

CITY OF HARDINSBURG, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION
For the Year Ended June 30, 2015
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

CITY OF HARDINSBURG, KENTUCKY
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DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

DANIEL G. DRANE, CPA

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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note N to the financial statements, in fiscal year 2015 the City adopted new accounting guidance, GASB Statements No. 68 and 71. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 32 and the pension schedules and notes on pages 33 through 35 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 15, 2015 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 15, 2015

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 1,319,425	\$ 951,573	\$ 2,270,998
Receivables, net:			
Accounts - trade	-	325,358	325,358
Franchise fees	3,544	-	3,544
Miscellaneous	6,920	3,975	10,895
Taxes	60,947	-	60,947
Intergovernmental	19,281	7,515	26,796
Due from other funds	89,151	-	89,151
Prepaid expenses	19,213	27,504	46,717
Total Current Assets	1,518,481	1,315,925	2,834,406
Noncurrent Assets			
Restricted cash	-	1,532,478	1,532,478
Investments	-	194,416	194,416
Capital assets:			
Land and construction in process	275,145	1,168,485	1,443,630
Other capital assets, net of depreciation	1,322,620	36,123,435	37,446,055
Total Noncurrent Assets	1,597,765	39,018,814	40,616,579
Total Assets	3,116,246	40,334,739	43,450,985
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	-	15,408	15,408
Deferred amounts related to pensions	56,160	32,711	88,871
Total Deferred Outflows of Resources	56,160	48,119	104,279
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	9,820	25,070	34,890
Due on construction contracts	-	136,244	136,244
Due to other funds	-	89,151	89,151
Accrued expenses	-	9,058	9,058
Interest payable	-	51,968	51,968
Accrued vacation and payroll	12,725	11,257	23,982
Unearned revenue	-	44,834	44,834
Bonds and loans payable	-	1,004,538	1,004,538
Total Current Liabilities	22,545	1,372,120	1,394,665
Noncurrent Liabilities			
Customer deposits payable	-	253,536	253,536
Due on water line construction	-	25,369	25,369
Loans payable	-	10,563,823	10,563,823
Revenue bonds payable	-	12,076,223	12,076,223
Net pension liability	318,718	367,282	686,000
Total Noncurrent Liabilities	318,718	23,286,233	23,604,951
Total Liabilities	341,263	24,658,353	24,999,616
<u>Deferred Inflows of Resources</u>			
Deferred amount on refinancing	-	7,837	7,837
Deferred amounts related to pensions	31,591	41,409	73,000
Total Deferred Inflows of Resources	31,591	49,246	80,837
<u>Net Position</u>			
Net investment in capital assets	1,597,765	13,629,538	15,227,303
Restricted for capital and debt service	-	1,473,358	1,473,358
Unrestricted	1,201,787	572,363	1,774,150
Total Net Position	\$ 2,799,552	\$ 15,675,259	\$ 18,474,811

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

**CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Governmental Activities</u>							
General government	\$ 219,231	\$ -	\$ 8,184	\$ -	\$ (211,047)	\$ -	\$ (211,047)
Streets and maintenance	123,964	-	-	53,860	(70,104)	-	(70,104)
Police department	358,567	1,636	23,638	-	(333,293)	-	(333,293)
Fire department	149,149	32,322	8,450	-	(108,377)	-	(108,377)
Total Governmental Activities	850,911	33,958	40,272	53,860	(722,821)	-	(722,821)
<u>Business-Type Activities</u>							
Water	3,371,473	3,135,240	-	883,894	-	647,661	647,661
Sewer	513,319	361,770	-	-	-	(151,549)	(151,549)
Sanitation	351,016	349,748	-	-	-	(1,268)	(1,268)
Total Business-Type Activities	4,235,808	3,846,758	-	883,894	-	494,844	494,844
Total Primary Government	\$ 5,086,719	\$ 3,880,716	\$ 40,272	\$ 937,754	\$ (722,821)	\$ 494,844	\$ (227,977)
<u>General Revenues</u>							
					\$ 460,777	\$ -	\$ 460,777
					235,504	-	235,504
					40,631	-	40,631
					52,418	-	52,418
					2,645	22,883	25,528
					24,565	87,382	111,947
					38,626	-	38,626
					855,166	110,265	965,431
					132,345	605,109	737,454
					2,667,207	15,070,150	17,737,357
					\$ 2,799,552	\$ 15,675,259	\$ 18,474,811

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

**CITY OF HARDINSBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2015**

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 1,319,425
Receivables, net:	
Franchise fees	3,544
Miscellaneous	6,920
Taxes	60,947
Intergovernmental	19,281
Prepaid expenses	19,213
Due from other funds	89,151
Total Assets	\$ 1,518,481
 <u>Liabilities</u>	
Accounts payable	\$ 9,820
Accrued payroll	7,309
Total Liabilities	17,129
 <u>Fund Balance</u>	
Nonspendable	19,213
Restricted	87,584
Assigned	108,992
Unassigned	1,285,563
Total Fund Balance	1,501,352
Total Liabilities and Fund Balance	\$ 1,518,481

