

**CITY OF HARDINSBURG, KENTUCKY**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING**  
**INFORMATION**  
**For the Year Ended June 30, 2016**  
**and**  
**REPORT OF INDEPENDENT CERTIFIED PUBLIC**  
**ACCOUNTANTS**

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

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hardinsburg, Kentucky (City) as of and for the year ended June 30, 2016, 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, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 30 and 31 and the pension schedules and notes on pages 32 through 34 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017 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

June 1, 2017

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,191,575	\$ 1,017,808	\$ 2,209,383
Receivables, net:			
Accounts - trade	-	322,080	322,080
Franchise fees	4,066	-	4,066
Miscellaneous	8,927	6,705	15,632
Taxes	73,271	-	73,271
Intergovernmental	10,018	2,899	12,917
Due from other funds	376,026	-	376,026
Prepaid expenses	20,062	7,381	27,443
<b>Total Current Assets</b>	<b>1,683,945</b>	<b>1,356,873</b>	<b>3,040,818</b>
<b>Noncurrent Assets</b>			
Restricted cash	-	1,610,400	1,610,400
Investments	-	280,206	280,206
Capital assets:			
Land and construction in process	319,645	278,231	597,876
Other capital assets, net of depreciation	1,548,701	36,511,622	38,060,323
<b>Total Noncurrent Assets</b>	<b>1,868,346</b>	<b>38,680,459</b>	<b>40,548,805</b>
<b>Total Assets</b>	<b>3,552,291</b>	<b>40,037,332</b>	<b>43,589,623</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred amount on debt refundings	-	14,381	14,381
Deferred amounts related to pensions	101,875	65,921	167,796
<b>Total Deferred Outflows of Resources</b>	<b>101,875</b>	<b>80,302</b>	<b>182,177</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	24,214	52,886	77,100
Due to other funds	-	376,026	376,026
Accrued expenses	8,038	11,388	19,426
Interest payable	-	54,085	54,085
Accrued vacation and payroll	18,491	14,634	33,125
Unearned revenue	-	40,772	40,772
Bonds and loans payable	-	1,324,684	1,324,684
<b>Total Current Liabilities</b>	<b>50,743</b>	<b>1,874,475</b>	<b>1,925,218</b>
<b>Noncurrent Liabilities</b>			
Customer deposits payable	-	248,670	248,670
Due on water line construction	-	25,369	25,369
Loans payable	-	9,933,195	9,933,195
Revenue bonds payable	-	11,680,785	11,680,785
Net pension liability	525,381	341,165	866,546
<b>Total Noncurrent Liabilities</b>	<b>525,381</b>	<b>22,229,184</b>	<b>22,754,565</b>
<b>Total Liabilities</b>	<b>576,124</b>	<b>24,103,659</b>	<b>24,679,783</b>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred amount on refinancing	-	3,919	3,919
Deferred amounts related to pensions	28,011	-	28,011
<b>Total Deferred Inflows of Resources</b>	<b>28,011</b>	<b>3,919</b>	<b>31,930</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	1,868,346	13,836,282	15,704,628
Restricted for capital and debt service	-	1,641,936	1,641,936
Unrestricted	1,181,685	531,838	1,713,523
<b>Total Net Position</b>	<b>\$ 3,050,031</b>	<b>\$ 16,010,056</b>	<b>\$ 19,060,087</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

<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>
<b><u>Governmental Activities</u></b>							
General government	\$ 233,602	\$ -	\$ 5,956	\$ -	\$ (227,646)	\$ -	\$ (227,646)
Streets and maintenance	144,764	-	-	47,003	(97,761)	-	(97,761)
Police department	389,772	829	23,145	-	(365,798)	-	(365,798)
Fire department	190,278	56,294	100	316,000	182,116	-	182,116
<b>Total Governmental Activities</b>	<b>958,416</b>	<b>57,123</b>	<b>29,201</b>	<b>363,003</b>	<b>(509,089)</b>	<b>-</b>	<b>(509,089)</b>
<b><u>Business-Type Activities</u></b>							
Water	3,369,911	3,155,381	-	429,038	-	214,508	214,508
Sewer	464,749	395,129	-	-	-	(69,620)	(69,620)
Sanitation	358,475	343,509	-	-	-	(14,966)	(14,966)
<b>Total Business-Type Activities</b>	<b>4,193,135</b>	<b>3,894,019</b>	<b>-</b>	<b>429,038</b>	<b>-</b>	<b>129,922</b>	<b>129,922</b>
<b>Total Primary Government</b>	<b>\$ 5,151,551</b>	<b>\$ 3,951,142</b>	<b>\$ 29,201</b>	<b>\$ 792,041</b>	<b>\$ (509,089)</b>	<b>\$ 129,922</b>	<b>\$ (379,167)</b>
<b><u>General Revenues</u></b>							
Property taxes					\$ 472,119	\$ -	\$ 472,119
Insurance premium taxes					249,520	-	249,520
Franchise fees					41,739	-	41,739
Licenses and permits					46,696	-	46,696
Interest income					2,559	21,590	24,149
Miscellaneous					94,583	66,517	161,100
Disposal of fixed assets					-	3,600	3,600
<b>Total</b>					<b>907,216</b>	<b>91,707</b>	<b>998,923</b>
<b>Changes in Net Position</b>					<b>398,127</b>	<b>221,629</b>	<b>619,756</b>
<b>Net Position - Beginning of Year (Restated)</b>					<b>2,651,904</b>	<b>15,788,427</b>	<b>18,440,331</b>
<b>Net Position - End of Year</b>					<b>\$ 3,050,031</b>	<b>\$ 16,010,056</b>	<b>\$ 19,060,087</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2016**

