicles	155,415	8,167	-	163,582
Treatment plants	2,298,122	380,477	-	2,678,599
Distribution system	3,844,565	551,015	-	4,395,580
Waste water plant	2,230,753	133,539	-	2,364,292
Total	<u>\$9,063,641</u>	<u>\$1,117,926</u>	<u>\$ -</u>	<u>\$10,181,567</u>

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

<b><u>Governmental Activities</u></b>	
General government	\$105,704
Streets and maintenance	7,350
Police department	17,659
Fire department	97,068
	<u>\$227,781</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 \$1,588,524, which included an annual repair and maintenance allowance of \$157,579 and electricity allowance of \$252,000. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2014-2015 is \$1,659,328, which includes an estimated repair and maintenance allowance of \$157,579 and electricity allowance of \$293,330.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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, 2014, the City collected \$138,542 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, 2014, the City billed Cloverport \$124,702 for water.

The City had construction projects for additional water lines in process at year-end. Contract commitments remaining at year-end totaled \$503,767.

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 obtained 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. Prior to year-end, the City accepted a bid of \$992,500 (net of change orders) for the project.

The City expects to assume ownership of a water line in Hancock County valued at approximately \$116,000.

New regulations will require the City to remove phosphorous at the wastewater treatment plant. The estimated cost for this project is \$1.26 million, and the City anticipates receiving forty-two months to comply with the requirements. The City is exploring financing options.

**NOTE K - SUBSEQUENT EVENTS**

The City accepted a bid of \$57,500 to demolish the old Rough River water plant and entered into an agreement for engineering services for phosphorous removal at a cost of \$178,000.

**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, 2014 as follows:

Year Ending June 30,	Future Payments
2015	\$2,567
2016	1,711
Total	<u>\$4,278</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE M - NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The City early implemented the new requirements of this statement for the fiscal year ended June 30, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, was released to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

Other GASB statements effective for the fiscal year had no impact on the City's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
<b><u>Revenues</u></b>				
Property taxes	\$ 424,795	\$ 437,235	\$ 435,216	\$ (2,019)
Insurance premium taxes	205,500	205,500	249,904	44,404
Licenses and permits	48,435	53,457	54,182	725
Rental income	14,165	14,165	14,165	-
Interest income	2,945	2,477	2,484	7
Miscellaneous	6,635	26,454	7,674	(18,780)
Donations	1,200	645	995	350
Franchise fees	38,562	40,155	41,211	1,056
Fire department subscription fees	30,775	30,875	31,325	450
Intergovernmental revenues	91,408	157,831	170,291	12,460
<b>Total Revenues</b>	864,420	968,794	1,007,447	38,653
<b><u>Expenditures</u></b>				
Current:				
General government	124,743	129,867	117,047	12,820
Police department	399,896	399,981	360,878	39,103
Fire department	71,765	62,921	64,524	(1,603)
Streets and maintenance	97,819	113,422	111,358	2,064
Capital outlay	245,110	233,986	203,926	30,060
<b>Total Expenditures</b>	939,333	940,177	857,733	82,444
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(74,913)	28,617	149,714	121,097
<b><u>Other Financing Sources</u></b>				
Proceeds from sale of fixed assets	5,000	5,783	5,782	(1)
Insurance recoveries	-	-	2,400	2,400
<b>Total Other Financing Sources</b>	5,000	5,783	8,182	2,399
<b>Net Changes in Fund Balance</b>	(69,913)	34,400	157,896	123,496
<b>Fund Balance - Beginning of Year</b>	742,261	742,719	1,210,254	467,535
<b>Fund Balance - End of Year</b>	\$ 672,348	\$ 777,119	\$ 1,368,150	\$ 591,031

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE A - BASIS OF PRESENTATION**

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 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 2014-001 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 December 3, 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

December 3, 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, 2014. 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.

## **Opinion on Each Major Federal Program**

In our opinion, 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 its major federal program for the year ended June 30, 2014.

## **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.

*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. *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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

December 3, 2014

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<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	\$ 2,404
Total Water and Waste Program Cluster		<u>2,404</u>
Total Department of Agriculture		<u>2,404</u>
<b><u>Department of Homeland Security</u></b>		
Passed through Kentucky Department of Emergency Management:		
Hazard Mitigation Grant	97.039	<u>43,371</u>
Total Department of Homeland Security		<u>43,371</u>
<b><u>Environmental Protection Agency</u></b>		
Passed through Kentucky Infrastructure Authority:		
DWSRF Cluster:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>598,402</u>
Total DWSRF Cluster		<u>598,402</u>
Total Environmental Protection Agency		<u>598,402</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 644,177</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, 2014**

**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, 2014. 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	\$4,957,965

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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 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 auditor's report issued on compliance for major programs: Unmodified

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
•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 2014-001.

**Section III: Federal Awards Findings**

None.

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Finding: 2014-001 (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 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  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

<i>Reference #:</i>	Finding 13-2
<i>Status:</i>	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

CHRISTI A. BROOKS, 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, 2014, 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 December 3, 2014, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated December 3, 2014, on the basic financial statements of the City of Hardinsburg.

### *PRIOR YEAR*

As recommended in the prior year, the City revised its policy regarding clocking out for lunch.

### *CURRENT YEAR*

We noted instances in which the City did not have signed copies of documents relating to certain construction projects, including approved change orders. Although copies can usually be obtained from the project engineer, we recommend that the City make more effort to obtain the signed originals and retain the documentation in its files.

There are occasions where police officers write in arrival and departure times rather than using the time clock. While situations may arise where the time clock is not accessible, the occurrence appears excessive. We recommend that more effort be made to use the time clock to record hours worked.

With the increasing financial pressures placed on governmental entities, the City may need to more effectively monitor its financial situation. As the City continues to undertake major construction projects, there is a substantial rising cost for the operations and maintenance contract for the water plant and distribution system (\$134,000 increase over the prior year). For the first time, the City had to transfer money temporarily to cover water plant expenses. While increasing customer rates annually will relieve some of the financial pressure, the City should also meet with Veolia to review opportunities to cut costs or reduce increases in future contracts. In addition, interest expense has increased substantially as a result of the increased debt, and sizeable transfers must be made to depreciation reserve funds. We recommend that the City explore refinancing older debt at a lower interest rate.

During testing, we noted eleven out of seventy-five disbursements included purchase orders that appeared to be issued after-the-fact, and four invoices lacked approval. The City's purchasing policy states that the Mayor must approve purchases over \$500; however, we noted several purchases where approval was not indicated. We recommend that purchase orders be issued prior to purchase and more effort be made to adhere to the City's purchase policies.

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

Hardinsburg, KY

December 3, 2014