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

Total Governmental Fund Balance		\$ 1,501,352
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.		1,597,765
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not reported in the governmental funds.		24,569
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Accrued sick leave	(5,416)	
Net pension liability	(318,718)	
	(324,134)	
Total Net Position of Governmental Activities		\$ 2,799,552

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, 2015

	General Fund
<u>Revenues</u>	
Property taxes	\$ 460,777
Insurance premium taxes	235,504
Licenses and permits	52,418
Rental income	14,635
Interest income	2,645
Miscellaneous	12,373
Donations	600
Franchise fees	40,631
Fire department subscription fees	31,492
Intergovernmental revenues	93,532
Total Revenues	944,607
<u>Expenditures</u>	
Current:	
General government:	
Salaries and benefits	56,119
Administrative travel	1,427
Utilities	17,197
Insurance	3,559
Industrial development	2,500
Office expense	4,139
Advertising and printing	1,814
Professional fees	10,730
Repairs and maintenance	9,287
Supplies	3,852
Miscellaneous	2,503
Streets and maintenance	116,382
Police department	349,913
Fire department	55,925
Capital outlay	197,496
Total Expenditures	832,843
Excess of Revenues Over Expenditures	111,764
<u>Other Financing Sources</u>	
Proceeds from sale of fixed assets	38,626
Insurance recoveries - impaired assets	23
Total Other Financing Sources	38,649
Net Changes in Fund Balance	150,413
Fund Balance - Beginning of Year	1,350,939
Fund Balance - End of Year	\$ 1,501,352

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, 2015**

Net Changes in Fund Balance - Governmental Fund \$ 150,413

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. (33,307)

Governmental funds report pension contributions as expenditures when made. In the Statement of Net Position, pension contributions are reported as deferred outflows of resources because the reported net pension liability is measured one year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

District pension contributions	56,160	
Pension expense	<u>(41,404)</u>	14,756

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. 483

Changes in Net Position of Governmental Activities \$ 132,345

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

CITY OF HARDINSBURG, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2015

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
Assets				
Current Assets				
Cash and cash equivalents	\$ 409,276	\$ 202,852	\$ 339,445	\$ 951,573
Receivables, net:				
Accounts - trade	265,489	31,201	28,668	325,358
Miscellaneous	2,469	753	753	3,975
Intergovernmental	7,515	-	-	7,515
Due from other funds	-	1,084	-	1,084
Prepaid expenses	18,802	5,460	3,242	27,504
Total Current Assets	703,551	241,350	372,108	1,317,009
Noncurrent Assets				
Restricted cash	1,472,687	59,791	-	1,532,478
Investments	172,698	14,379	7,339	194,416
Capital assets:				
Land and construction in process	1,030,324	138,161	-	1,168,485
Other capital assets, net of depreciation	33,336,639	2,513,607	273,189	36,123,435
Total Noncurrent Assets	36,012,348	2,725,938	280,528	39,018,814
Total Assets	36,715,899	2,967,288	652,636	40,335,823
Deferred Outflows of Resources				
Deferred amount on debt refundings	10,539	4,869	-	15,408
Deferred amounts related to pensions	25,121	3,466	4,124	32,711
Total Deferred Outflows of Resources	35,660	8,335	4,124	48,119
Liabilities				
Current Liabilities				
Accounts payable	8,195	15,641	1,234	25,070
Due on construction contracts	136,244	-	-	136,244
Due to other funds	89,740	226	269	90,235
Accrued expenses	9,058	-	-	9,058
Interest payable	49,094	2,874	-	51,968
Accrued vacation and payroll	8,852	1,120	1,285	11,257
Unearned revenue	44,834	-	-	44,834
Bonds and loans payable	909,365	68,643	26,530	1,004,538
Total Current Liabilities	1,255,382	88,504	29,318	1,373,204
Noncurrent Liabilities				
Customer deposits payable	253,536	-	-	253,536
Due on water line construction	25,369	-	-	25,369
Loans payable	9,884,237	673,704	5,882	10,563,823
Revenue bonds payable	11,455,045	541,178	80,000	12,076,223
Net pension liability	281,928	38,964	46,390	367,282
Total Noncurrent Liabilities	21,900,115	1,253,846	132,272	23,286,233
Total Liabilities	23,155,497	1,342,350	161,590	24,659,437
Deferred Inflows of Resources				
Deferred amount on refinancing	7,837	-	-	7,837
Deferred amounts related to pensions	31,786	4,393	5,230	41,409
Total Deferred Inflows of Resources	39,623	4,393	5,230	49,246
Net Position				
Net investment in capital assets	12,095,649	1,373,112	160,777	13,629,538
Restricted for capital and debt service	1,391,849	74,170	7,339	1,473,358
Unrestricted	68,941	181,598	321,824	572,363
Total Net Position	\$ 13,556,439	\$ 1,628,880	\$ 489,940	\$ 15,675,259