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,191,575
Receivables, net:	
Franchise fees	4,066
Miscellaneous	8,927
Taxes	73,271
Intergovernmental	10,018
Prepaid expenses	20,062
Due from other funds	376,026
<b>Total Assets</b>	<b>\$ 1,683,945</b>
 <b><u>Liabilities</u></b>	
Accounts payable	\$ 24,214
Accrued expenses	8,038
Accrued payroll	13,344
<b>Total Liabilities</b>	<b>45,596</b>
 <b><u>Fund Balance</u></b>	
Nonspendable	20,062
Restricted	79,769
Assigned	107,292
Unassigned	1,431,226
<b>Total Fund Balance</b>	<b>1,638,349</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,683,945</b>

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

<b>Total Governmental Fund Balance</b>		\$ 1,638,349
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.		1,868,346
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not reported in the governmental funds.		73,864
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Accrued sick leave	(5,147)	
Net pension liability	(525,381)	
	(530,528)	
<b>Total Net Position of Governmental Activities</b>		<b>\$ 3,050,031</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>General Fund</b>
<b><u>Revenues</u></b>	
Property taxes	\$ 472,119
Insurance premium taxes	249,520
Licenses and permits	46,696
Rental income	15,330
Interest income	2,559
Miscellaneous	28,282
Donations	1,942
Franchise fees	41,739
Fire department subscription fees	55,569
Intergovernmental revenues	74,262
<b>Total Revenues</b>	<b>988,018</b>
<b><u>Expenditures</u></b>	
Current:	
General government:	
Salaries and benefits	55,822
Administrative travel	1,816
Utilities	16,885
Insurance	5,675
Industrial development	2,500
Office expense	4,165
Advertising and printing	2,259
Professional fees	14,049
Repairs and maintenance	8,893
Supplies	5,127
Miscellaneous	2,308
Streets and maintenance	137,370
Police department	358,886
Fire department	83,836
Capital outlay	203,956
<b>Total Expenditures</b>	<b>903,547</b>
<b>Excess of Revenues Over Expenditures</b>	<b>84,471</b>
<b><u>Other Financing Sources</u></b>	
Insurance recoveries - impaired assets	52,526
<b>Net Changes in Fund Balance</b>	136,997
<b>Fund Balance - Beginning of Year</b>	1,501,352
<b>Fund Balance - End of Year</b>	<b>\$ 1,638,349</b>

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

**CITY OF HARDINSBURG, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

**Net Changes in Fund Balance - Governmental Fund** \$ 136,997

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. (45,419)

The difference in grant and other revenue is attributable to the long-term economic resources focus of governmental activities versus the current financial resources focus of governmental funds. 316,000

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.

Pension contributions	38,151	
Pension expense	<u>(47,871)</u>	(9,720)