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, 2015

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<u>Operating Revenues</u>				
Charges for services	\$ 2,961,303	\$ 356,760	\$ 346,163	\$ 3,664,226
Penalty charges	37,042	4,560	3,585	45,187
Connection fees	136,895	450	-	137,345
Total Operating Revenues	3,135,240	361,770	349,748	3,846,758
<u>Operating Expenses</u>				
Salaries and benefits	216,848	31,699	36,470	285,017
Maintenance and supplies	74,134	54,430	6,148	134,712
Chemicals	43,760	-	-	43,760
Contract operations	1,007,133	148,440	182,437	1,338,010
Professional fees	7,075	2,507	1,504	11,086
Office and advertising	30,355	10,054	9,355	49,764
Landfill fees	-	-	67,627	67,627
Depreciation	1,012,618	138,451	32,563	1,183,632
Rental expense	5,400	3,300	4,800	13,500
Insurance	35,680	9,716	4,133	49,529
Utilities	289,288	57,877	1,230	348,395
Miscellaneous	2,088	324	1,049	3,461
Total Operating Expenses	2,724,379	456,798	347,316	3,528,493
Operating Income (Loss)	410,861	(95,028)	2,432	318,265
<u>Non-Operating Revenues (Expenses)</u>				
Interest income	21,816	552	515	22,883
Rental income	51,030	-	-	51,030
Other income	550	30	1,479	2,059
Debt service repayments	26,577	-	-	26,577
Insurance recoveries - impaired assets	34,155	69	69	34,293
Bond issue costs	(57,295)	(21,879)	-	(79,174)
Interest expense	(589,799)	(34,642)	(3,700)	(628,141)
Total Non-Operating Revenues (Expenses)	(512,966)	(55,870)	(1,637)	(570,473)
Income (Loss) Before Capital Contributions and Transfers	(102,105)	(150,898)	795	(252,208)
Capital Contributions	857,317	-	-	857,317
Transfers	6,725	(6,725)	-	-
Changes in Net Position	761,937	(157,623)	795	605,109
Net Position - Beginning of Year (Restated)	12,794,502	1,786,503	489,145	15,070,150
Net Position - End of Year	\$ 13,556,439	\$ 1,628,880	\$ 489,940	\$ 15,675,259

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, 2015

	Enterprise Funds			Total
	Operations & Maintenance Fund	Wastewater Treatment Fund	Sanitation Fund	
<u>Cash Flows from Operating Activities:</u>				
Cash received from customers and others	\$ 3,151,583	\$ 361,516	\$ 349,989	\$ 3,863,088
Cash payments to suppliers for goods and services	(1,511,336)	(286,389)	(278,581)	(2,076,306)
Cash payments to employees for services	(210,105)	(30,733)	(35,332)	(276,170)
Net Cash Provided by Operating Activities	1,430,142	44,394	36,076	1,510,612
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(2,059,281)	(46,261)	(5,719)	(2,111,261)
Capital contributions	821,802	-	-	821,802
Insurance recoveries	34,155	69	69	34,293
Proceeds from debt	2,744,753	571,178	-	3,315,931
Bond issue costs	(57,295)	(21,879)	-	(79,174)
Principal paid on debt	(2,713,870)	(615,259)	(26,225)	(3,355,354)
Interest paid on debt	(610,045)	(41,318)	(3,700)	(655,063)
Net Cash Used by Capital and Related Financing Activities	(1,839,781)	(153,470)	(35,575)	(2,028,826)
<u>Cash Flows from Noncapital Financing Activities:</u>				
Transfers	6,725	(6,725)	-	-
Interfund loans	89,740	(858)	269	89,151
Net Cash Provided (Used) by Noncapital Financing Activities	96,465	(7,583)	269	89,151
<u>Cash Flows from Investing Activities:</u>				
Interest income	20,101	552	515	21,168
Other non-operating income and expenses	78,157	30	1,479	79,666
Net Cash Provided by Investing Activities	98,258	582	1,994	100,834
Net Increase (Decrease) in Cash and Cash Equivalents	(214,916)	(116,077)	2,764	(328,229)
Cash and Cash Equivalents - Beginning of Year	2,269,577	393,099	344,020	3,006,696
Cash and Cash Equivalents - End of Year	\$ 2,054,661	\$ 277,022	\$ 346,784	\$ 2,678,467
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Operating income (loss)	\$ 410,861	\$ (95,028)	\$ 2,432	\$ 318,265
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,012,618	138,451	32,563	1,183,632
Change in assets and liabilities:				
Receivables, net	751	(254)	241	738
Prepaid expenses	(6,107)	(2,266)	(95)	(8,468)
Deferred outflows related to pensions	12,532	1,738	2,072	16,342
Accounts payable	(8,085)	2,792	114	(5,179)
Accrued expenses	(2,231)	(267)	(317)	(2,815)
Other liabilities	15,331	(8)	(25)	15,298
Net pension liability	(37,314)	(5,157)	(6,139)	(48,610)
Deferred inflows related to pensions	31,786	4,393	5,230	41,409
Total Adjustments	1,019,281	139,422	33,644	1,192,347
Net Cash Provided by Operating Activities	\$ 1,430,142	\$ 44,394	\$ 36,076	\$ 1,510,612
<u>Schedule of Noncash Transactions:</u>				
Donated capital assets	\$ 28,000	\$ -	\$ -	\$ 28,000