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. 269

**Changes in Net Position of Governmental Activities** \$ 398,127

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 549,967	\$ 134,771	\$ 333,070	\$ 1,017,808
Receivables, net:				
Accounts - trade	258,237	35,489	28,354	322,080
Miscellaneous	4,149	1,278	1,278	6,705
Intergovernmental	2,899	-	-	2,899
Due from other funds	-	6,505	-	6,505
Prepaid expenses	2,460	702	4,219	7,381
<b>Total Current Assets</b>	<b>817,712</b>	<b>178,745</b>	<b>366,921</b>	<b>1,363,378</b>
<b>Noncurrent Assets</b>				
Restricted cash	1,549,014	61,386	-	1,610,400
Investments	240,437	32,571	7,198	280,206
Capital assets:				
Land and construction in process	137,000	141,231	-	278,231
Other capital assets, net of depreciation	33,849,622	2,415,638	246,362	36,511,622
<b>Total Noncurrent Assets</b>	<b>35,776,073</b>	<b>2,650,826</b>	<b>253,560</b>	<b>38,680,459</b>
<b>Total Assets</b>	<b>36,593,785</b>	<b>2,829,571</b>	<b>620,481</b>	<b>40,043,837</b>
<b>Deferred Outflows of Resources</b>				
Deferred amount on debt refundings	9,954	4,427	-	14,381
Deferred amounts related to pensions	50,678	6,965	8,278	65,921
<b>Total Deferred Outflows of Resources</b>	<b>60,632</b>	<b>11,392</b>	<b>8,278</b>	<b>80,302</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	42,778	6,730	3,378	52,886
Due to other funds	382,531	-	-	382,531
Accrued expenses	10,850	246	292	11,388
Interest payable	45,052	9,033	-	54,085
Accrued vacation and payroll	11,055	1,574	2,005	14,634
Unearned revenue	40,772	-	-	40,772
Bonds and loans payable	1,224,772	79,030	20,882	1,324,684
<b>Total Current Liabilities</b>	<b>1,757,810</b>	<b>96,613</b>	<b>26,557</b>	<b>1,880,980</b>
<b>Noncurrent Liabilities</b>				
Customer deposits payable	248,670	-	-	248,670
Due on water line construction	25,369	-	-	25,369
Loans payable	9,298,521	634,674	-	9,933,195
Revenue bonds payable	11,116,987	498,798	65,000	11,680,785
Net pension liability	261,984	36,162	43,019	341,165
<b>Total Noncurrent Liabilities</b>	<b>20,951,531</b>	<b>1,169,634</b>	<b>108,019</b>	<b>22,229,184</b>
<b>Total Liabilities</b>	<b>22,709,341</b>	<b>1,266,247</b>	<b>134,576</b>	<b>24,110,164</b>
<b>Deferred Inflows of Resources</b>				
Deferred amount on refinancing	3,919	-	-	3,919
<b>Net Position</b>				
Net investment in capital assets	12,327,008	1,348,794	160,480	13,836,282
Restricted for capital and debt service	1,540,781	93,957	7,198	1,641,936
Unrestricted	73,368	131,965	326,505	531,838
<b>Total Net Position</b>	<b>\$ 13,941,157</b>	<b>\$ 1,574,716</b>	<b>\$ 494,183</b>	<b>\$ 16,010,056</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 2,999,970	\$ 388,727	\$ 340,351	\$ 3,729,048
Penalty charges	32,647	4,602	3,158	40,407
Connection fees	122,764	1,800	-	124,564
<b>Total Operating Revenues</b>	<b>3,155,381</b>	<b>395,129</b>	<b>343,509</b>	<b>3,894,019</b>
<b><u>Operating Expenses</u></b>				
Salaries and benefits	217,858	31,430	36,900	286,188
Maintenance and supplies	57,584	18,888	7,507	83,979
Chemicals	41,211	-	-	41,211
Contract operations	1,010,654	162,573	187,983	1,361,210
Professional fees	7,819	2,502	1,564	11,885
Office and advertising	29,743	10,416	9,676	49,835
Landfill fees	-	-	70,534	70,534
Depreciation	1,101,160	140,001	32,513	1,273,674
Rental expense	5,400	3,300	4,800	13,500
Insurance	35,962	11,537	2,625	50,124
Utilities	311,106	55,785	1,075	367,966
Miscellaneous	86	2,213	264	2,563
<b>Total Operating Expenses</b>	<b>2,818,583</b>	<b>438,645</b>	<b>355,441</b>	<b>3,612,669</b>
<b>Operating Income (Loss)</b>	<b>336,798</b>	<b>(43,516)</b>	<b>(11,932)</b>	<b>281,350</b>
<b><u>Non-Operating Revenues (Expenses)</u></b>				
Interest income	20,761	362	467	21,590
Rental income	48,541	-	-	48,541
Other income	7,468	2,122	3,271	12,861
Gain (loss) on disposal of fixed assets	3,600	-	-	3,600
Debt service repayments	26,577	-	-	26,577
Insurance recoveries - impaired assets	5,115	-	-	5,115
Interest expense	(551,328)	(26,104)	(3,034)	(580,466)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(439,266)</b>	<b>(23,620)</b>	<b>704</b>	<b>(462,182)</b>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<b>(102,468)</b>	<b>(67,136)</b>	<b>(11,228)</b>	<b>(180,832)</b>
<b>Capital Contributions</b>	<b>402,461</b>	<b>-</b>	<b>-</b>	<b>402,461</b>
<b>Transfers</b>	<b>(496)</b>	<b>227</b>	<b>269</b>	<b>-</b>
<b>Changes in Net Position</b>	<b>299,497</b>	<b>(66,909)</b>	<b>(10,959)</b>	<b>221,629</b>
<b>Net Position - Beginning of Year (Restated)</b>	<b>13,641,660</b>	<b>1,641,625</b>	<b>505,142</b>	<b>15,788,427</b>
<b>Net Position - End of Year</b>	<b>\$ 13,941,157</b>	<b>\$ 1,574,716</b>	<b>\$ 494,183</b>	<b>\$ 16,010,056</b>