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hardinsburg (City) is a fourth 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, 2015**

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 (O&M) Fund - This fund accounts for the operation, maintenance, and development of the water plant and water distribution lines.
- Wastewater Treatment (WWT) Fund - This fund accounts for the operation, maintenance, and development of the sewage treatment plant and 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, 2015**

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 received \$34,316 in insurance proceeds for impaired assets. 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 (\$13,340 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, 2015, the allowances for uncollectible trade and property tax receivables were \$25,464 and \$12,422, 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 and deferred amounts related to pensions in the 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. Deferred amounts related to pensions include pension contributions made during the current fiscal year but applicable to a future measurement period of the net pension liability.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City reports the deferred charge on refunding and deferred amount related to pensions in the Statement of Net Position in this category.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 net position consists of 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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Balance (Concluded)

- 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.

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 \$.292 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.

NOTE B - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

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.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015, the reported amount of the City's cash and cash equivalents was \$3,803,476 and the bank balance was \$3,842,154. 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.

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, \$125,939 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 \$68,477 is uninsured and unregistered. Both the carrying amount and market value of the investments were \$194,416 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, 2015 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 409,276	\$202,852	\$339,445	\$ 951,573
Restricted cash	1,472,687	59,791	-	1,532,478
Investments	172,698	14,379	7,339	194,416
Total	<u>\$2,054,661</u>	<u>\$277,022</u>	<u>\$346,784</u>	<u>\$2,678,467</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015 are summarized in the following table.

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
1993	* 1/1/93	4.5%	6/1/33	\$1,000,000	\$ -
2003 (R)	* 10/1/03	2.06% to 4.435%	2/1/18	\$ 654,400	\$ -
2004 (R)	* 2/1/04	2% to 4.375%	2/1/27	\$ 773,000	\$ -
2004 (R)	* 2/1/04	2% to 4.375%	2/1/28	\$1,702,000	\$ -
2006A	1/1/06	4.125%	6/1/45	\$4,803,000	\$4,300,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,387,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,258,200
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,910,500
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 95,000
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$2,395,000

R – Denotes refunding bond issue

* – Refunded with 2015 bond issue

On May 12, 2015 the City issued \$2,395,000 in refunding bonds with interest rates ranging between 2.1% and 4.1%. The City issued the bonds to refund \$2,452,200 of outstanding bonds with interest rates ranging between 2% and 4.5%. The current refunding reduced total debt service over the next eighteen years by \$279,497. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$134,949.

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, 2015, the balance in the Sinking Fund was \$118,600 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 \$28,816.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE D - LONG-TERM DEBT (CONTINUED)

Loans Payable (Continued)

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 \$17,412.

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 \$208,759.

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 \$2,852,685.

During the year ended June 30, 2010, the City completed 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 \$1,536,186.

During the year ended June 30, 2011, the City secured a \$4 million loan from KIA for major water line expansion projects, with 40% principal forgiveness of \$1,600,000, leaving a principal balance of \$2,400,000, which was finalized by year-end. Final draws of \$246,654 were made during the current fiscal year, with principal forgiveness of \$98,662. The loan calls for forty semi-annual payments of \$66,349, which include interest at 1%, and ten annual transfers of \$10,000 to the replacement and maintenance reserve account. The year-end balance was \$2,345,651.

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 \$473,980. 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 \$238,367.