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

**CITY OF HARDINSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Operations &amp; Maintenance Fund</b>	<b>Wastewater Treatment Fund</b>	<b>Sanitation Fund</b>	
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers and others	\$ 3,153,706	\$ 390,316	\$ 343,299	\$ 3,887,321
Cash payments to suppliers for goods and services	(1,449,748)	(265,748)	(284,568)	(2,000,064)
Cash payments to employees for services	(201,017)	(28,924)	(33,735)	(263,676)
<b>Net Cash Provided by Operating Activities</b>	<b>1,502,941</b>	<b>95,644</b>	<b>24,996</b>	<b>1,623,581</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(840,864)	(50,476)	(5,686)	(897,026)
Proceeds from sale of capital assets	3,600	-	-	3,600
Capital contributions	393,777	-	-	393,777
Insurance recoveries	5,115	-	-	5,115
Proceeds from debt	325,996	-	-	325,996
Principal paid on debt	(930,905)	(68,643)	(26,530)	(1,026,078)
Interest paid on debt	(562,162)	(21,882)	(3,034)	(587,078)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(1,605,443)</b>	<b>(141,001)</b>	<b>(35,250)</b>	<b>(1,781,694)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers	(496)	-	-	(496)
Interfund loans	292,791	(5,421)	-	287,370
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>292,295</b>	<b>(5,421)</b>	<b>-</b>	<b>286,874</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	19,081	362	467	19,910
Other non-operating income and expenses	82,586	2,122	3,271	87,979
<b>Net Cash Provided by Investing Activities</b>	<b>101,667</b>	<b>2,484</b>	<b>3,738</b>	<b>107,889</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>291,460</b>	<b>(48,294)</b>	<b>(6,516)</b>	<b>236,650</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>2,047,958</b>	<b>277,022</b>	<b>346,784</b>	<b>2,671,764</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,339,418</b>	<b>\$ 228,728</b>	<b>\$ 340,268</b>	<b>\$ 2,908,414</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 336,798	\$ (43,516)	\$ (11,932)	\$ 281,350
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,101,160	140,001	32,513	1,273,674
Change in assets and liabilities:				
Receivables, net	7,252	(4,813)	(210)	2,229
Prepaid expenses	16,342	4,759	(977)	20,124
Deferred outflows related to pensions	66,368	9,246	11,047	86,661
Accounts payable	31,683	(3,539)	2,145	30,289
Accrued expenses	1,792	246	292	2,330
Other liabilities	(6,724)	455	719	(5,550)
Net pension liability	(19,944)	(2,802)	(3,371)	(26,117)
Deferred inflows related to pensions	(31,786)	(4,393)	(5,230)	(41,409)
<b>Total Adjustments</b>	<b>1,166,143</b>	<b>139,160</b>	<b>36,928</b>	<b>1,342,231</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,502,941</b>	<b>\$ 95,644</b>	<b>\$ 24,996</b>	<b>\$ 1,623,581</b>
<b>Schedule of Noncash Transactions:</b>				
Donated capital assets	\$ 13,300	\$ -	\$ -	\$ 13,300

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, 2016**

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

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

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

**Reporting Entity**

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

**Basis of Presentation**

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

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

**Fund Financial Statements** - Fund financial statements report detailed information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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, 2016**

**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 acquisition value. 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 \$57,641 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 as part of the cost of the assets in the proprietary funds. 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. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. At June 30, 2016, the allowances for uncollectible trade and property tax receivables were \$29,335 and \$14,891, 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.

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.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

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.

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.

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.

Unearned Revenue

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

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.

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, 2016**

**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 \$.302 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, 2016**

**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, 2016, the reported amount of the City's cash and cash equivalents was \$3,819,783 and the bank balance was \$3,846,785. 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, \$138,104 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 \$142,102 is uninsured and unregistered. Both the carrying amount and fair market value of the investments were \$280,206 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 10, cash and cash equivalents as of June 30, 2016 consisted of the following:

	O&M Fund	WWT Fund	Sanitation Fund	Total
Cash	\$ 549,967	\$134,771	\$333,070	\$1,017,808
Restricted cash	1,549,014	61,386	-	1,610,400
Investments	240,437	32,571	7,198	280,206
Total	<u>\$2,339,418</u>	<u>\$228,728</u>	<u>\$340,268</u>	<u>\$2,908,414</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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 the revenue bonds listed below, with the exception of the 2012 issue, which 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, 2016 are summarized in the following table.

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
2006A	1/1/06	4.125%	6/1/45	\$4,803,000	\$4,225,000
2006B	1/1/06	4.125%	6/1/45	\$2,660,000	\$2,346,000
2009	10/1/09	3.375%	6/1/48	\$1,350,000	\$1,237,800
2011	11/1/11	3%	6/1/50	\$2,000,000	\$1,879,000
2012	7/31/12	2%	2/1/21	\$ 140,000	\$ 80,000
2015 (R)	5/12/15	2.1% to 4.1%	1/1/33	\$2,395,000	\$2,220,000

R – Denotes refunding 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 resulted 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, 2016, the balance in the Sinking Fund was \$130,906 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 loan balance at year-end was \$21,741.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**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%, and the balance at year-end was \$5,882.

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 loan balance at year-end was \$182,519.

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 loan balance at year-end was \$2,637,331.

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 loan balance at year-end was \$1,440,769.

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 in 2015. 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 loan year-end balance was \$2,236,136.

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 loan balance at year-end was \$448,267. 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 loan balance at year-end was \$225,436.

In 2013, the City secured a loan in the amount of \$3,251,590 from KIA for water line expansion projects, and \$3,250,606 has been drawn to date, including \$126,676 drawn in the current fiscal year. The loan calls for forty semi-annual payments of \$91,021, which include interest at 1%, and ten annual transfers of \$8,150 to the replacement and maintenance reserve account. The loan balance at year-end was \$2,839,435.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

Loans Payable (Concluded)

During the prior fiscal year, the City secured a \$1.19 million loan with 50% principal forgiveness of \$594,567 from KIA for the construction of a new water tank. The City received \$398,639 in loan proceeds in the current fiscal year. The loan calls for forty semi-annual payments of \$16,035, which include interest at .75%, and ten annual transfers of \$3,000 to the replacement and maintenance reserve account. The loan balance at year-end was \$580,763.