During the year ended June 30, 2015, the City obtained additional funding from KIA for water line expansion projects. In 2013, the City secured a loan in the amount of \$3,251,590, and \$3,123,930 has been drawn to date. The loan calls for forty semi-annual payments of \$80,993, 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 \$2,863,357.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE D - LONG-TERM DEBT (CONTINUED)

Loans Payable (Concluded)

During the prior fiscal year, the City secured a loan from KIA for the construction of a new water tank. From a \$1.19 million loan, the City has received \$790,496 in loan proceeds to date, with 50% principal forgiveness of \$395,248, leaving a principal balance of \$395,248 at year-end. Interest of .75% is due semi-annually until closing, and semi-annual principal and interest payments will be due over twenty years once the loan is finalized.

Debt Service Requirements

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2015, including interest payments are as follows:

Fiscal Year Ending June 30,	Business-Type Activities			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2016	\$ 357,900	\$ 436,259	\$ 646,638	\$122,120
2017	389,600	448,457	906,771	115,068
2018	340,400	437,241	657,598	95,154
2019	353,200	424,058	664,377	88,396
2020	370,000	410,366	663,806	81,633
2021 - 2025	2,048,000	1,839,554	3,346,945	305,548
2026 - 2030	1,830,100	1,455,581	2,811,112	143,124
2031 - 2035	1,744,100	1,129,730	1,502,594	36,614
2036 - 2040	1,953,500	782,913	10,620	39
2041 - 2045	2,367,100	374,382	-	-
2046 - 2050	591,800	50,049	-	-
Totals	<u>\$12,345,700</u>	<u>\$7,788,590</u>	<u>\$11,210,461</u>	<u>\$987,696</u>

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due In One Year
<u>Governmental Activities</u>					
Net pension liability	<u>\$ 356,108</u>	<u>\$ 9,814</u>	<u>\$ 47,204</u>	<u>\$ 318,718</u>	<u>\$ 56,160</u>

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE D - LONG-TERM DEBT (CONCLUDED)

Changes in Noncurrent Liabilities (Concluded)

<u>Business-Type Activities</u>	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due In One Year
Bonds payable	\$12,729,900	\$2,395,000	\$2,779,200	\$12,345,700	\$ 357,900
Loans payable	10,954,108	1,326,418	1,070,065	11,210,461	646,638
Premium	290	88,133	-	88,423	3,458
Discount	(16,106)	16,106	-	-	-
Net bonds and loans payable	23,668,192	3,825,657	3,849,265	23,644,584	1,007,996
Net pension liability	415,892	442	49,052	367,282	32,711
Customer deposits	239,096	75,425	60,985	253,536	-
Due on water line	25,369	-	-	25,369	-
	<u>\$24,348,549</u>	<u>\$3,901,524</u>	<u>\$3,959,302</u>	<u>\$24,290,771</u>	<u>\$1,040,707</u>

NOTE E - FUND BALANCE

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 19,213
Restricted:	
Road aid	82,930
Drug enforcement	4,654
Total Restricted	<u>87,584</u>
Assigned:	
Industrial development	103,562
Fire department	5,430
Total Assigned	<u>108,992</u>
Unassigned	<u>1,285,563</u>
Total Fund Balance	<u>\$1,501,352</u>

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, \$44,834 is reported as unearned revenue on the Statement of Net Position.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE G - PENSION PLANS

General Information about the County Employees Retirement System

Plan Description – Full-time employees are covered by the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System 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 from the website at www.kyret.ky.gov.

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

CERS Non-Hazardous

<u>Tier 1</u>	Participation date	Before September 1, 2008
Defined	Unreduced retirement	27 years service or 65 years old with 4 years service
Benefit	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
<u>Tier 2</u>	Participation date	September 1, 2008 – December 31, 2013
Defined	Unreduced retirement	At least 5 years service and 65 years old
Benefit	Reduced retirement	Age 57+ and sum of service years plus age = 87 At least 10 years service and 60 years old
<u>Tier 3</u>	Participation date	After December 31, 2013
Cash	Unreduced retirement	At least 5 years service and 65 years old
Balance	Reduced retirement	Age 57+ and sum of service years plus age = 87 Not available

CERS Hazardous

<u>Tier 1</u>	Participation date	Before September 1, 2008
Defined	Unreduced retirement	20 years service or 55 years old with 5 years service
Benefit	Reduced retirement	At least 15 years service and 50 years old
<u>Tier 2</u>	Participation date	September 1, 2008 – December 31, 2013
Defined	Unreduced retirement	25 years service or 60 years old with 5 years service
Benefit	Reduced retirement	At least 15 years service and 50 years old
<u>Tier 3</u>	Participation date	After December 31, 2013
Cash	Unreduced retirement	25 years service or 60 years old with 5 years service
Balance	Reduced retirement	Not available

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE G - PENSION PLANS (CONTINUED)

General Information about the County Employees Retirement System (Concluded)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and the hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Employees in all tiers contributed 5% of their salaries for non-hazardous and 8% for hazardous, and those in Tiers 2 and 3 also contributed an additional 1% of their salaries for insurance. Participating employers contributed 17.67% and 34.31% of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2015.

Medical Insurance Plan

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$686,000 for its proportionate share of the net pension liability for CERS, which included \$408,000 for non-hazardous and \$278,000 for hazardous. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the actual contributions of the City relative to the total contributions of all participating members of CERS during the measurement period July 1, 2013 through June 30, 2014. At June 30, 2014, the City's proportion was 0.012574% non-hazardous and 0.023098% hazardous.

For the year ended June 30, 2015, the City recognized total pension expense of \$83,256 for CERS, which included \$46,491 for non-hazardous and \$36,765 for hazardous.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE G - PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$73,000
City contributions subsequent to the measurement date	88,871	-
	\$88,871	\$73,000

\$88,871 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2016	\$(18,250)
2017	(18,250)
2018	(18,250)
2019	(18,250)

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Projected Salary Increases	4.5%, average, including inflation
Inflation Rate	3.50%

Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE G - PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core US Fixed Income	10.0%	5.25%
High Yield US Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.50%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability for both non-hazardous and hazardous was 7.75%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-nine year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase-in of anticipated gains on actuarial value of assets over the first four years of the projection period.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE G - PENSION PLANS (CONCLUDED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)

Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate –
The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 6.75%	Current Discount 7.75%	1% Increase 8.75%
Non-Hazardous	\$536,901	\$408,000	\$294,113
Hazardous	\$363,668	\$278,000	\$205,261

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE H - 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 I - 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, 2015 as follows:

Year Ending June 30,	Future Payments
2016	\$1,711

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE J - CAPITAL ASSETS

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

	July 1, 2014	Additions	Deletions	June 30, 2015
<u>Governmental Activities</u>				
Not Depreciated:				
Land	\$ 275,145	\$ -	\$ -	\$ 275,145
Depreciated:				
Buildings and improvements	752,699	13,625	-	766,324
Furniture and fixtures	61,607	3,850	-	65,457
Equipment	544,507	2,340	-	546,847
Vehicles	869,908	110,595	(92,300)	888,203
Parks	157,145	-	-	157,145
Infrastructure	1,022,674	67,086	-	1,089,760
Subtotal	3,408,540	197,496	(92,300)	3,513,736
Accumulated Depreciation	2,052,613	230,803	(92,300)	2,191,116
Net Capital Assets	\$ 1,631,072	\$ (33,307)	\$ -	\$ 1,597,765
<u>Business-Type Activities</u>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Construction in process	3,400,807	1,656,875	(4,164,358)	893,324
Subtotal	3,675,968	1,656,875	(4,164,358)	1,168,485
Depreciated:				
Buildings and improvements	304,083	-	-	304,083
Equipment	790,585	51,053	-	841,638
Vehicles	176,820	-	-	176,820
Treatment plants	15,131,709	11,762	-	15,143,471
Distribution system	21,663,687	4,374,588	-	26,038,275
Waste water plant	4,938,086	46,261	-	4,984,347
Subtotal	43,004,970	4,483,664	-	47,488,634
Accumulated Depreciation	10,181,567	1,183,632	-	11,365,199
Net Capital Assets	\$36,499,371	\$4,956,907	\$(4,164,358)	\$37,291,920

Depreciation expense and related accumulated depreciation are detailed as follows:

	July 1, 2014	Additions	Deletions	June 30, 2015
<u>Governmental Activities</u>				
Buildings and improvements	\$ 333,313	\$ 27,121	\$ -	\$ 360,434
Furniture and fixtures	56,467	2,079	-	58,546
Equipment	387,110	31,601	-	418,711
Vehicles	616,552	77,629	(92,300)	601,881
Parks	69,499	8,051	-	77,550
Infrastructure	589,672	84,322	-	673,994
Total	\$ 2,052,613	\$ 230,803	\$ (92,300)	\$ 2,191,116

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE J - CAPITAL ASSETS (CONCLUDED)

	July 1, 2014	Additions	Deletions	June 30, 2015
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 134,232	\$ 9,948	\$ -	\$ 144,180
Equipment	445,282	42,859	-	488,141
Vehicles	163,582	6,169	-	169,751
Treatment plants	2,678,599	381,216	-	3,059,815
Distribution system	4,395,580	607,847	-	5,003,427
Waste water plant	2,364,292	135,593	-	2,499,885
Total	<u>\$10,181,567</u>	<u>\$1,183,632</u>	<u>\$ -</u>	<u>\$11,365,199</u>

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

<u>Governmental Activities</u>	
General government	\$107,066
Streets and maintenance	7,582
Police department	22,930
Fire department	93,225
	<u>\$230,803</u>

NOTE K - 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 \$1,659,328, which included an annual repair and maintenance allowance of \$157,579 and electricity allowance of \$293,330. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2015-2016 is \$1,446,545, which includes an estimated repair and maintenance allowance of \$220,000. Beginning in July 2015, all utility accounts will be paid directly by the City and will no longer be included in the PSG contract.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE K - 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, 2015, the City collected \$136,723 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, 2015, the City billed Cloverport \$138,837 for water.