Debt Service Requirements

The annual requirements to amortize revenue bonds and loans payable outstanding as of June 30, 2016, including interest payments are as follows:

Fiscal Year Ending June 30,	<b>Business-Type Activities</b>			
	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2017	\$ 389,600	\$ 448,457	\$ 935,084	\$117,647
2018	340,400	437,241	686,171	97,553
2019	353,200	424,058	693,213	90,432
2020	370,000	410,366	692,907	83,337
2021	387,900	399,200	700,010	76,235
2022 - 2026	2,126,700	1,760,471	3,501,778	274,862
2027 - 2031	1,701,300	1,388,220	2,657,274	112,298
2032 - 2036	1,767,900	1,062,603	1,001,842	16,666
2037 - 2041	2,029,600	707,416	-	-
2042 - 2046	2,065,300	282,691	-	-
2047 - 2050	455,900	31,608	-	-
Totals	<u>\$11,987,800</u>	<u>\$7,352,331</u>	<u>\$10,868,279</u>	<u>\$869,030</u>

Changes in Noncurrent Liabilities

Changes in noncurrent liabilities, including current portions of long-term debt, for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due In One Year
<b><u>Governmental Activities</u></b>					
Net pension liability	<u>\$ 318,718</u>	<u>\$ 243,448</u>	<u>\$ 36,785</u>	<u>\$ 525,381</u>	<u>\$ 38,151</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

Changes in Noncurrent Liabilities (Concluded)

<b><u>Business-Type Activities</u></b>	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due In One Year
Bonds payable	\$12,345,700	\$ -	\$ 357,900	\$11,987,800	\$ 389,600
Loans payable	11,210,461	325,996	668,178	10,868,279	935,084
Premium	88,423	-	5,838	82,585	5,838
Net bonds and loans payable	23,644,584	325,996	1,031,916	22,938,664	1,330,522
Net pension liability	367,282	-	26,117	341,165	21,064
Customer deposits	253,535	82,500	87,365	248,670	-
Due on water line	25,369	-	-	25,369	-
	<u>\$24,290,770</u>	<u>\$408,496</u>	<u>\$1,145,398</u>	<u>\$23,553,868</u>	<u>\$1,351,586</u>

**NOTE E - FUND BALANCE**

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

Fund Balance	General Fund
Nonspendable:	
Prepaid expenses	\$ 20,062
Restricted:	
Road aid	75,031
Drug enforcement	4,738
Total Restricted	<u>79,769</u>
Assigned:	
Industrial development	101,835
Fire department	5,457
Total Assigned	<u>107,292</u>
Unassigned	<u>1,431,226</u>
Total Fund Balance	<u>\$1,638,349</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, \$40,772 is reported as unearned revenue on the Statement of Net Position.

**NOTE G - DEFICIT FUND BALANCE/NET POSITION**

No funds ended the year with a deficit fund balance/net position; however, the WWT and Sanitation Funds had operations that resulted in current year reductions of net position.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE H - 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](http://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 Benefit	Unreduced retirement	27 years service or 65 years old with 4 years service
	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 Benefit	Unreduced retirement	At least 5 years service and 65 years old
	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 Balance	Unreduced retirement	At least 5 years service and 65 years old
	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 Benefit	Unreduced retirement	20 years service or 55 years old with 5 years service
	Reduced retirement	At least 15 years service and 50 years old
<u>Tier 2</u>	Participation date	September 1, 2008 – December 31, 2013
Defined Benefit	Unreduced retirement	25 years service or 60 years old with 5 years service
	Reduced retirement	At least 15 years service and 50 years old
<u>Tier 3</u>	Participation date	After December 31, 2013
Cash Balance	Unreduced retirement	25 years service or 60 years old with 5 years service
	Reduced retirement	Not available

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 17.06% (12.42% pension; 4.64% insurance) and 32.95% (20.26% pension; 12.69% insurance) of members' non-hazardous and hazardous compensation, respectively, for the year ended June 30, 2016.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

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, 2016, the City reported a liability of \$866,546 for its proportionate share of the net pension liability for CERS, which included \$552,942 for non-hazardous and \$313,604 for hazardous. The net pension liability was measured as of June 30, 2015, 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, 2014 through June 30, 2015. At June 30, 2015, the City's proportion was 0.01286% non-hazardous and 0.02043% hazardous, a decrease of 0.0022% and 0.0027%, respectively, over the prior year.