The City was in the process of building a \$1.163 million water storage tank at year-end and had contract commitments remaining for \$363,093. The City obtained a \$1.19 million loan with 50% principal forgiveness from KIA to be used for the project.

The City expects to assume ownership of a water line in Hancock County valued at approximately \$116,000, but no deed had been obtained by year-end.

New regulations will require the City to remove phosphorous at the wastewater treatment plant, and the City anticipates bidding the project in 2016. The City was awarded a \$1,279,500 KIA loan with interest at .75% to finance the \$1.26 million estimated cost of the project.

NOTE L - SUBSEQUENT EVENTS

Subsequent to year-end, the City accepted a bid of \$113,578 to relocate water lines and anticipates receiving reimbursement from the KY Department of Transportation. The City also approved bids of \$93,485 for a dump truck and \$73,002 for radio read meters. Contingency funds from water projects and reserve funds will be used to finance the costs.

Effective July 2015, the City took over the McQuady Volunteer Fire Department and received assets with an estimated value of approximately \$835,000.

In December 2015, the City was awarded a \$400,000 sidewalk grant, and the City is required to match a minimum of \$80,000.

NOTE M - INTERFUND ACTIVITY

The Wastewater Treatment Fund transferred \$6,725 in excess sinking funds to the Operations & Maintenance Fund to help cover bond issue costs.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE M - INTERFUND ACTIVITY (CONCLUDED)

As a result of the General Fund temporarily covering proprietary fund expenses, the following interfund balances existed at year-end:

Due From	Due To	Amount
O&M Fund	General Fund	\$88,656
O&M Fund	WWT Fund	1,084
WWT Fund	General Fund	226
Sanitation Fund	General Fund	269
		\$90,235

NOTE N - NEW ACCOUNTING PRONOUNCEMENTS

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 was implemented during the current fiscal year. See Note O.

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 and were implemented during the current fiscal year. See Note O.

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

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE O - RESTATEMENT

The implementation of GASB Statements No. 68 and 71 (see Note N) resulted in the restatement of the beginning net position of the governmental and business-type activities in the government-wide financial statements and of the proprietary fund in the fund level financial statements. A prior period adjustment was also made in the O&M Fund to record land donated in the prior fiscal year.

	Governmental Activities	Business-Type Activities		
		O&M Fund	WWT Fund	Sanitation Fund
Net Position at June 30, 2014, Previously Reported	\$2,976,112	\$13,072,590	\$1,825,420	\$535,478
Prior period adjustment for: Net pension liability as of measurement date of June 30, 2013	(356,108)	(319,242)	(44,121)	(52,529)
Deferred outflows – City’s contributions made during fiscal year 2014	47,203	37,654	5,204	6,196
Capital contribution – land	-	3,500	-	-
Net Position at June 30, 2014, Restated	<u>\$2,667,207</u>	<u>\$12,794,502</u>	<u>\$1,786,503</u>	<u>\$489,145</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARDINSBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 437,961	\$ 460,369	\$ 460,777	\$ 408
Insurance premium taxes	205,600	250,000	235,504	(14,496)
Licenses and permits	55,055	51,270	52,418	1,148
Rental income	14,165	14,635	14,635	-
Interest income	2,285	2,460	2,645	185
Miscellaneous	6,916	8,405	12,373	3,968
Donations	400	950	600	(350)
Franchise fees	38,600	40,653	40,631	(22)
Fire department subscription fees	30,875	31,904	31,492	(412)
Intergovernmental revenues	91,802	75,796	85,282	9,486
Total Revenues	883,659	936,442	936,357	(85)
Expenditures				
Current:				
General government	126,897	127,668	113,127	14,541
Police department	421,194	411,910	349,913	61,997
Fire department	63,968	64,057	55,925	8,132
Streets and maintenance	116,837	120,621	116,382	4,239
Capital outlay	283,500	195,663	197,496	(1,833)
Total Expenditures	1,012,396	919,919	832,843	87,076
Excess (Deficiency) of Revenues Over Expenditures	(128,737)	16,523	103,514	86,991
Other Financing Sources				
Proceeds from sale of fixed assets	5,000	38,626	38,626	-
Insurance recoveries	-	23	23	-
Total Other Financing Sources	5,000	38,649	38,649	-
Net Changes in Fund Balance	(123,737)	55,172	142,163	86,991
Fund Balance - Beginning of Year	742,261	795,075	1,368,150	573,075
Fund Balance - End of Year	\$ 618,524	\$ 850,247	\$ 1,510,313	\$ 660,066