For the year ended June 30, 2016, the City recognized total pension expense of \$88,071 for CERS, which included \$65,155 for non-hazardous and \$22,916 for hazardous.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,406	\$ -
Changes of assumptions	82,858	-
Net difference between projected and actual earnings on pension plan investments	6,926	-
Changes in proportion and differences between City contributions and proportionate share of contributions	7,391	28,011
City contributions subsequent to the measurement date	59,215	-
	<u>\$167,796</u>	<u>\$28,011</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

\$59,215 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, 2017. Other amounts reported as deferred inflows and outflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$25,681
2018	25,681
2019	13,789
2020	15,419

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation
Projected Salary Increases	4%, average, including inflation
Inflation Rate	3.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE H - 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 2009 through 2013, is outlined in a report dated April 30, 2014. 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 and inflation) 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>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. 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-eight year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE H - 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 7.5%, 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 6.5%	Current Discount 7.5%	1% Increase 8.5%
Non-Hazardous	\$705,899	\$552,942	\$421,948
Hazardous	\$401,424	\$313,604	\$240,844

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 I - 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	\$223,687	\$223,687

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 J - COMMITMENTS UNDER LEASES**

The City incurred \$1,711 in lease expense for the fiscal year for an operating lease for office equipment. Lease agreements for new office equipment were initiated during the current fiscal year. Commitments under the new operating lease agreement provide the minimum future rental payments as of June 30, 2016 as follows:

Year Ending June 30,	Future Payments
2017	\$2,665
2018	2,665
2019	2,665
2020	2,665
2021	2,665

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE K - CAPITAL ASSETS**

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

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
<b><u>Governmental Activities</u></b>				
Not Depreciated:				
Land	\$ 275,145	\$ 20,000	\$ -	\$ 295,145
Construction in process	-	24,500	-	24,500
Subtotal	<u>275,145</u>	<u>44,500</u>	<u>-</u>	<u>319,645</u>
Depreciated:				
Buildings and improvements	766,324	118,876	-	885,200
Furniture and fixtures	65,457	-	-	65,457
Equipment	546,847	117,296	-	664,143
Vehicles	888,203	128,000	-	1,016,203
Parks	157,145	-	-	157,145
Infrastructure	1,089,760	111,284	-	1,201,044
Subtotal	<u>3,513,736</u>	<u>475,456</u>	<u>-</u>	<u>3,989,192</u>
Accumulated Depreciation	<u>2,191,116</u>	<u>249,375</u>	<u>-</u>	<u>2,440,491</u>
Net Capital Assets	<u>\$ 1,597,765</u>	<u>\$ 270,581</u>	<u>\$ -</u>	<u>\$ 1,868,346</u>
<b><u>Business-Type Activities</u></b>				
Not Depreciated:				
Land	\$ 275,161	\$ -	\$ -	\$ 275,161
Construction in process	893,324	441,620	(1,331,874)	3,070
Subtotal	<u>1,168,485</u>	<u>441,620</u>	<u>(1,331,874)</u>	<u>278,231</u>
Depreciated:				
Buildings and improvements	304,083	-	-	304,083
Equipment	841,638	149,976	(25,586)	966,028
Vehicles	176,820	-	-	176,820
Treatment plants	15,143,471	36,437	-	15,179,908
Distribution system	26,038,275	1,433,415	-	27,471,690
Waste water plant	4,984,347	42,033	-	5,026,380
Subtotal	<u>47,488,634</u>	<u>1,661,861</u>	<u>(25,586)</u>	<u>49,124,909</u>
Accumulated Depreciation	<u>11,365,199</u>	<u>1,273,674</u>	<u>(25,586)</u>	<u>12,613,287</u>
Net Capital Assets	<u>\$37,291,920</u>	<u>\$ 829,807</u>	<u>\$(1,331,874)</u>	<u>\$36,789,853</u>

Depreciation expense and related accumulated depreciation are detailed as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
<b><u>Governmental Activities</u></b>				
Buildings and improvements	\$ 360,434	\$ 30,826	\$ -	\$ 391,260
Furniture and fixtures	58,546	2,064	-	60,610
Equipment	418,711	33,927	-	452,638
Vehicles	601,881	85,817	-	687,698
Parks	77,550	8,051	-	85,601
Infrastructure	673,994	88,690	-	762,684
Total	<u>\$ 2,191,116</u>	<u>\$ 249,375</u>	<u>\$ -</u>	<u>\$ 2,440,491</u>

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	July 1, 2015	Additions	Deletions	June 30, 2016
<b><u>Business-Type Activities</u></b>				
Buildings and improvements	\$ 144,180	\$ 9,949	\$ -	\$ 154,129
Equipment	488,141	55,150	(25,586)	517,705
Vehicles	169,751	4,170	-	173,921
Treatment plants	3,059,815	383,268	-	3,443,083
Distribution system	5,003,427	684,451	-	5,687,878
Waste water plant	2,499,885	136,686	-	2,636,571
Total	<u>\$11,365,199</u>	<u>\$1,273,674</u>	<u>\$ (25,586)</u>	<u>\$12,613,287</u>

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

<b><u>Governmental Activities</u></b>	
General government	\$112,423
Streets and maintenance	7,394
Police department	23,117
Fire department	106,441
	<u>\$249,375</u>

**NOTE L - 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 \$1,446,545, which included an annual repair and maintenance allowance of \$220,000. Beginning in July 2015, all utility accounts were paid directly by the City and were no longer included in the PSG contract. Billings by PSG were in accordance with rates established by the contract. The annual fee for 2016-2017 is \$1,458,811, which includes an estimated repair and maintenance allowance of \$220,000.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

The City has a contract with the City of Irvington, Kentucky (Irvington), whereby Irvington pays the City 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, 2016, the City collected \$144,908 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, 2016, the City billed Cloverport \$145,186 for water.

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.

Effective July 2015, the City took over the McQuady Volunteer Fire Department and received assets with an estimated value of approximately \$316,000.

New regulations require the City to remove phosphorous at the wastewater treatment plant, and the City anticipates the project will cost \$2,208,500. The City was awarded a \$1,279,500 KIA loan with interest at .75% and a \$929,000 Community Development Block Grant to finance the project. The project was in the planning stage at year-end.

In December 2015, the City was awarded a \$400,000 sidewalk grant, and the City is required to match a minimum of \$80,000. The project was in the planning stage at year-end.

**NOTE M - SUBSEQUENT EVENTS**

Subsequent to year-end, the City awarded bids totaling \$90,465 for fire department equipment, which will be partially funded by a Homeland Security Grant in the amount of \$29,150. The City also accepted a bid of approximately \$75,000 for a transfer pump.

**NOTE N - INTERFUND ACTIVITY**

The O&M Fund transferred \$227 to the WWT Fund and \$269 to the Sanitation Fund to help cover payroll expenses.

The following interfund balances existed at year-end:

Due From	Due To	Amount	Purpose
O&M Fund	General Fund	\$376,026	Short-term operating loan
O&M Fund	WWT Fund	6,505	Refund excess transfer
		\$382,531	

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE O - NEW ACCOUNTING PRONOUNCEMENTS**

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 72 establish standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans, and also includes provisions related to pension benefits provided through a pension plan that is not administered through a trust. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

**NOTE P - RESTATEMENT**

Information related to the implementation of GASB Statements No. 68 and 71 not available at the time of the prior year audit resulted in the restatement of the beginning net position of the governmental and business-type activities and of the Proprietary Funds. In addition, the correction of a prior year overstatement of a cash account resulted in the restatement of the beginning net position of the business-type activities and the O&M Fund.

	Governmental Activities	Business-Type Activities		
		O&M Fund	WWT Fund	Sanitation Fund
Net Position at June 30, 2015, Previously Reported	\$2,799,552	\$13,556,439	\$1,628,880	\$489,940
Prior period adjustment for:				
Deferred outflows at June 30, 2015 - Restated	(147,648)	91,924	12,745	15,202
Cash, Fiscal Agent	-	(6,703)	-	-
Net Position at June 30, 2015, Restated	<u>\$2,651,904</u>	<u>\$13,641,660</u>	<u>\$1,641,625</u>	<u>\$505,142</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HARDINSBURG, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<b>Actual (Budgetary Basis)</b>	<b>Variance from Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 470,150	\$ 471,588	\$ 472,119	\$ 531
Insurance premium taxes	250,000	250,000	249,520	(480)
Licenses and permits	57,445	46,691	46,696	5
Rental income	14,610	14,730	15,330	600
Interest income	2,470	2,752	2,559	(193)
Miscellaneous	7,111	20,749	28,282	7,533
Donations	950	1,832	1,942	110
Franchise fees	41,220	41,212	41,739	527
Fire department subscription fees	65,500	55,000	55,569	569
Intergovernmental revenues	91,452	67,458	74,262	6,804
<b>Total Revenues</b>	<u>1,000,908</u>	<u>972,012</u>	<u>988,018</u>	<u>16,006</u>
<b><u>Expenditures</u></b>				
Current:				
General government	135,486	138,290	119,499	18,791
Police department	419,786	373,349	358,886	14,463
Fire department	80,543	85,013	83,836	1,177
Streets and maintenance	141,003	142,613	137,370	5,243
Capital outlay	313,947	279,250	203,956	75,294
<b>Total Expenditures</b>	<u>1,090,765</u>	<u>1,018,515</u>	<u>903,547</u>	<u>114,968</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(89,857)</u>	<u>(46,503)</u>	<u>84,471</u>	<u>130,974</u>
<b><u>Other Financing Sources</u></b>				
Proceeds from sale of fixed assets	22,500	-	-	-
Insurance recoveries	50	48,306	52,526	4,220
<b>Total Other Financing Sources</b>	<u>22,550</u>	<u>48,306</u>	<u>52,526</u>	<u>4,220</u>
<b>Net Changes in Fund Balance</b>	(67,307)	1,803	136,997	135,194
<b>Fund Balance - Beginning of Year</b>	<u>696,267</u>	<u>690,000</u>	<u>1,510,313</u>	<u>820,313</u>
<b>Fund Balance - End of Year</b>	<u>\$ 628,960</u>	<u>\$ 691,803</u>	<u>\$ 1,647,310</u>	<u>\$ 955,507</u>

See accompanying notes to required supplementary information.

**CITY OF HARDINSBURG, KENTUCKY  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

**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 budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. No adjustments have been made to convert the actual data presented on the GAAP basis to the cash basis of accounting for revenues because any differences were deemed to be immaterial.

The amount reported as fund balance on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund because of the cumulative effect of transactions such as those described above.