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
Last 10 Fiscal Years***

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2015</u>
<u>Non-Hazardous</u>	
City's proportion of the net pension liability	0.012574%
City's proportionate share of the net pension liability	\$ 408,000
City's covered-employee payroll	\$ 288,467
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.44%
Plan fiduciary net position as a percentage of the total pension liability	66.801%
 <u>Hazardous</u>	
City's proportion of the net pension liability	0.023098%
City's proportionate share of the net pension liability	\$ 278,000
City's covered-employee payroll	\$ 116,989
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	237.63%
Plan fiduciary net position as a percentage of the total pension liability	63.457%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CITY OF HARDINSBURG, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

Last 10 Fiscal Years*

<u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u>	<u>2015</u>
<u>Non-Hazardous</u>	
Contractually required contribution	\$ 53,020
Contributions in relation to the contractually required contribution	<u>(53,020)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 300,054
Contributions as a percentage of covered- employee payroll	17.67%
 <u>Hazardous</u>	
Contractually required contribution	\$ 35,852
Contributions in relation to the contractually required contribution	<u>(35,852)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 104,496
Contributions as a percentage of covered- employee payroll	34.31%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

NOTES TO BUDGETARY COMPARISON SCHEDULE

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. The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. A reconciliation of the different bases of revenue and expenditure recognition for the year ended June 30, 2015, is as follows:

Revenues, GAAP Basis	\$944,607
Less: Revenue not recognized in current year budget	<u>8,250</u>
Revenues, Budgetary Basis	<u>\$936,357</u>

NOTE B - BUDGET VIOLATIONS

During the 2015 fiscal year, the City's General Fund incurred line item expenditures in excess of budget.

NOTES TO PENSION SCHEDULES

NOTE A - CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE B - CHANGES OF ASSUMPTIONS

There were no changes of assumptions.

**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, 2015, 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 15, 2015.

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 2015-001 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 15, 2015.

City of Hardinsburg, Kentucky's Response to Finding

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 15, 2015

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, 2015. 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, 2015.

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 15, 2015

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Agency/Program Title	Federal CFDA Number	Federal Expenditures
<u>Department of Agriculture</u>		
Direct Program:		
Water and Waste Program Cluster:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 272,805
Total Water and Waste Program Cluster		<u>272,805</u>
Total Department of Agriculture		<u>272,805</u>
<u>Environmental Protection Agency</u>		
Passed through Kentucky Infrastructure Authority:		
DWSRF Cluster:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	822,788
Total DWSRF Cluster		<u>822,788</u>
Total Environmental Protection Agency		<u>822,788</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,095,593</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, 2015**

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, 2015. 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, 2015
66.468	Capitalization Grants for Drinking Water State Revolving Funds	\$5,604,256

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

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
<hr/>	
DWSRF Cluster:	
•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? yes no

Section II: Financial Statement Findings

Finding 2015-001.

Section III: Federal Awards Findings

None.

**CITY OF HARDINSBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Finding: 2015-001 (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, 2015**

There were no federal awards findings in the prior 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, 2015, 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 15, 2015, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated December 15, 2015, on the basic financial statements of the City of Hardinsburg.

PRIOR YEAR

We again 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.

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 (\$70,804 increase over the prior year). In addition, interest expense has increased substantially as a result of the increased debt, and sizeable transfers must be made to depreciation reserve funds. As in the prior year, the City's General Fund had to transfer money to cover water plant expenses; however, at year-end, the O&M Fund still had not repaid the General Fund. 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, as well as continue to explore options to refinance older debt at lower interest rates.

As in the prior year, we noted some issues during the testing of seventy-five disbursements. Five disbursements were supported by purchase orders that appeared to be issued after-the-fact, six invoices lacked approval, two invoices were not cancelled, eight disbursements were not supported by receiving reports, one had no supporting invoice, and one was not supported by a purchase order. The person receiving the goods or services should sign the invoice to indicate receipt, and every effort should be made to obtain a purchase order prior to the purchase. Payments should only be made from supporting invoices that are properly approved, and invoices should be cancelled to prevent duplicate payment.

CURRENT YEAR

Currently, the City's utility billing clerk makes adjustments to customer accounts for water leaks, etc. In order to facilitate proper segregation of duties, we recommend that an employee other than the utility billing clerk enter adjustments to customer accounts and that all adjustments be approved by someone in management.

Some purchases in excess of \$20,000 were made without bidding. While the City contends that the purchases were declared an emergency or purchased from a single source, there was no documentation to support these claims. We recommend that the City follow the guidelines of KRS 45A.380 for noncompetitive negotiation, which calls for a written determination, when circumstances such as these arise in the future.

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 15, 2015