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

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Non-Hazardous</u></b>		
City's proportion of the net pension liability	0.01286%	0.01257%
City's proportionate share of the net pension liability	\$ 552,942	\$ 408,000
City's covered payroll	\$ 300,054	\$ 288,467
City's proportionate share of the net pension liability as a percentage of its covered payroll	184.28%	141.44%
Plan fiduciary net position as a percentage of the total pension liability	59.968%	66.801%
<b><u>Hazardous</u></b>		
City's proportion of the net pension liability	0.02043%	0.02310%
City's proportionate share of the net pension liability	\$ 313,604	\$ 278,000
City's covered payroll	\$ 104,496	\$ 116,989
City's proportionate share of the net pension liability as a percentage of its covered payroll	300.11%	237.63%
Plan fiduciary net position as a percentage of the total pension liability	57.515%	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\***

<b><u>COUNTY EMPLOYEES RETIREMENT SYSTEM</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Non-Hazardous</u></b>		
Contractually required contribution	\$ 31,585	\$ 38,257
Contributions in relation to the contractually required contribution	<u>(31,585)</u>	<u>(38,257)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 254,305	\$ 300,054
Contributions as a percentage of covered payroll	12.42%	12.75%
 <b><u>Hazardous</u></b>		
Contractually required contribution	\$ 28,823	\$ 21,662
Contributions in relation to the contractually required contribution	<u>(28,823)</u>	<u>(21,662)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 142,266	\$ 104,496
Contributions as a percentage of covered payroll	20.26%	20.73%

\* 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 PENSION SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A - CHANGES OF BENEFIT TERMS**

There were no changes of benefit terms for the County Employees Retirement System (CERS).

**NOTE B - CHANGES OF ASSUMPTIONS**

The Board of Trustees for CERS adopted the following changes in assumptions, which were reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members was RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used was the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) was used for the period after disability retirement. There was some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**NOTE C - CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in the required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for the prior period have been restated.

**NOTE D - RESTATEMENT**

Information related to the implementation of GASB Statements No. 68 and 71 not available at the time of the prior year audit resulted in the restatement of the contractually required contribution, contributions in relation to the contractually required contribution, and the contributions as a percentage of covered payroll to reflect the June 30, 2015 portion of contributions related to pension only. The amounts reported in the prior year included the health insurance component of the employer contribution.

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



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2017.

#### 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 Responses, 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 Responses as item 2016-001 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 June 1, 2017.

## **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 Responses. 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

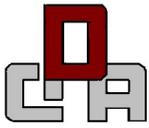
June 1, 2017

**CITY OF HARDINSBURG, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016**

**Finding: 2016-001 (Repeat)**

<i>Condition:</i>	As part of the audit, management requested us to prepare a draft of the City's financial statements, including the related notes. Material adjustments were required during the preparation of the financial statements.
<i>Criteria:</i>	Management is responsible for establishing internal controls over the preparation of GAAP-based financial statements.
<i>Cause:</i>	The design of internal controls did not prevent material adjustments.
<i>Effect:</i>	The potential exists for material misstatements to occur and not be prevented or detected by the City's internal control.
<i>Recommendation:</i>	Management and accounting personnel should review the policies and procedures for recording journal entries and enhance internal control over financial reporting.
<i>Management Response:</i>	<i>Management is aware of the risks involved with the potential of personnel error, and is willing to monitor more closely the policies and procedures to help prevent future weaknesses and to establish better preparation of the GAAP financial statements.</i>

**MANAGEMENT LETTER**



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## MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of Hardinsburg, Kentucky (City), as of and for the year ended June 30, 2016, 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 June 1, 2017, contains our report on the City of Hardinsburg's internal control. This letter does not affect our report dated June 1, 2017, on the basic financial statements of the City of Hardinsburg.

### *PRIOR YEAR*

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 (\$18,126 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 (\$376,026 during the current fiscal year); 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. One disbursement was supported by a purchase order that appeared to be issued after-the-fact, four invoices lacked approval, three invoices were not cancelled, seven disbursements were not supported by receiving reports, one had no supporting invoice, and four were not supported by purchase orders. 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.

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 continue to 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.

## CURRENT YEAR

The City's Municipal Order regarding travel reimbursements is vague and open to interpretation. It appeared that some employees may have been reimbursed for expenses not incurred. The Municipal Order states that lunch will be reimbursed at a per diem rate of \$12 if departure is before 10 a.m., and dinner will be reimbursed at a per diem rate of \$16 if departure is before 4 p.m. Under that scenario, an employee could leave at 9 a.m. and return by 10 a.m. and still get reimbursed for both lunch and dinner. The reimbursement policy should be reworded, and the City should create a new expense reimbursement form that requires the departure and return times, dates of travel, purpose of travel, and whether meals are included in the registration fee. Meals should only be reimbursed if travel is during the time indicated.

During the current fiscal year, the City began paying the volunteer firefighters a nominal fee for their services provided during fire runs. These payments were not issued through payroll, although the IRS guidelines indicate that these payments should be treated as wages and subject to withholding taxes. Accordingly, we recommended that future payments to the volunteer firefighters be treated as payroll, with the proper taxes withheld.

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

June 1, 2017